Commentary: What We Learned in the First Session

Marvin Duncan, Moderator

This session, with its focus on the role of national capital markets in equity financing for rural business development, was meant to provide a national framework for this conference and its quest to think critically about both the demand for equity capital and how that might best be provided. This session also serves to motivate the balance of this timely and excellent conference. The session succeeded, as I believe you will agree having read the papers and having heard the discussion presented.

EQUITY CAPITAL

For those who had questions about the relevance of equity capital and the role of private equity capital, Stephen Prowse’s well-documented paper was illuminating. Private capital markets are rapidly growing in importance in the United States and are an important part of the explanation for the sizzling pace of start-up firms in high technology fields. These start-up firms, along with growth in other small business firms, account for the lion’s share of the burgeoning pace of new job formation in the U.S. economy in this business expansion. Yet, relatively little of that private equity capital is finding its way to business start-ups in rural America. The questions “Why not?” and “What can be done to put more equity capital to work in rural communities?” are the focus of the other presenters in this session.

CAPITAL MARKETS

National capital markets are growing ever more sophisticated and successful in identifying business opportunity for new equity capital. In his thoughtful paper, Nassos Michas presented a window on the range of roles capital markets can fill in aggregating investment capital, identifying opportunity, intermediating capital, monitoring business performance of firms benefiting from such capital infusion, and liquefying equity investments in growing firms through facilitating mergers with other firms, outright sales, and initial public stock offerings. It is essential that equity capital investment completes that full cycle if new equity investment is to grow.

Yet, private entrepreneurs are often reluctant to provide the kind of business performance information necessary to support equity capital investment, or to share growth potential from their ideas and work with investors. This cultural impediment is particularly strong in rural areas and is one that must be changed if equity capital is to be attracted into rural America. Business opportunities must be attractive to investors, as well as to entrepreneurs, if equity investment is to become more readily available.

Public policy also has a role to play in lowering barriers to equity and other types of private
financing. That will require action at local, state, and federal levels to ensure that capital intermediation is made to work better and that entrepreneurs are adequately rewarded for their risk management and equity investors for their contributions. Regulatory and tax law changes that make the venture capital process simpler and more straightforward would help. Tax law changes that provide enhanced rewards to entrepreneurs and their heirs would also help.

RATES OF RETURN

Ray Moncrief reminds us that equity investment is not only about the rate of return on dollars invested. It is also about the return on human capital, as entrepreneurs and their employees, together, grow human capital and build their communities. It is about belief in ideas and in people, coupled with hard work, sound management, and patience that often turns the tide and builds success in rural economic development. In this process, the public sector can often be a valuable ally, providing seed capital necessary to partner with entrepreneurs’ equity to set the stage for private equity capital investments.

PARTNERSHIPS IN RURAL ECONOMIC DEVELOPMENT

Partnering across the private and public sectors, among entrepreneurs, and within communities, can make the difference between business start-ups and economic growth, and good ideas that go nowhere. Tony Raimondo and William Castle helped us better appreciate the variety of such partnerships and the essential role they fill in making rural economic development happen.

SUMMARY

This session established the importance and the capacity of capital markets to support business start-up and growth. But the actors on the capital market stage respond to potentially successful business opportunities. There must be a matchup between potential success and capital seeking a return on investment. Entrepreneurs must understand the rules by which equity investors make investment decisions, and their desire to cash out that investment at a future date. Imaginative, hardworking partnerships involving public and private sectors, as well as profit and nonprofit organizations, have the clear potential to improve business development opportunities in rural America. While there is an unmet demand for capital in rural America, there is much that those who make their homes and build their businesses in rural America can do to gain financing support from increasingly sophisticated and flexible financial markets searching for promising business opportunities to fund.