



"Improving the quality of life in rural communities"

**Testimony to the
U.S. House Committee on Small Business
Subcommittee on
Underserved, Agricultural, and Rural Business Development**

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About RCAP

Thank you, Chairman Golden, Ranking Member Hagedorn, and members of the subcommittee, for this opportunity to discuss the importance of small businesses and entrepreneurship in supporting rural communities, and how the U.S. Small Business Administration can help small businesses and entrepreneurs thrive in rural areas.

My name is Nathan Ohle, and I am the CEO of the Rural Community Assistance Partnership (RCAP). RCAP is a national network of non-profit partners working to provide technical assistance, training, and resources to rural and tribal communities in every state, territory and on tribal lands. Through our regional partners, more than 300 technical assistance providers build capacity that leads to sustainable and resilient infrastructure and strengthens rural economies. Our approach is grounded in long-term, trusted relationships with thousands of rural and tribal communities across the country.

Last year, RCAP served more than 3.4 million rural and tribal residents in more than 2,000 of the smallest, most distressed communities. The average population of the communities we served was 1,500, with a Median Household Income of half the national average. We served more than 40 percent of America's persistent poverty counties, and almost 300,000 individuals from indigenous communities. In addition, with people of color representing 21 percent of the rural population, and 83 percent of rural population growth, we support a rural America that is increasingly diverse.

Covid-19 Impacts on Rural Communities and the Federal Response:

The talent, innovation, and resiliency of America's rural areas will play a central role in the future of the U.S. economy. Rural areas have always served as the backbone of this country and will continue to be a core measure of the success as the country seeks to rebuild after COVID-19.

Yet COVID-19 has also further exacerbated the challenges rural communities face, as they had not yet fully recovered from the 2008 recession. Rural communities also lag in other areas on indicators related to poverty, health, and education. Many distressed rural communities are those where racial inequities also dominate.

Now is the time to drive real and sustained change, while also creating opportunity for small businesses and entrepreneurs to thrive in rural areas. While small businesses have been crippled by the pandemic, they are also the best way to reinvigorate the economy, especially in rural areas. The days of chasing after one big manufacturer or the extractive approaches to economic development are gone, replaced by a growing need to drive small business growth that intentionally embeds wealth locally, lifting up regions in a more equitable fashion.

To do this, policy makers need to:

- create opportunities for small businesses and entrepreneurs to thrive in rural areas;
- provide additional resources to build capacity and provide access to funding; and

- focus investment on critical sectors like water, broadband and health, providing direct assistance through grants to address revenue losses and allow for future infrastructure projects to move forward.

According to a July 2020 survey from NPR, Harvard's School of Public Health, and the Robert Wood Johnson Foundation, over 40 percent of rural households "reported having household members that have been furloughed, lost a job or had wages or hours reduced as a result of COVID." That same report said that over 30 percent of rural households had reported using all or most of their savings during the coronavirus outbreak, including over 80 percent of Black or Latino households.

While largely unrecognized, rural areas of the country are more diverse than you might imagine. Whether you are discussing the Blackbelt of Alabama or Native Alaskan populations, the health and economic impacts of COVID-19 are hitting these communities harder than almost any area of the country.

I don't have to tell members of this committee that small businesses are the biggest drivers of economic growth in the US. Small businesses employ 47 percent of the United States workforce and generate two-thirds of new jobs. In rural areas, people are more likely to be small business owners, and these businesses tend to be more resilient than in larger communities. According to a recently release report from RCAP and the National League of Cities, urban and rural areas are often interdependent and perform better when they are economically connected within their regions. Robust connectivity, demonstrated through markets for goods and services, entrepreneurship, workforce and supply chains that span urban and rural areas, helps align the diverse strengths and assets present within regions. Small business growth is at the heart of driving connectivity.

The U.S. Small Business Administration features a portfolio of small business lending and grant programs tailor-made for rural businesses and communities. Given that businesses in rural communities are essential to the success of economic recovery efforts, and the SBA along with USDA Rural Development programs are the programs most specifically tailored to the capacity and reality of rural places, we urge you to focus resources on these programs, especially grant programs, that ensure that the smallest and lowest resourced communities do not bear the burden of debt financing for their recovery.

Small business engagement cannot be the sole focus of relief efforts, however. The systemic inequity that exists between urban and rural areas is a direct result of an aging infrastructure that was already in dire need of investment before the pandemic. Strong infrastructure in a community is a fundamental building block to unlocking small business growth.

We thank this committee for creating the Paycheck Protection Program (PPP) that was launched in the first phases of COVID-19 generated recovery funds that were meant to address the revenue losses of small businesses. We also appreciated the changes made in the subsequent relief packages ensuring that future PPP funds are available through certified Community Development Financial Institutions (CDFIs). They are important partners to ensuring that rural small businesses can access PPP funds. CDFIs often pair funding with technical assistance to

those businesses, helping to build capacity and ensuring that businesses that need assistance the most receive it. Two of RCAP's regional partners are CDFIs that participated in the PPP, making more than 597 loans totaling almost \$29 million. There is still a great need for additional PPP funds to rural small businesses, as many got left behind in the final days of the implementation of the program with little communication. This included more than 50 applications totaling almost \$2 million from RCAP's two regional partner CDFIs alone, including many minority-owned businesses on the brink of closing their doors. The legacy of inequity from PPP shapes the recovery needs moving forward. The disparity in access underscores the importance of continued resources to support small businesses in rural communities.

Another important program at SBA is the State Small Business Credit Initiative or SSBCI. Treasury and States should ensure the \$10 billion State Small Business Credit Initiative reaches rural communities, particularly persistent poverty communities and communities of color. In the last round of SSBCI, only 15% of all program dollars went to rural communities. Focused attention on the most vulnerable communities and aligning program access is critical to getting assistance to those who need it the most.

Technical Assistance is Key to Ensuring the Success of SBA's and Rural Communities:

Despite SBA's many successes, a substantial number of small, low-income towns, counties, and rural small businesses have difficulty accessing SBA programs. The application process and eligibility requirements for each program are slightly different, and each pose unique challenges. Small business owners are often solely focused on their business and may lack professional staff and resources to find out what funding sources are available, or the requirements for funding eligibility. But with help from an experienced technical assistance provider, rural and tribal small businesses can develop the capacity to access and manage needed federal funds. Technical assistance plays a vital role in ensuring that programs actually serve the vulnerable small businesses they were designed to support in a cost-effective manner.

RCAP thanks this committee for creating the Community Navigator Pilot Program to address these issues. This program will supply grants to traditional business assistance organizations as well as organizations like RCAP and our regional partners with deep ties to rural communities to engage trusted, culturally knowledgeable field staff to conduct targeted technical assistance and outreach to specific sectors of the small business community.

Additionally, rural and disadvantaged entrepreneurs and small businesses that are supported by affordable, local technical assistance are more likely to launch and grow businesses. Technical assistance is the best loan risk mitigation tool. Characteristics of robust Technical Assistance include:

- One-on-one assistance, not classroom training.
- Problem solving, not generic toolkits.
- Longer-term engagement, not a single counseling session.
- An accountability partner, not just a list of recommendations.

SBA also created an Office of Rural Affairs to better coordinate and engage with rural programs and communities. Unfortunately, that office has not been as effective as possible due to under staffing and lack of authority within the agency. In order to be effective, the SBA Office of Rural Affairs would need to have real authority to help expedite issues raised and address the concerns of small businesses located in rural and tribal areas. We would also encourage the Office of Rural Affairs to create an advisory council or other entity to better engage with the needs on the ground, so that the office understands the issues, and can move quickly, and provide assistance when needed.

Lastly, I want to emphasize policy opportunities to target resources in ways that will optimize the best long-term outcomes, especially for distressed rural places, including technical assistance, capacity building, and evaluation. Technical assistance is key to fostering strong financial management, which in turn mitigates the risk for capital investments, unlocking capital badly needed in these communities. We urge the committee to focus investments that will support local-ownership and control. Only with these types of strategic investments will people in rural communities be able to access and create locally-led strategies that will keep wealth in the hands of rural people.

Conclusion:

In closing, RCAP works with communities, businesses and partners across the country to advocate for and generate economic opportunities for rural areas. Solving the challenges facing rural communities requires a multi-pronged approach that includes adequate funding, steps to ensure that funding is available to all communities that truly need it, and a comprehensive approach to technical assistance to maximize the efficiency and effectiveness of SBA's programs. This approach should also include an emphasis on community economic development, and cost-effective investments in infrastructure that provide maximum return on federal investments.

The services provided through SBA deliver critical assistance to the small and disadvantaged communities where it is most needed, especially as our country continues to respond to the COVID-19 pandemic. We must use the COVID-19 pandemic to put a stake in the ground to start thinking innovatively about how we address the systemic and long-term inequities that have led to rural America falling behind its urban counterparts. If we don't, we may never make up that gap.

I thank the committee for inviting me to testify today, and I look forward to working with you and your colleagues to ensure these important priorities are passed into law.