



NC RURAL CENTER

NORTH CAROLINA'S NEW SMALL
BUSINESS PLAN:

A PATHWAY TO
PROSPERITY FOR ALL





INTRODUCTION

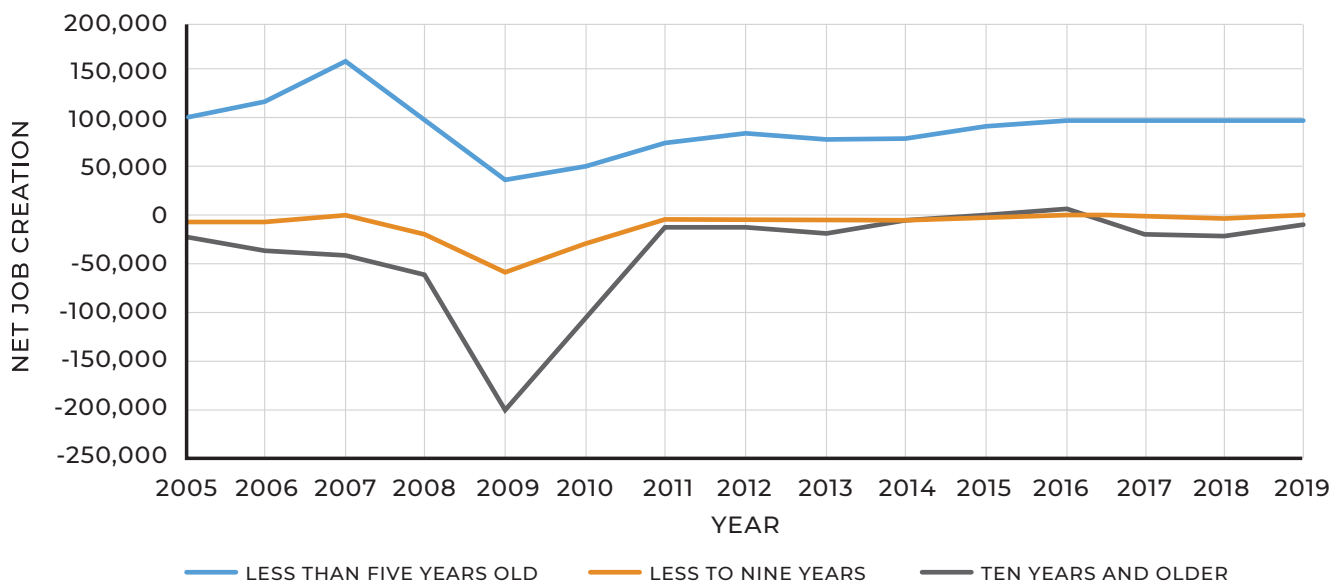


NC RURAL CENTER

The first order of business for North Carolina is our small businesses. While much media attention is given to ribbon cuttings for the recruitment of large corporations, the Federal Bureau of Labor Statistics data shows that North Carolina small, younger firms have a far higher rate of net job growth (Figure 1). Small businesses are a significant asset to North Carolina, especially to our state's rural small towns. The remaining uncertainty of the pandemic continues to weigh heavily on our state's entrepreneurs and small-business owners. Local, state, and federal public-private partnerships have stepped up to meet the needs of small-business owners, but many are still struggling. With no immediate end in sight for this pandemic, it is paramount that the underlying systemic issues impacting the plight of our small-business sector are remedied with fiscally sound public policies.

FIGURE 1

NORTH CAROLINA NET JOB CREATION BY FIRM AGE, 2005-2019



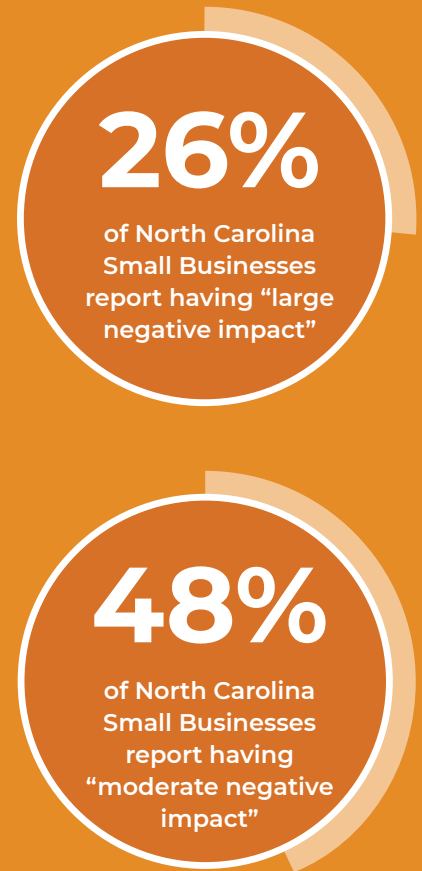
Our state's robust network of entrepreneur-support entities continue to address critical financing needs, coaching, technical assistance, and other supports to keep small businesses up and running. However, much more needs to be done to meet the needs of our state's entrepreneurs and small-business owners. The recommendations outlined below were developed and vetted by the NC Rural Center's Small Business Policy Task Force (SBPTF) and its advisors, which include a seasoned cadre of business leaders, resource-providers, policymakers, advocates, and entrepreneurs from across the state. The SBPTF has tailored the Ewing Marion Kauffman Foundation's *America's New Business Plan* to North Carolina's specific needs. Their efforts were guided by data and research, the voices of a diverse group of entrepreneurs, and state partners when developing the recommendations below. Leading with an equity-based, asset-focused, and data-driven approach, the SBPTF has developed an actionable policy agenda to advance the interests and goals of small-business owners across North Carolina. While the SBPTF took into account the reality and impact of the pandemic, the policy recommendations outlined below are crafted to meet both short-term and long-term needs of North Carolina entrepreneurs and small-business owners.

The task force has focused its efforts on tailoring the four pillars highlighted in the Kauffman Foundation's *America's New Business Plan* to fit a North Carolina context:



In North Carolina, businesses with less than 50 employees make up 95 percent of business entities with more than one employee/proprietor. These very small firms account for 44 percent of all employment in North Carolina. Most of these firms are in food and accommodation, retail, and entertainment/recreation sectors.

FIGURE 2
COVID-19 IMPACTS ON
SMALL BUSINESS



Source: U.S. Census Bureau Small Business Pulse Survey (early January 2021)

The task force has identified the following subset of recommendations as short-term priorities to best meet the needs of our state's entrepreneurs and small-business owners.

FUNDING:

equal access to the right kind of capital everywhere



- Expand access to capital by acknowledging the need to subsidize the smallest loans. Target subsidy to community banks, credit unions, Minority Depository Institutions (MDIs), and Community Development Financial Institutions (CDFIs), with a special focus on underserved and rural areas.
- Appropriate \$5 million per year in recurring funding to strengthen and expand CDFIs across the state, which helps to ensure more HUB and low-to-moderate income small-business owners can access capital at both the startup and growth phases.
- The Small Business Administration's definition of a small business (<500 employees) is inadequate for development purposes. North Carolina should establish a clear, consistent definition based on (1) a small business (e.g., <150 employees) and (2) a micro-business (e.g., <10 employees) to better target resources, including incentives, contracting with the government, and accessing general tools that can help them compete with larger corporations. A comprehensive definition should be based on business size, annual revenues, and industry profit margins.

KNOWLEDGE:

the know-how to start a business



- Increase state funding for the Career and Technical Education program to support expansion of the entrepreneurship curriculum at area middle and high schools across the state, especially in rural areas (i.e., professional development to expand entrepreneurship content knowledge).

SUPPORT:

the ability for all to take risks



- Address the health insurance coverage gap for our state's entrepreneurs, small-business owners, their employees, and families.
- Increase broadband adoption rates by establishing an incentive-based program to provide low-cost options for unserved and underserved small-business sectors.

OPPORTUNITY:

an equitable, level playing field with less red tape



- Increase funding and coordination of technical assistance for rural communities by nurturing small-business development and downtown revitalization (i.e., Community Development Corporations).
- Ensure inclusivity of the state's growing Latino population by providing bilingual/bicultural technical services (English/Spanish) across the entrepreneurial ecosystem network (e.g., SBCs, SBTDCs, CDFIs, etc.).
- Expand the capacity, reach, and regional presence of the State Historically Underutilized Business Office (HUB) to increase economic opportunities for historically underutilized businesses in state government contracting and procurement to foster greater growth and profitability.

FUNDING

equal access to the right kind of capital everywhere



Equitable access to capital for all entrepreneurs and small-business owners remains a long-standing need, especially for business owners who are women, people of color, veterans, and differently abled individuals. The path to small-business ownership remains unsteady for thousands, as a result of limited to nonexistent personal capital, discriminatory lending practices, and subtle but persistent information barriers. In rural communities especially, the decline in the number of bank branches, and access to commercial loan officers knowledgeable of the local community's businesses, is a particular challenge. For communities with limited high-speed internet, access to online banking is problematic. The COVID-19 pandemic has been an acute crisis for North Carolina's small businesses. The Federal Cares Act Payroll Protection Program (PPP) loans have helped, but huge gaps have remained. However, great progress can be made through innovation and effective public-private collaboration. For example, the NC COVID-19 Rapid Recovery Loan Program, managed by the Rural Center and the Golden LEAF Foundation, in partnership with a network of Community Development Financial Institutions (CDFIs), illuminates both the terrific needs of our small businesses, and a remarkable, effective response to the pandemic's economic impact on small businesses across the state.

FIGURE 3

DECLINE IN BANK BRANCHES FROM 2010 TO 2020

↓10%

decline in urban counties

↓20%

decline in suburban counties

↓27%

decline in rural counties

FIGURE 4

NC COVID 19 RAPID RECOVERY LOANS

1,647

LOANS APPROVED
FOR A TOTAL OF
\$101 MILLION

12,871 JOBS

RETAINED

POLICY SOLUTIONS

- Enact a North Carolina Small Business Truth in Lending Act to promote transparency in non-bank lending at the state level, especially during times of natural disasters and other crises (i.e., financial technology (fintechs)).
- Expand access to capital by acknowledging the need to subsidize the smallest loans. Target subsidy to community banks, credit unions, and CDFIs, with a special focus on underserved and rural areas.
- Appropriate \$5 million per year in recurring funding to strengthen and expand capacity of Community Development Financial Institutions (CDFIs) across the state, which helps to ensure more HUB and low-to-moderate income small-business owners can access capital at both the startup and growth phases.
- Encourage Congress to re-authorize and fund the State Small Business Credit Initiative (SSBCI) program to support a sustainable and resilient small-business sector.
- Provide \$9 million in recurring funding to the One North Carolina Small Business (ONCSB) Program to spur additional small business formation and growth for rural businesses and increase the diversity of participation in small businesses.
- The Small Business Administration's definition of a small business (<500 employees) is inadequate for development purposes. North Carolina should establish a clear, consistent definition based on (1) a small business (e.g., <150 employees) and (2) a micro-business (e.g., <10 employees) to better target resources, including incentives, contracting with the government, and accessing general tools that can help them compete with larger corporations. A comprehensive definition should be based on business size, annual revenues, and industry profit margins.
- Ensure all state business incentive programs are accessible to, and have carve outs for, small and micro-businesses (as defined above) and historically underutilized businesses to assist entrepreneurship efforts and/or small business formation, especially in rural areas of the state (i.e., Job Development Investment Grant (JDIG)).



SUPPORT

the ability for all to take risks



The lack of access to health insurance is a serious inhibition to starting and growing a small business in North Carolina. We can spur our state's entrepreneurial energy by taking the lack of access to affordable healthcare out of the equation. Additionally, access to reliable and affordable high-speed broadband poses a great concern for small-business owners as they move to e-commerce to best adapt to the COVID-19 pandemic. North Carolina has made a good start in extending affordable broadband to rural communities, but as the data below suggests, we have so far yet to go to achieve parity. Without it, rural small businesses will be at a competitive disadvantage.

POLICY SOLUTIONS

- Address the health insurance coverage gap for our state's entrepreneurs, small-business owners, their employees, and families.
- Ensure the state's Unemployment Insurance System provides jobless workers with adequate benefits for the standard length of time so that they maintain spending locally and stay connected to the labor market.

- Establish a short-time compensation (i.e., work-sharing, shared-work) program to benefit small-business employers particularly in retail, food service, hospitality, and manufacturing industries so that they can maintain connections with a trained workforce in a downturn.
- Increase broadband adoption rates by establishing an incentive-based program to provide low-cost options for unserved and underserved small-business sectors.

FIGURE 5

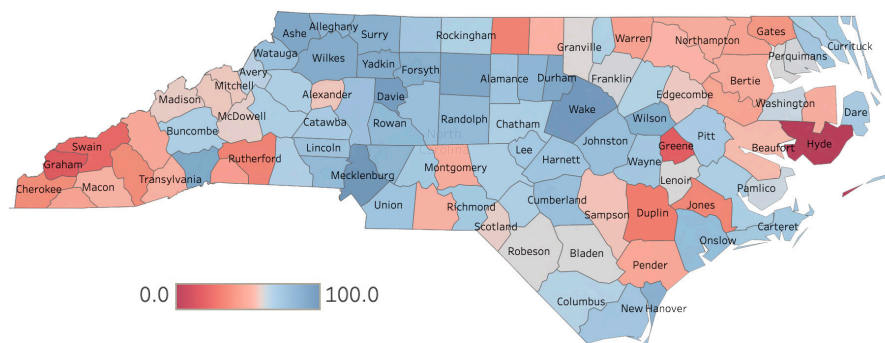
BROADBAND AVAILABILITY AND QUALITY INDEX

Average Scores Based on
Rural Center Classification:

91
URBAN

60
RURAL

77
REGIONAL
CITY AND
SUBURBAN





OPPORTUNITY

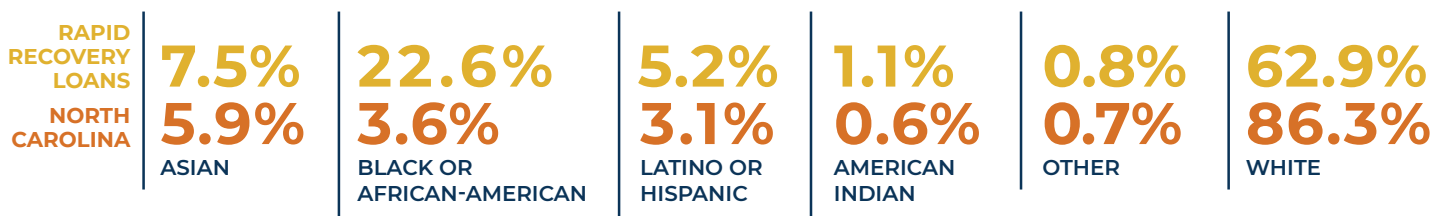
an equitable, level playing field and less red tape

Rural entrepreneurs, women entrepreneurs, and entrepreneurs of color consistently encounter significant systemic challenges at both the startup and growth stages of their business development. Data from the most recent Census Bureau Annual Business Survey underscores the unbalanced distribution of business ownership. Solutions at any level must account for historical disparities faced by these small-business owners, and must directly target capital, technical assistance, and other resources to support these owners—directly and specifically. As shown below, the NC COVID-19 Rapid Recovery Loan Program was one a few programs that sought to directly place capital into the hands of business owners of color during the pandemic.

POLICY SOLUTIONS

- Increase funding and coordination of technical assistance for rural communities by nurturing small-business development and downtown revitalization (i.e., Community Development Corporations).
- Ensure inclusivity of the state's growing Latino population by providing bilingual/bicultural technical services (English/Spanish) across the entrepreneurial ecosystem network (e.g., SBCs, SBTDCs, CDFIs, etc.).
- Support the State Historically Underutilized Business Office's (HUB) development of a robust, and scaled, buyer/contract diversity program for businesses owned by women and people of color.
- Expand the capacity, reach, and regional presence of the State Historically Underutilized Business Office to increase economic opportunities for historically underutilized businesses in state government contracting and procurement to foster greater growth and profitability.

FIGURE 6
BUSINESS DEMOGRAPHICS



*NC Data sourced from US Census Bureau 2017 Statistics of US Businesses for firms with classified data. Racial classifications are non-Hispanic.



KNOWLEDGE

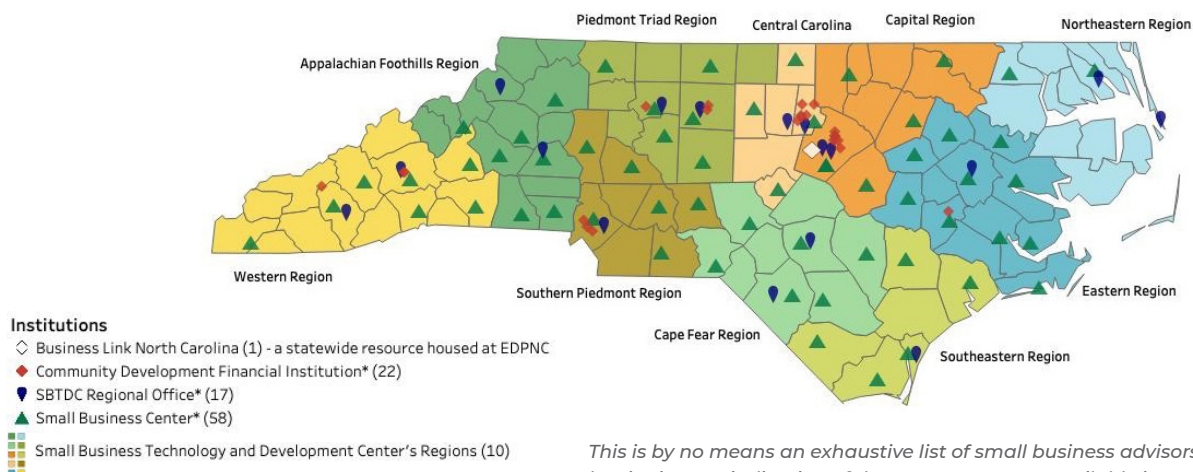
the know-how to start a business

To close the learning gap for new and emerging entrepreneurs, programming must be established in the early academic years, as well as at the community college and collegiate levels. Young, rural, or economically marginalized entrepreneurs (or a combination of all three) can benefit from access to experienced mentors to help them shape their business models, test and probe strategies, and explore markets. As the map below suggests, North Carolina has a rich entrepreneurial ecosystem, but far more can be achieved through stronger coordination, marketing, and funding. Creating and scaling an emerging entrepreneur/mentor relationship “ecosystem” has heretofore not been easy, especially in rural areas. A model based on online mentoring –Accelerate Rural North Carolina based at East Carolina University—is emerging and should be watched and evaluated.

Technical assistance and resource development supports provided by our state’s network of Community Development Financial Institutions (CDFIs), small-business centers (SBCs), Business Link North Carolina (BLNC), and Small Business and Technology Development Centers (SBTDCs), while present and critical, remain significantly under-resourced. This network also lacks consistent ways to coordinate services across the ecosystem, including having limited to nonexistent marketing budgets and capacities. Our state’s robust network of entrepreneurial support entities are an asset to be leveraged, adequately funded, and fully resourced to meet the evolving and growing needs of our state’s entrepreneurs and small-business owners. Additionally, entrepreneurs are routinely burdened with time-consuming state and federal regulatory requirements. This appears to be especially the case for a small business whose services overlap several different regulatory sectors.

FIGURE 7

NORTH CAROLINA SMALL BUSINESS RESOURCE PROVIDERS



* SBTDC Regional Offices, SBC's and CDFI's serve multiple counties

POLICY SOLUTIONS

- Monitor the East Carolina University College of Business' Accelerate Rural North Carolina program for statewide replication potential as an online mentoring model for emerging entrepreneurs, which started as a local pilot and has now received additional funding for rollout throughout Eastern North Carolina.

- Establish and adequately fund a state Ombudsman Office and Regional Network in each Economic Development Partnership Region to serve as an intermediary, regulatory entity to proactively connect and troubleshoot with small businesses and support entities on compliance challenges to eliminate unnecessary and burdensome regulations, and advocate for improvements that make regulatory navigation easier.

- Expand the capacity and sustainability of the State Small Business Center Office and local network to increase the success and viability of North Carolina's small businesses in North Carolina by providing high quality, readily accessible assistance to prospective and existing small-business owners, to increase job creation and retention.

- Establish a well-advertised online, app-based, centralized resource portal to help small-business owners and support entities to navigate a wide array of public and private resources to better coordinate service delivery (i.e., KCSOURCELINK).

- Increase state funding for the Career and Technical Education program to support expansion of the entrepreneurship curriculum at area middle and high schools across the state, especially in rural areas (i.e., professional development to expand entrepreneurship content knowledge).

CONCLUSION

For North Carolina, especially rural North Carolina, to thrive, we have to take every effort possible to support our small businesses, their employees, and the communities they serve. While there are many avenues to ensure that entrepreneurs and small-business owners have equal access to the capital, resources, and tools needed to prosper, we strongly believe that the recommendations outlined above provide a clear, consensus-building roadmap to get us there.

We have the moral and economic imperative to do what is within our power and influence to address the immediate and long-term needs that our small-business owners have stated will best impact their bottom lines and future prosperity. Our collective success hinges on their ability to survive today, tomorrow, and years to come.

This work/research was funded by the Ewing Marion Kauffman Foundation. The contents of this publication are solely the responsibility of Grantee.



