

July 21, 2018

Re: Testimony for the House Committee on Small Business

Subcommittees on Economic Growth, Tax, and
Capital Access and Agriculture, Energy and Trade

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Investment in venture-backed companies in the United States reached \$57 billion in almost 4,000 deals in the first half of 2018.

And yet, only a fraction of those dollars found their way to funds and companies based in rural America. This capital deficit is starving innovative and valuable growth opportunities. Without it, job growth and rural economic development will continue to lag the rise in prosperity of the rest of the country.

I am here today on behalf of the Rural Opportunity Initiative, an effort by the Global Social Enterprise Initiative at Georgetown University to address this imbalance. The Global Social Enterprise Initiative brings the power and innovation generated by cross-sector partnerships to bear on the world's most pressing problems by emphasizing implementation and measurable social change.

The Rural Opportunity Initiative is a partnership between Georgetown's McDonough School of Business, the United States Department of Agriculture and three leaders of our land grant university system: Iowa State University, Mississippi State University and Purdue University. Together, we have embarked on an effort to increase investment from the private sector in rural America...a geography that is more than 95% of the country's land area and less than 20% of its population.

It is well established that small business and particularly new small businesses are the greatest source of job growth. Yet, these new businesses lack access to a critical source of capital. The Rural Opportunity Initiative was organized to address this imbalance.

Together with our partners, we have organized events that bring together both investors and entrepreneurs in order to begin to fund this capital deficit. With Iowa State, we held an event in Des Moines that attracted dozens of small businesses and potential investors, including regional VC funds and large institutional banks. Last month, a similar event was held at Mississippi State in Starkville where we listened to pitches from new businesses that ranged from microwave sensor technology (developed in the labs at MSU) which detect spoilage in grain elevators to healthy crackers made from a flour rescued from the by-products of craft beer.

Also on our schedule for the rest of this year are events on Georgetown's campus around rural lending and an expanding partnership with USDA. And in November, we will be hosting a major conference around rural capital and how those dollars flow to investments and markets away from the coasts.

This conference, the Rural Capital Forum, is scheduled for November 15, 2018 and will identify both hurdles to capital access and the tools available to overcome those obstacles. Let me discuss just two of those challenges this morning.

The first is a lack of awareness. We need to introduce the innovation and emerging technologies that are growing in rural America to institutional investors. That was the primary purpose of our investor conferences in Des Moines, IA, Starkville, MS. It will be the central theme for our much larger meeting this November in Washington, DC.

Others are also making this effort. Steve Case's well publicized Rise of the Rest tour is one example. Another is a major event this fall in Bentonville, AK to be hosted by the Walton Family Foundation.

But awareness building is only the opening of the door to the investment decision. Other more significant barriers remain. Chief among these is the issue of scale. Most rural small business are small businesses. They are not looking for hundreds of millions of Angel investment or a Series A funding. More often they are looking for \$500,000 or \$2 million of mezzanine financing...money that essential to the development of a business plan, initial working capital and operations. Yet, few organized sources exist for this level of funding.

One way of addressing the issue of scale is the development of funds that target this level of investment. The recent wave of Rural Business Investment Companies is a good example. Their charters limit their investments to rural based businesses and their typical investment slice has been in the \$1-5 Million range. Another tool is a fund of funds approach, where many small funds are brought together by institutions as way of allowing their customers to obtain the diversity and scale that is denied them in more targeted funds.

Finally, the federal government has a role in tackling some of the obstacles that exist to small business investments in rural America.

Rural Business Investment Companies

Under the authority of USDA, the recent wave of RBICs has been impressive. Several hundred million dollars have been raised in these Funds. More are in line awaiting approval.

Opportunity Zones

Last year's Tax Bill and the Opportunity Zones provisions are a source of great potential for incremental equity investments. About 23% of the state designated investment zones are located in rural America.

2018 Farm Bill

The Senate version of the 2018 Farm Bill includes language that would expand the opportunities for RBICs. Specifically, the bipartisan Rural Jobs and Investment Act of 2018, S. 5034, is an opportunity to spur more investment into rural communities. We think this is a good thing and urge the House conferees to join the Senate in this effort.

These pushes from the federal government are important. But the primary source of change is going to come from the private sector. We know those dollars are available...\$57 Billion in the first half of 2018 alone...but the challenge is how to change the direction of those investments toward sectors of the economy and geographies where venture capital has not been well represented. That is ultimately a challenge of building awareness of those investment opportunities. That is where the Global Social Enterprise Initiative at Georgetown, the Rural Opportunity Initiative and our partners are heading.

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