



# Access to Capital and Credit for Entrepreneurs and Small Businesses in Appalachia

2024

Prepared for the Appalachian Regional Commission  
under contract #CO-20993-23

Authors: Next Street Financial, LLC



# Acknowledgements

Next Street would like to thank the many stakeholders who generously provided their time to shape the insights outlined in this report. In particular, we thank the following organizations for directly informing the Appalachian small business and capital access landscape, and the recommended set of solutions:

- Access to Capital for Entrepreneurs
- ACE Networks
- Appalachian Community Capital
- Appalachian Impact Fund
- Appalachian Investors Alliance
- Bronze Valley
- Brookings Center for Sustainable Development
- Bullock Properties
- Dogwood Health Trust
- FAHE
- Foundation for Appalachian Ohio
- Invest Appalachia
- LISC
- Locus Impact Investing
- Mountain Association
- Mountain BizWorks
- Opportunity Appalachia
- Partner Community Capital
- Pathway Lending
- Shining Rock Ventures
- South Carolina Community Loan Fund
- Sync Space
- The Innovate Fund
- VEDIC
- West Virginia Jobs Investment Trust
- Woodlands Development & Lending
- Wyoming County

The folks from these organizations doing the hard work on the ground every day know their communities best, and this comprehensive review and set of recommendations would not have been possible without their expertise. We greatly appreciate their engagement and contribution.

The work was made possible by the publicly available information collected and released by the U.S. Census Bureau and the Federal Reserve system, and the contributions from the team at the Credit Union National Association.

Specific contributors from Next Street who produced the underlying research and this report include:

- Alexander Flores
- Beth Lampson
- Cristian Lopez
- Jocelyn Walters
- Kruti Sheth
- Spencer Lau
- Tyler Patterson
- Joelle Scillia

# 1. Executive Summary

Across Appalachia, small businesses and entrepreneurs have become a driving force of economic and cultural vitality, with well over two million small businesses calling Appalachia home. Encompassing portions of Alabama, Georgia, Kentucky, Maryland, Mississippi, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia, and all of West Virginia, the Appalachian Region (the Region) is home to over 26 million people and comprises 8% of the total population in the United States. The varied natural landscape of the Appalachian Region is mirrored in the many different types of communities and the vast entrepreneurial landscape.

Capital and credit are the fuel that drives the formation, growth, and sustainability of small businesses and entrepreneurs. However, small businesses are frequently perceived as riskier investments and have difficulty obtaining capital, impeding their success and, in many cases, their survival. Barriers to accessing capital for small businesses in Appalachia can take many forms: large differences in total capital supply and demand, gaps in the type and size of products offered, limited sources of capital, lack of physical access to banks – particularly in rural areas and communities with low population densities – and inconsistent sourcing pipelines from other financial institutions throughout the Region.

This study reviews the landscape of small businesses and entrepreneurs in Appalachia, outlines the available capital supply, and calculates the demand for such capital. The research in this report also considers the monumental impact and lasting effects of the COVID-19 pandemic. Based



on the existing supply and capital sources, the research then points to core addressable needs across Appalachia and proposes solutions to reduce barriers and improve capital flow to small businesses and entrepreneurs.

To chart a course forward, stakeholders in the Region must collaborate to create environments that support Appalachia's continued economic development through small business growth and support efforts. Policymakers, Federal, State, and community leaders, entrepreneur support organizations, and investors must all consider adjusting the structures supplying capital to Appalachian small businesses and entrepreneurs.

## KEY FINDINGS FROM THIS STUDY:

### 1. Small businesses and entrepreneurs play a critical role in Appalachia's economy and prospects for continued development.

- In 2020, Appalachian small businesses comprised over 99% of all businesses in the Region. **Over 1.8 million businesses operated as nonemployer firms (businesses with no paid employees), and nearly 400,000 Appalachian small businesses were microbusinesses (firms with fewer than ten paid employees).**
- Small businesses in Appalachia tend to be **nonemployer firms** (mirroring the national statistics, with 77% both in Appalachia and the United States as a whole) that are **White** (88% White-owned in Appalachia, versus 80.5% nationally) **and male-owned** (80.8% male-owned versus 74% nationally).
- **Main Street businesses in sectors such as Retail, Leisure, and Hospitality employ nearly half of Appalachia's workforce** and are vital to the Region's community identity. Additionally, emerging potential in High-Growth and Supplier small businesses<sup>1</sup> hold promise for rural communities to tap into national trends in infrastructure and clean energy.
- **Appalachia experienced a record number of new business starts**, with over 305,000 new business applications in 2021; this represents an increase of over 27% compared to 2020 and an increase of 57% from 2019.

### 2. Capital demand outpaces available capital supply.

- From 2017 to 2022, demand for small business capital in Appalachia ranged from \$117.1 billion to \$127.1 billion annually. **Appalachian small businesses faced an annual average financial shortfall of unmet demand of approximately \$70 billion during the period analyzed, ranging from \$56 billion in 2019 to \$79 billion in 2021.**
- Before the COVID-19 pandemic in 2020, the primary goal for most small businesses was to secure financing for expansion and sales growth. **The pandemic and the ensuing economic constraints have since positioned small businesses to pivot toward covering operational costs to ensure business continuity.** This focus has largely remained in place through 2022, exacerbated by continued macroeconomic conditions.

### 3. Existing capital is concentrated among banks.

- **Banks provided the most capital in the aggregate supply**, lending on average 97.1% annually of total dollar amounts to small businesses, and 99.6% annually of the total number of loans and equity deals (2017 to 2021), significantly outnumbering other capital providers such as credit unions and Community Development Financial Institutions (CDFIs).
- **Venture capital and other forms of private equity investments in small businesses are uncommon across the Region.** Appalachia holds a small share of the national venture capital landscape, ranging from 0.4% to 1.3% of the total equity funding dollars in the United States, with a corresponding 1.4% to 1.6% of the total deals nationwide from 2017 to 2022.

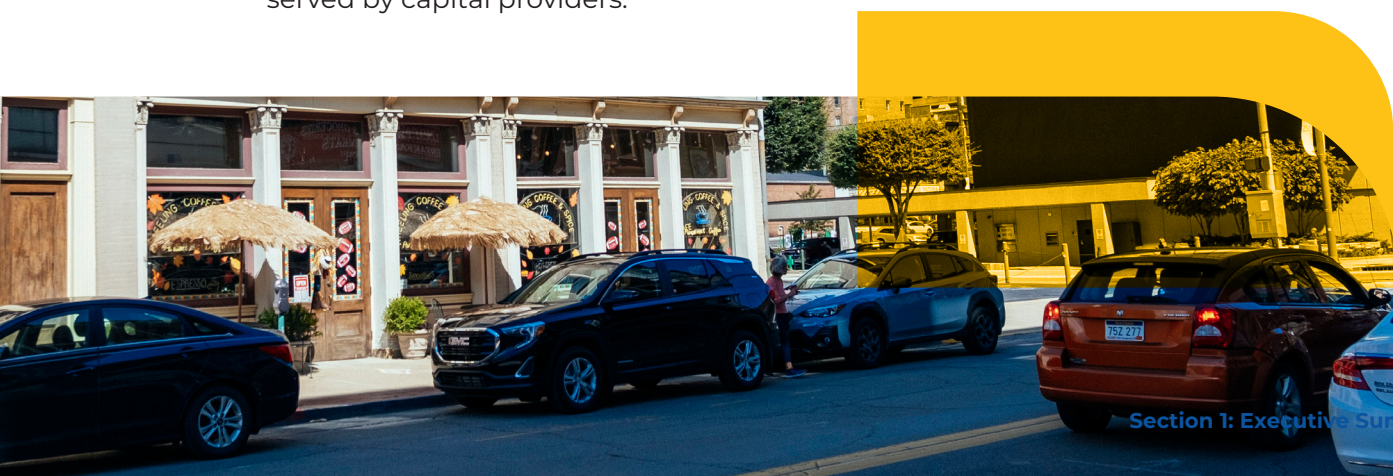
<sup>1</sup> Note: High-Growth and Supplier business are defined in Section 3.1, Figure 3.1.6: Small Business Segmentation by Industry.

#### 4. Geographical constraints and bank consolidation hinder capital access.

- **Small business capital supply is generally concentrated in population-dense and metro and metro-adjacent areas** (following historic investment and underinvestment patterns in rural areas). State-level business density comparisons demonstrate how geographic location plays a crucial role in shaping the small business landscape; proximity to metro areas is a particularly defining aspect, as the business density of Appalachian large metro counties aligns with the national average (106 small businesses per 1,000 people). In contrast, rural areas fall below the national average.
- Entrepreneurs face geographical barriers to the physical locations of capital providers stemming from this concentration and bank consolidation. **Across both Appalachia and the entire United States, the number of bank branches declined from 2015 to 2022. In Appalachia specifically, there has been a 2.3% annual decrease in the number of bank branches over the course of those seven years, with a reduction in branch numbers across every geographic division within the Region.**
- Geographic barriers are exacerbated by the challenge of broadband internet access across the Region (well documented in other studies), particularly in areas already not well-served by capital providers.

#### 5. Small business owners and entrepreneurs currently strive to meet outmoded requirements to access capital. There is also a mismatch between small businesses' needs and the loan sizes provided in the market.

- Small businesses and other Appalachian stakeholders report that **credit requirements and underwriting standards, such as required collateral, create challenging barriers for small businesses to access loan capital.**
- The annual growth rate in the number of loans deployed to Appalachian small businesses from 2019 to 2022 slightly lagged that of the total dollar supply, driven by an increase in average loan size over time. From 2020 to 2021, in Appalachia and nationally, the total dollar amount of capital supply decreased while the total number of loans increased due to the Paycheck Protection Program (PPP). **The most prevalent loan sizes are not always meeting the needs of Appalachian small businesses; gaps in funding between \$100,000 and \$250,000, and microloans under \$50,000 (particularly under \$10,000), emerge.**



## 6. Capital access is also hindered by a lack of connection and awareness between real estate investors, community development initiatives, and small businesses stakeholders.

- Appalachian entrepreneurs can leverage the Region's unique natural assets and historic main streets, but information asymmetry between small businesses, other stakeholders, developers, credit unions, CDFIs, and other lenders, **leads to unmet capital demand without the right mix of products.**
- While efforts are ongoing to attract investment through public-private partnerships, **those working to attract venture capital and angel investment for small businesses do not always have clear pathways and available value propositions** aligning with risk and return requirements.

## 7. Emerging growth potential in the climate, infrastructure, and advanced manufacturing industries indicates a need for specifically targeted products to support these types of businesses.

- **In 2021, the Appalachian Region saw the highest level of new business establishments in the past decade, in particular within the Manufacturing and Construction sectors.**
- **The growth of these sectors have the potential for rural communities to tap into national infrastructure and clean energy trends.** Yet, venture capital and private equity are not common for Appalachian small businesses and the research demonstrates capital demand outpaces debt supply overall, limiting growth opportunities in these sectors.

## 8. Appalachia's unique regional dynamics merit intentional place-based approaches to capital programs and capital provider capacity-building. Yet, innovative policy, product, and resource allocation decisions require robust data collection and information-sharing across geographies.

- A challenge for this research study itself is that **data on small businesses and entrepreneurs, especially at the community level, is not often publicly available.** For Appalachia to continue to design programs and track progress, increasing data collection efforts beyond the aggregate level will be critical.



Based on these findings, the study points to a **proposed set of policy and programmatic recommendations**. These recommendations are evaluated within the complete capital flow to small businesses, encompassing funding pools, capitalization, product development, the capital marketplace, and underwriting operations.

## ACTION NEEDED

## POLICY AND PROGRAMMATIC RECOMMENDATIONS

### Start at the Source

*Increase lenders' ability to access and structure capital for small business lending*

- Provide large pools of institutional capital to support the balance sheets of smaller Appalachian financial institutions.
- Create a facility for financial institutions to access capital markets and direct resources at scale.
- Expand the resources available for the USDA's Rural Business Investment Company (RBIC) licensing program.
- Take a place-based approach to capital formation with carve-outs.

### Provide Innovative Products

*Consider loan size and credit needs, and plan for emerging new and innovative industries with new and innovative products*

- Create loan capital products to address gaps in the market for loan size and product design.
- Encourage the design and funding of coordinated programs and investment products specifically addressing supply-chain financing for emerging industries.

### Mobilize the Marketplace

*Address existing channels and create new channels to ensure connections*

- Create direct and intentional connections between physical community development efforts, investors, and small businesses.
- Encourage the design and funding of coordinated programs specifically addressing contractor and supplier development for emerging industries.
- Coordinate the attraction of impact investors, venture capital, and other investors to the Region and support them in making informed decisions and understanding regional developments.
- Support the implementation of an online capital marketplace.

### Open the Door for Operations

*Couple capacity-building with capital for efficient operations and local involvement*

- Provide unrestricted capacity-building resources to local lenders, community development institutions, and chambers of commerce, such as innovation grants and operating resources.
- Support ecosystem information-sharing and increased data collection on entrepreneur capital needs, access, and supply.
- Expand and sustainably support the infrastructure for ecosystem coordination across state lines.
- Support place-based initiatives for investors to invest in their own communities.

The Appalachian Region has the potential to leverage the resilience and entrepreneurial spirit of its small businesses and entrepreneurs. However, this potential is impeded by a gap between capital supply and demand, geographic constraints, and information asymmetry. To unlock the full economic and cultural vitality of Appalachia's small business economy, it is imperative that stakeholders come together and take strategic action.

# About Us

## APPALACHIAN REGIONAL COMMISSION

The Appalachian Regional Commission (ARC, the Commission) is a regional economic development agency representing a unique partnership of federal, state, and local governments. Established by an act of Congress in 1965, the Commission is composed of the governors of the 13 Appalachian states and a federal co-chair. ARC's mission is to innovate, partner, and invest to build community capacity and strengthen economic growth in Appalachia.

## NEXT STREET

Next Street Financial, LLC is a B-Corporation with the mission to help every small business realize their potential. We do that by designing and developing solutions to connect entrepreneurs and small business owners with the right resources at the right time. We have a comprehensive view of the needs of small businesses, and a focus on promoting inclusivity and developing equitable solutions, and our integrated teams deliver high quality advice and solutions based on cutting edge research and proprietary knowledge.

# Research Parameters

## STAKEHOLDER INTERVIEWS

Next Street conducted outreach to 61 local and national stakeholders and completed 24 interviews with lenders, equity providers, business support organizations, and thought leaders / subject matter experts. Interviewees spanned across a variety of geographic reaches, demographic priorities, and business stages supported:

Stakeholder Name	Organization	Title
Grace Fricks	Access to Capital for Entrepreneurs	President & CEO
Larry Fisher	ACE Networks	Executive Director
Donna Gambrell	Appalachian Community Capital	CEO
Geoff Marietta	Appalachian Impact Fund	Executive Director
Scott Ewing	Appalachian Investors Alliance	Principal Business Analyst
Neill Wright	Bronze Valley	President, CEO
Anthony Pipa	Brookings Center for Sustainable Development	Senior Fellow
Tighe Bullock	Bullock Properties	Owner
Sarah Thompson	Dogwood Health Trust	VP, Economic Opportunity
Kelly Morman	Foundation for Appalachian Ohio	Director of Local Impact
Andrew Crosson	Invest Appalachia	Founder & CEO
Caitlin Cain	LISC	VP, Rural LISC Director
Deb Markley	Locus Impact Investing	SVP
Ketaki Bhattacharyya	Mountain Association	Manager, Business Support Program
Matt Raker	Mountain BizWorks	Executive Director
Ray Daffner	Opportunity Appalachia	Program Manager
Marten Jenkins	Partner Community Capital	President & CEO



Stakeholder Name	Organization	Title
Clint Gwin	Pathway Lending	President
Jesse Fripp	Shining Rock Ventures	CEO
Brendan Buttimer	South Carolina Community Loan Fund	Senior Loan Officer
Heath Guinn	Sync Space	President
Emma Wyatt	The Innovate Fund	Program Manager
Michele O'Connor	West Virginia Jobs Investment Trust	Investment Manager
Dave Clark	Woodlands Development & Lending	Executive Director

## YEARS OF DATA ANALYSIS

The timeline of data analysis in this report varies depending on the dataset, primarily guided by data availability. Generally, we leveraged the earliest available data starting from 2015 and extended it to the most recent available year, up to 2022. Below is a breakdown of the specific years for each dataset.

For selected datasets, especially those undergoing mapping, we opted for the years 2019 and 2021/2022 (the latest year available) to facilitate a meaningful comparison before and after the COVID-19 pandemic.

Source	Data Set	Years
Federal Financial Institutions Examination Council (FFIEC)	Community Reinvestment Act (CRA) Bank Lending	2015 – 2021
Federal Deposit Insurance Corporation (FDIC)	Banks and Institutions by Asset Size	2015, 2019, 2022
FDIC	Bank Branches	2015, 2019, 2022
National Credit Union Administration	Call Report Quarterly Data	2015, 2019, 2022
U.S. Department of the Treasury	CDFI Lending	2015 – 2022
Small Business Administration (SBA)	7(a) Loan Program	2015 – 2022
SBA	504 Loan Program	2015 – 2022
SBA	Paycheck Protection Program (PPP)	2020 – 2021
Angel Capital Association	Angel Investors in Appalachia	2023
PolicyMap	Foundation Giving in Appalachia Region	2015 - 2022
Pitchbook	Venture Equity Monitor Data	2017 – 2023
United States Census Bureau	American Community Survey	2015 – 2020
United States Census Bureau	Annual Business Survey	2018 – 2020
United States Census Bureau	Business Formation Statistics	2017 – 2022
United States Census Bureau	County Business Patterns	2015 – 2021
United States Census Bureau	Nonemployer Statistics	2015 – 2020
United States Census Bureau	Quarterly Workforce Indicators, Longitudinal Employer-Household Dynamics	2014 – 2018

# Access to Capital and Credit for Entrepreneurs and Small Businesses in Appalachia