Center on Rural Innovation

Rural America's Struggle to Access Private Capital

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Executive Summary

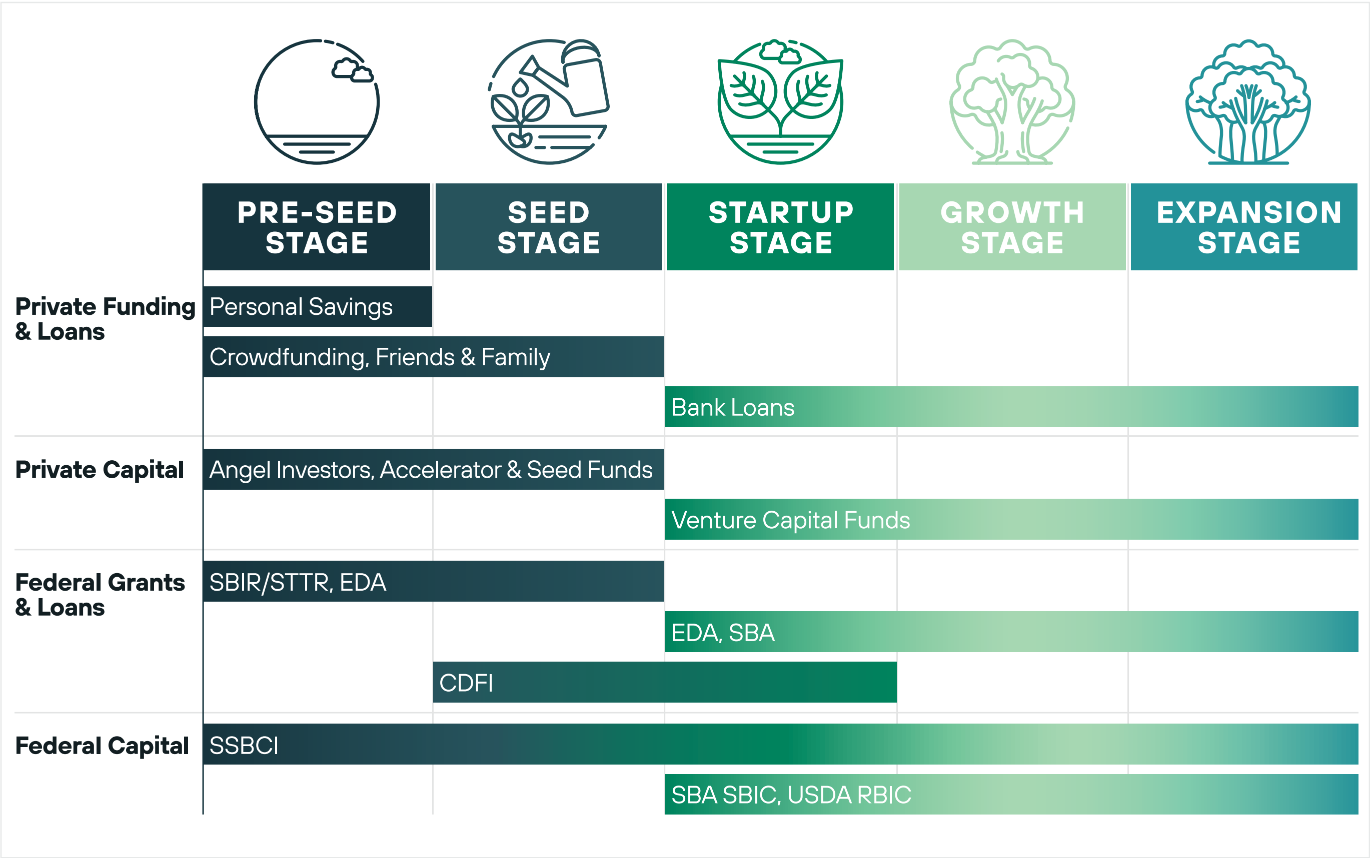
Rural entrepreneurship is a powerful driver of economic development, providing pathways for wealth-building, job creation, and community resilience, especially in remote and lagging regions. Rural residents are more likely to start businesses than their urban counterparts and tend to earn higher incomes than other rural workers. However, business closures and declining startup rates, driven in part by lower access to financial capital, have widened the rural-urban economic divide. Addressing financial barriers is critical to reversing these trends and fostering economic growth and diversification in rural communities.

Personal savings remain the most common source of startup capital, especially for rural entrepreneurs. Yet, rural areas have lower median household incomes and home values, limiting personal wealth as a financing tool. Traditional small business loans from banks are important for stable, incremental growth, especially for businesses in the tradable goods (e.g., manufacturing, agriculture) and local goods and services sectors (e.g., retail, healthcare, hospitality). However, rural bank consolidations have reduced access to relationship-based lending typical of the small community banks in rural areas, further restricting business formation. Continuing a trend that began in the mid-1980s, the number of rural community banks declined from 5,029 in 1994 to 2,618 in 2024 - a decrease of nearly 48 percent. These financial barriers are even more pronounced in rural areas with higher minority populations, where lower household wealth and limited access to community banks make personal savings and traditional bank loans less accessible, further constraining business formation and economic mobility.

For scalable, high-growth startups especially in the tradable services sector (e.g. Software as a Service (SaaS), consulting, IT services, digital marketing), venture capital is especially crucial - but remains highly concentrated in urban hubs as venture capital firms favor local, established networks. This exclusionary investment pattern exacerbates geographic disparities, even more so for rural women and minority entrepreneurs, and limits the potential for rural innovation hubs. Despite making up 12% of all U.S. businesses, rural businesses receive less than 1% of venture capital funding. This funding gap excludes rural entrepreneurs from critical investment networks, limits their ability to scale, and prevents venture capital investors from accessing innovative ideas emerging from rural communities.

Federal business loan, grant, and venture capital programs (SBA, SBIR/STTR, SSBCI, etc.) have widened rather than closed the rural-nonrural financial gap and the majority of state government place-based business programs disproportionately benefit large corporations in urban areas at the expense of small businesses and entrepreneurship, especially in rural areas.

The Generator Pine Bluff, AR



To close the rural financial capital gap and unlock rural entrepreneurial potential, policymakers and investors must take targeted action:

- Strengthen and expand rural community banks to support relationship-based lending for local businesses, as the purely quantitative credit decisions employed by large, centralized banks often exclude rural small business borrowers.
- Increase access to venture capital in rural areas through targeted regional investment funds, angel networks, and public-private financing partnerships in rural areas.
- Better align or expand government financing programs to prioritize rural entrepreneurs, similar to the USDA Rural Business Investment Program's focus on rural areas.

By treating rural America as an emerging market, diversifying investment portfolios, and leveraging both private and public capital, we can transform rural communities into thriving innovation hubs. A more geographically equitable investment ecosystem will foster stronger economic growth, expand opportunity, and create a more dynamic and inclusive economy nationwide.

Acknowledgments

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Business Dynamism in Rural America

Entrepreneurship is one of the most effective strategies for fostering economic development in rural areas, particularly in lagging and remote regions (Henderson, 2002; Stephens & Partridge 2011, Stephens et al., 2013). A key advantage is the opportunity for rural residents to build wealth through business ownership. Research shows that small business entrepreneurship increases incomes and alleviates poverty in rural communities (Fleming & Goetz, 2011; Nene & Abegaz, 2021). Rural residents are also more likely to start businesses than their urban counterparts and tend to earn higher incomes than other rural workers (Yu & Artz, 2018).

However, business startup rates have been declining for decades, with rural areas experiencing the sharpest declines (see Figure 3, Weinstein, Erouart, & Dewbury, 2024). This trend has contributed to a widening rural-urban economic gap (see Figure 2, Center on Rural Innovation, 2023a). Studies show that small, locally owned firms create more jobs than larger corporations (Rupasingha, 2013; Neumark et al., 2011), underscoring the importance of reversing this decline.

Figure 1: Rural areas experiencing the steepest declines in business entry rates

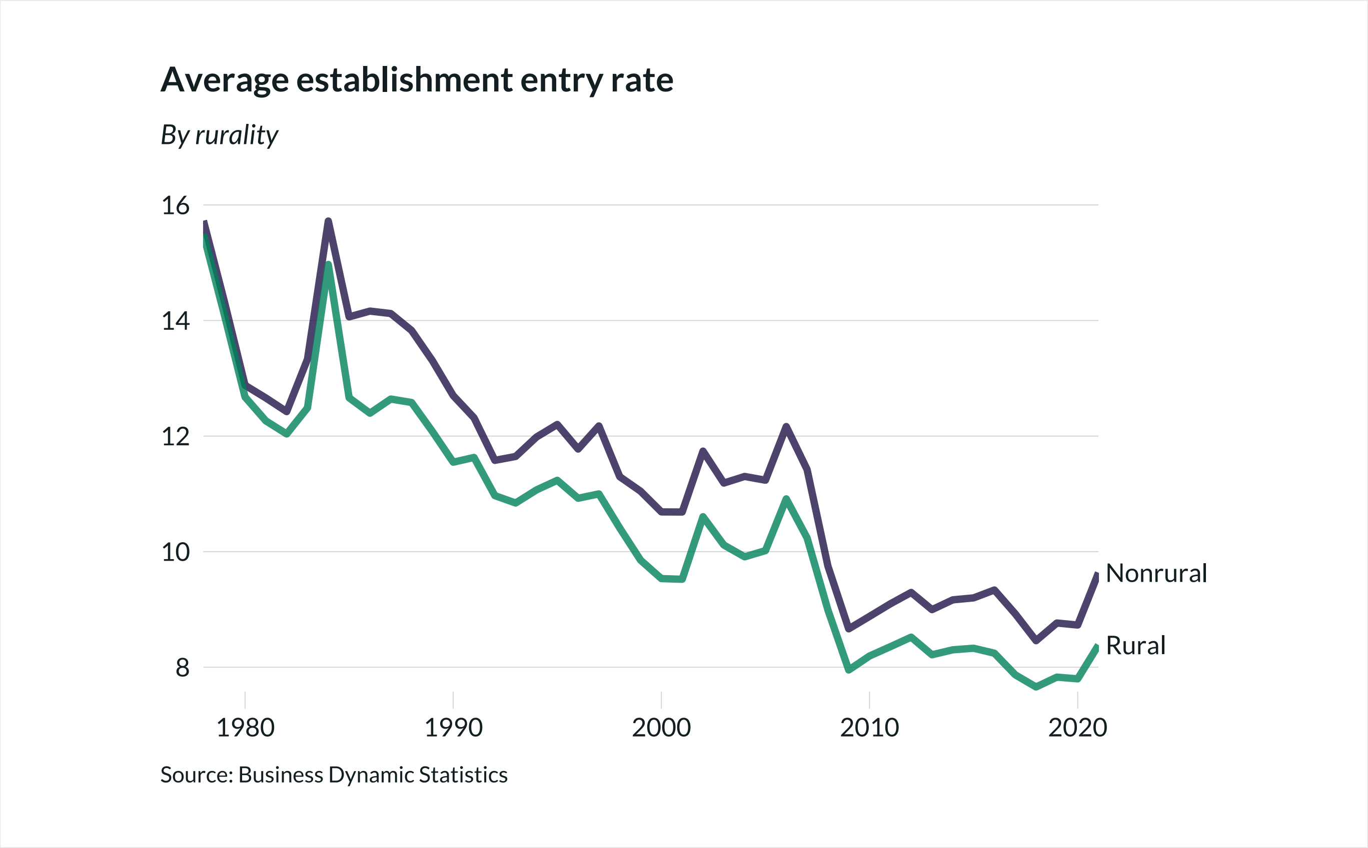
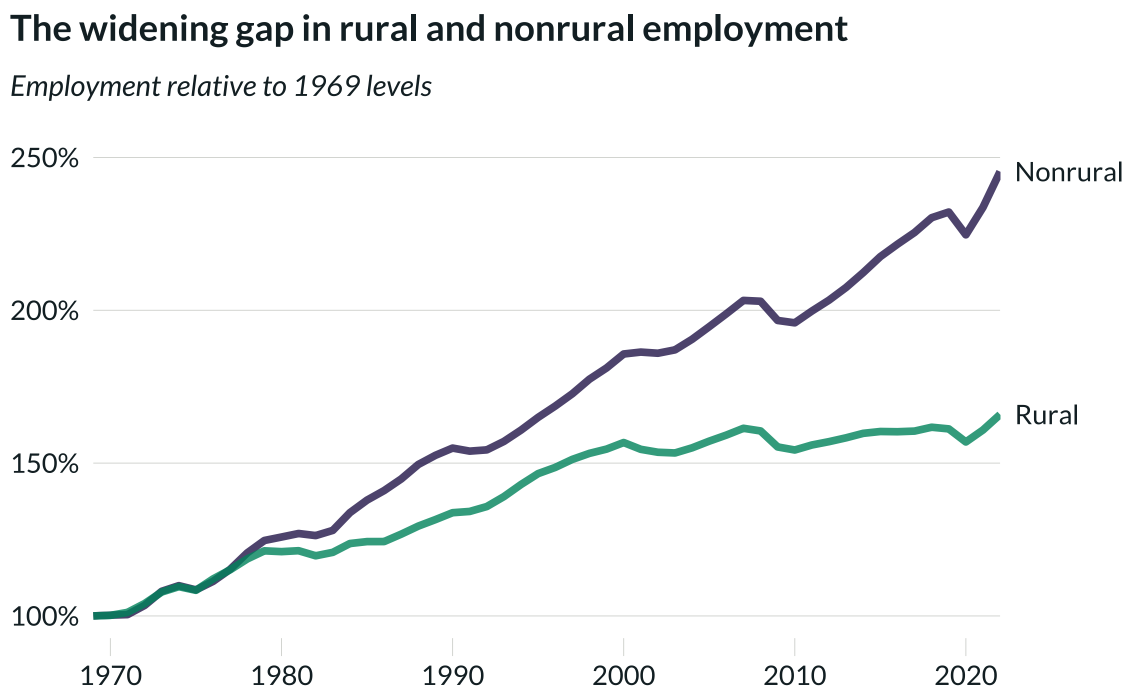


Figure 2: The growing employment divide shows how rural communities are increasingly being left behind

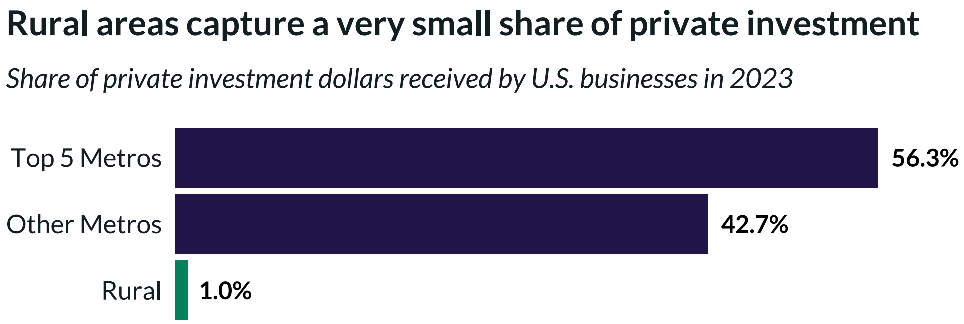


Source: Bureau of Economic Analysis
Note: "Rural" refers to the nonmetro definition which includes all nonmetro counties.

Access to financial capital - from personal savings to small business loans and venture capital - is critical for business formation and growth (Samila & Sorenson, 2011; Tseng & Tseng, 2019; Barkley & Markley, 2001). Disparities in capital access limit entrepreneurship, particularly in rural areas. Despite comprising over 14% of the U.S. population and having higher entrepreneurial aspirations, rural entrepreneurs receive less than 1% of venture capital funding, with more than 98% flowing to metropolitan counties—over half concentrated in just five major metro areas (see Figure 3). Women and minority entrepreneurs in rural communities face additional financial barriers because of gender and race (Robb & Fairlie, 2007; Coleman & Robb, 2009; Bates & Robb, 2013; Hwang et al., 2019).

“Entrepreneurs face geographic, demographic, and wealth barriers, exacerbated by a capital market structure that does not effectively find and support the majority of entrepreneurs” (Hwang et al., 2019).

Figure 3: The gap in access to private capital is most pronounced in venture funding, where rural areas capture only a tiny fraction of investment



Source: CORI analysis of Form D filings
Note: The top 5 private fundraising metro areas in 2023 were San Francisco–Oakland–Berkeley, Boston–Cambridge–Newton, New York–Newark–Jersey City, Los Angeles–Long Beach–Anaheim, and Chicago–Naperville–Elgin.

Barriers to financial capital hinder entrepreneurship and widen economic disparities across geographies. By supporting new and growing businesses, private funding sources play a pivotal role in driving local economic vitality and ensuring sustainable economic development in rural communities. Understanding the disparities in financial resources across rural America is the first step in addressing them.

Rural Household Wealth and Access to Financial Capital

Limited access to venture capital, small business loans, and other financial resources forces many entrepreneurs to rely on personal or household wealth to start a business. More than half of all businesses use personal or family savings for startup capital (Hwang et al., 2019), with rural entrepreneurs, women, and minorities particularly dependent on these sources (Coleman & Robb, 2009; Medina et al., 2023). Personal wealth, along with support from friends and family (and crowdfunding), is especially crucial in the idea and concept development stage (pre-seed), when traditional funding is scarce, and businesses need early capital to refine their model and validate market potential. Higher personal savings in rural areas correlate with stronger business formation and entrepreneurial growth potential (Sutaria & Hicks, 2004; Low et al. 2005). However, lower median household incomes—less than $60,000 in rural counties compared to over $73,000 in nonrural counties (2023 American Community Survey 5-year average)—limit new business growth.

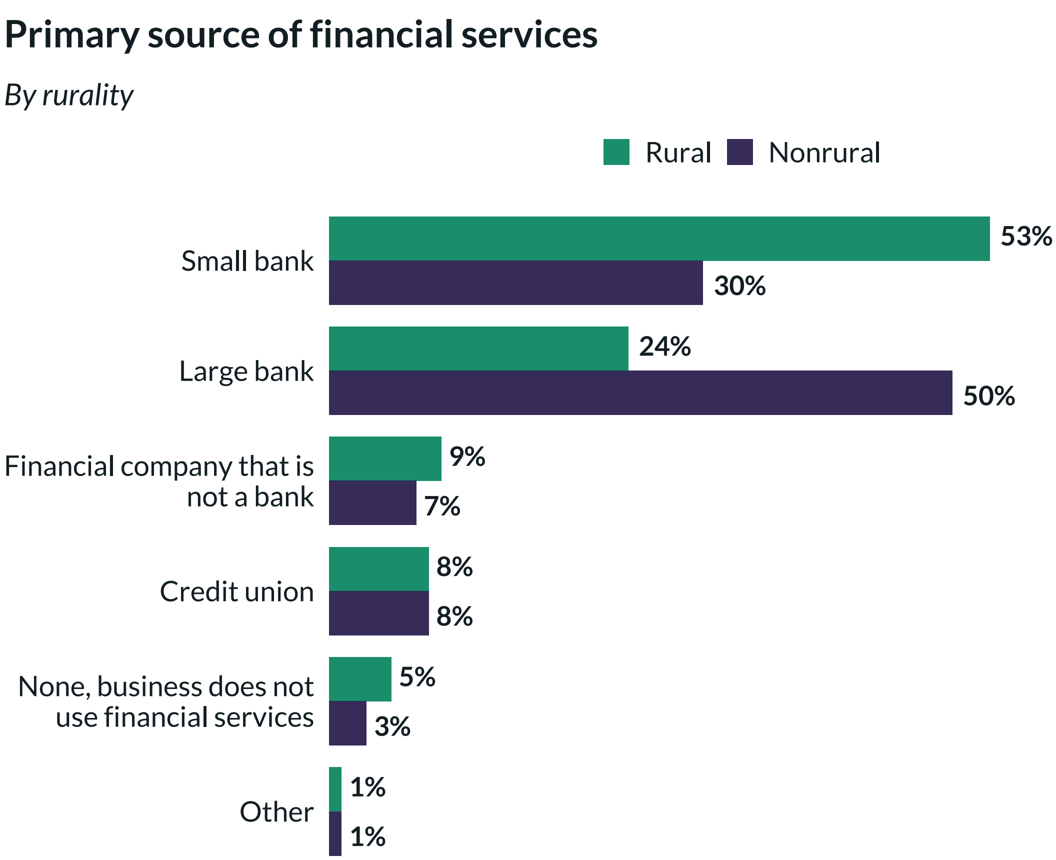
Housing wealth can ease credit constraints by enabling entrepreneurs to leverage home equity for business investment - increases in home equity can boost self-employment and entrepreneurship (Fairlie and Krashinsky, 2012; Corradin and Popov, 2015). While rural residents are more likely to own homes, their median home values are significantly lower—$148,000 in rural counties versus $232,000 in nonrural counties (2023 American Community Survey 5-year average)—limiting available equity. Minority entrepreneurs face additional barriers. "Borrowers seeking a mortgage in predominantly minority rural communities are more likely to be denied a mortgage than borrowers applying across all other neighborhood types and racial composition" (Loya, 2023). Although the Black–white homeownership gap is narrower in rural areas, particularly in rural counties across the South, it persists even after controlling for income, age, and marriage rates, suggesting that structural barriers beyond basic socioeconomic factors limit Black homeownership opportunities (Ford, 2018). Even if they do secure a home loan, Black entrepreneurs are less able to use home equity to start a business (Atkins, 2020).

As geographic inequality widens, with wealthier areas growing richer while poorer regions fall further behind (U.S. Department of Commerce, 2023), entrepreneurship has become increasingly out of reach (Rivkin et al., 2015; Tseng and Tseng, 2019). This creates a vicious cycle—declining entrepreneurship exacerbates economic divides, making it even harder for disadvantaged rural areas to foster business growth. Expanding access to financial resources beyond personal savings and home equity is critical to breaking this cycle and supporting rural economic prosperity. It is also essential for rural businesses to scale beyond the pre-seed phase, particularly in the tradable services sector (e.g., IT services, SaaS, consulting), where businesses must secure funding to support product development, early market testing, and long-term growth (see Appendix A that describes financial funding sources for businesses by business stage and industry).

The Disproportionate Impact of Bank Consolidations on Rural Areas

Bank loans are the second most common source of startup capital after personal savings (Hwang et al., 2019), and small business lending is particularly vital for rural economies, driving growth in the number of business establishments (Conroy et al., 2017). Smaller locally owned banks play a crucial role in increasing small business lending in rural areas, where research shows a higher concentration of community banks directly correlates with stronger business growth and resilience (Hand et al., 2023; Mencken et al., 2023; Carpenter et al., 2020; Petach et al., 2021). A community bank is a financial institution that provides traditional banking services locally, focusing on serving the needs of their immediate communities. Rural businesses rely heavily on community banks for loans and financial services (see Figure 4).

Figure 4: Small community banks are the primary source of financial services for the majority of rural small businesses



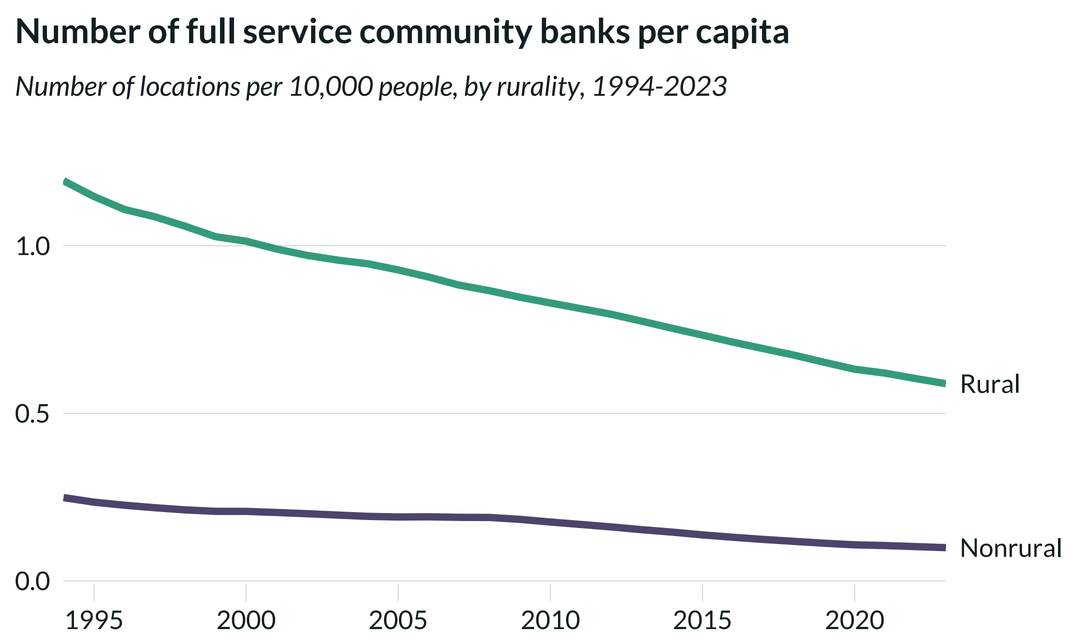
Source: Federal Reserve Banks, "2024 Report on Employer Firms: Findings from the 2023 Small Business Credit Survey," 2024.

While small banks approve rural loan applications at higher rates (Robb, 2021), their primary appeal is relational lending - 81% of rural entrepreneurs cite their existing relationship with the lender as a key factor in securing financing, compared to 66% of urban entrepreneurs (Small Business Credit Survey, 2024). Unlike large banks that rely on rigid, data-driven credit models, community banks prioritize personal relationships, offering more flexible lending terms (Lux & Greene, 2015; Gilbert & Wheelock, 2013; Scott, 2004).

Similarly, credit unions have long been part of rural America's financial landscape (e.g., Johnson, 1936). Unlike commercial banks, these member-owned cooperatives prioritize member interests over profit maximization. Traditionally focused on consumer financing - auto loans, personal loans, and home equity lines - business lending has historically played a limited role (Rosenthal, 2012). Credit union business loan portfolios did grow 217% from 2014 to 2024 (Conrey, 2025a), but remain less prevalent as a source of business loans than community banks (Figure 4). Credit unions face regulatory and technical constraints in serving business customers. Their lending capital primarily comes from member deposits (Rosenthal, 2012), and their consumer-oriented approach often lacks business-specific products and expertise (Snyder, 2024). Federal regulations also limit credit unions' capacity for business lending (Snyder, 2024).

Widespread bank consolidations and a reduction in the number of credit unions have drastically reduced rural access to locally owned financial institutions, making it harder for small businesses to obtain capital. Research shows that consolidation lowers small business loan growth, particularly in rural areas (Samolyk & Avery, 2000; Carpenter et al., 2020). As the number of community bank branches declines (see Figure 5), securing business loans has become increasingly difficult for rural entrepreneurs. The number of rural community banks has declined from 5,029 in 1994 to 2,618 in 2024 - a nearly 48 percent decrease.

Figure 5: Rural places suffer greater loss of community bank branches due to consolidation in the finance industry



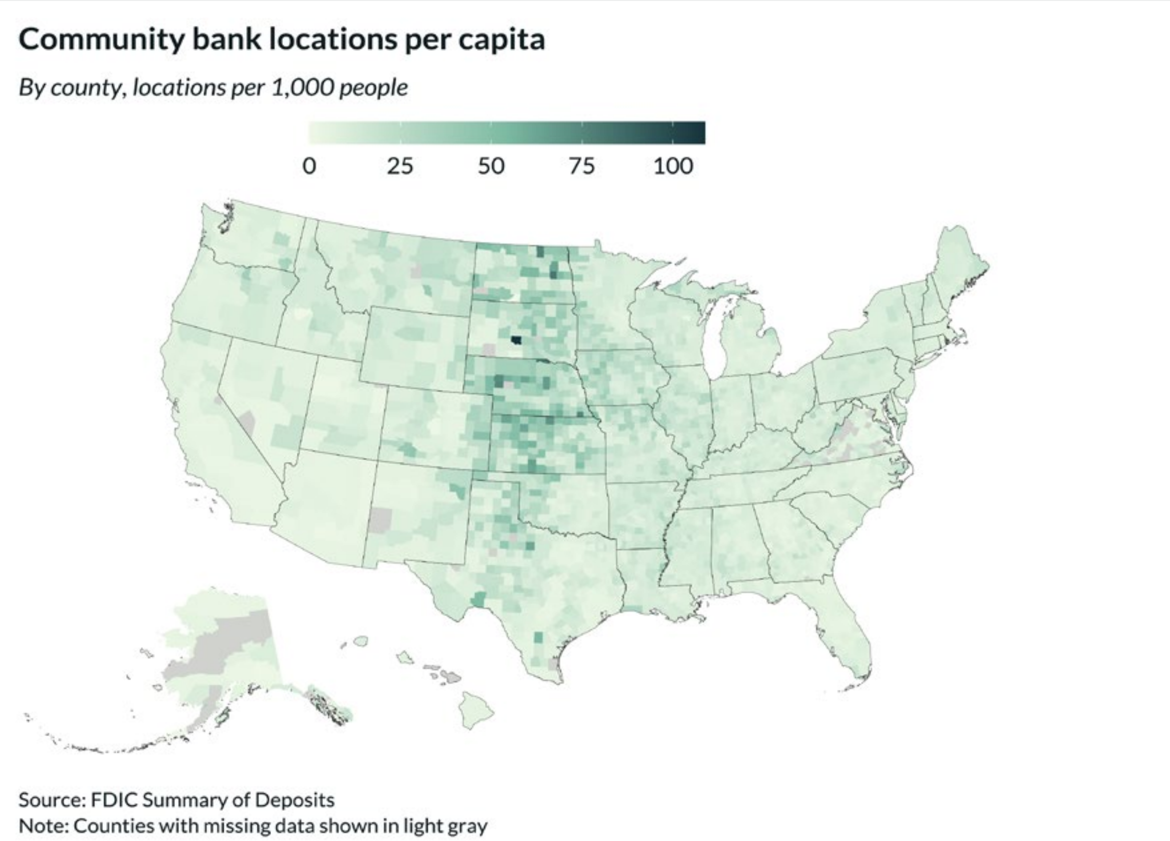
Source: FDIC Summary of Deposits; Bureau of Economic Analysis
Note: The FDIC defines community banks in terms of their traditional relationship banking and limited geographic scope of operations.

The acceleration of bank consolidations stems from policy changes, particularly the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, which allowed firms to acquire banks and open branches across state lines (Neff and Ellinger, 1996; Tolbert et al., 2014). This shift, which Mencken and Tolbert (2016:74) describe as "particularly troubling for nonmetropolitan America," led to a 60% decline in local ownership between 1976 and 2014, shifting decision-making power to distant corporate offices. The loss of relational lending has disproportionately impacted rural startups, which often lack credit histories, assets, and collateral—key factors in securing traditional financing and more favorable terms including lower interest rates (Berger & Udell 1995; Tolbert et al. 2014; Henderson et al., 2015). Mencken and Tolbert (2016:79) argue that these changes have "the potential to significantly limit future start-ups in rural America."

The decline in Black-owned banks has further compounded barriers to capital access in rural areas with a disproportionately larger share of minority residents. Minority entrepreneurs face disproportionately high loan denial rates (Bates & Robb, 2013; Hwang et al., 2019), and although institutions like Liberty Bank in rural Tuskegee, Alabama, remain exceptions, rural Black-owned businesses often struggle to secure financing. While disparities in loan access for Black entrepreneurs are well-documented, rural-specific research remains scarce. One notable exception is a body of scholarship focused on the credit access challenges of Black farmers (e.g. Russell et al. 2021; Sant'Anna et al. 2024; Mishra et al. 2024). More research is needed on non-agricultural Black-owned businesses in rural areas. The lack of such studies may be due to the power of two dominant yet false narratives: that rural business means only agriculture, and that rural areas have little minority presence (Center on Rural Innovation 2023b).

Despite the challenges posed by bank consolidations, rural areas still have nearly three times as many community banks per capita as metropolitan areas (see Figure 6). Farming-dependent rural regions, in particular, maintain stronger financial service access and higher self-employment rates (Van Leuven et al., 2024; Dobis and Todd, 2022). Rural entrepreneurs report higher satisfaction with the financial services they have than their urban counterparts. The 2023 Small Business Credit Survey found that 87% of rural entrepreneurs are satisfied with small banks, compared to 76% of urban entrepreneurs, and 81% are satisfied with large banks, versus just 58% of urban entrepreneurs.

Figure 6: Farming-dependent areas are strongholds of community banks



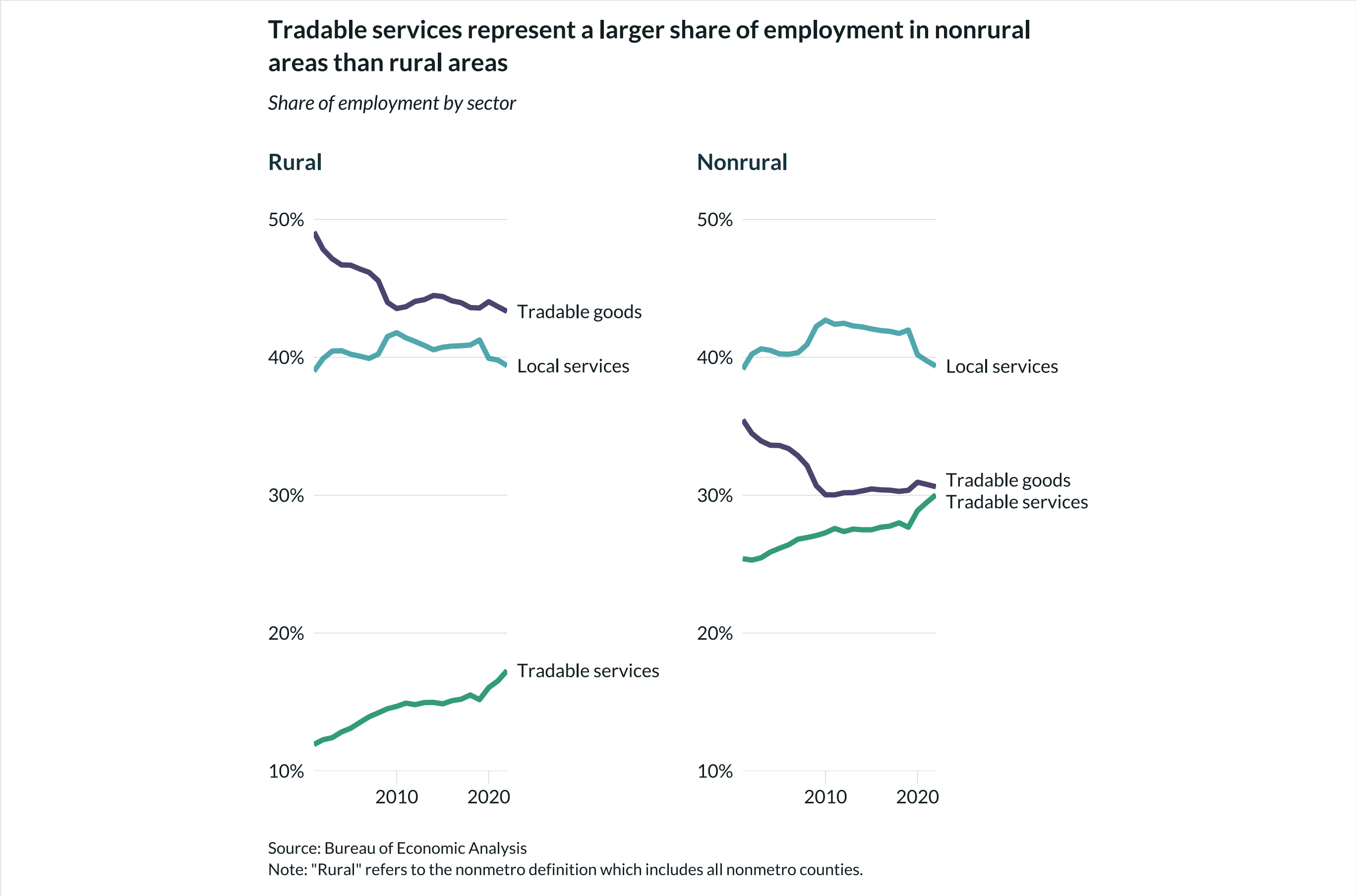
While rural areas generally have better access to community banks, many rural communities still lack financial institutions, particularly in less dense, non-white, and non-agricultural rural communities—especially high-amenity areas (Van Leuven et al., 2024). These financial disparities contribute to economic disadvantage, with nearly 80% of persistent poverty counties located in rural areas (University of Michigan 2020; Center on Rural Innovation, 2023a). Many of these communities, particularly in the rural South and Appalachia, face deep financial exclusion. When comparing banking access with the Multidimensional Index of Deep Disadvantage, we find that the most advantaged rural counties have more than twice the number of bank locations per capita than the most disadvantaged counties.

Despite their decline, community banks remain vital for fostering entrepreneurship. Traditional bank loans are essential for stable, incremental growth, particularly in the tradable goods sector (e.g., manufacturing, agriculture) and local goods and services (e.g., retail, hospitality, healthcare), where capital supports equipment, inventory, staffing, and infrastructure (see Appendix A for details). Greater access to community banks has sustained these sectors in rural areas, but expanding their presence—especially in non-agriculture-dependent and nonwhite rural communities—could improve financial access and business dynamism. Furthermore, credit unions remain an underutilized financial resource for rural businesses, with opportunities for expansion through strategic partnerships and regulatory reforms.

However, high-growth tradable services businesses (e.g., SaaS, consulting, IT services, digital marketing, cybersecurity, data science, business process outsourcing) rely more on venture capital than traditional loans. Banks typically avoid lending to these businesses due to their lack of tangible assets for collateral, making venture capital and angel investors critical for funding growth and innovation.

While community banks are essential for rural business financing, venture capital is key to scaling enterprises, especially in the tradable services sector where rural areas continue to lag, contributing to employment growth disparities in the knowledge economy (Figure 7, Center on Rural Innovation, 2023).

Figure 7: Employment growth disparities between rural and nonrural areas stem from differences in the employment share of the tradable services sector

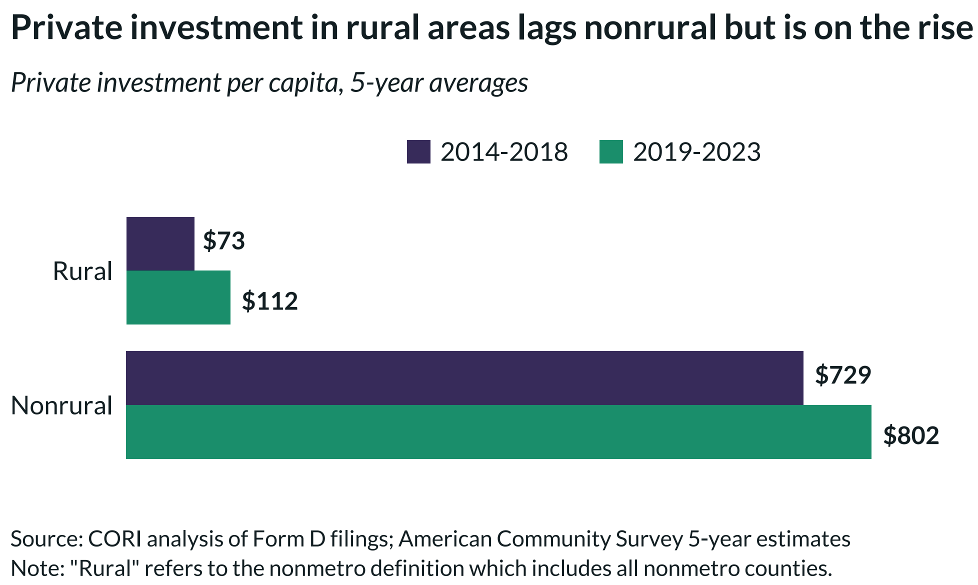


The Rural Venture Gap

Equity capital, provided by investors such as angel investors, seed funds, and venture capital firms, is critical for startups, enabling them to fund growth, develop new products, and scale operations without the burden of loan repayment or collateral requirements. Unlike traditional bank loans, venture capital tends to fuel innovation—research shows it directly contributes to new patent creation (Akin, 2011). Moreover, regions that develop early technological innovations tend to remain hubs for high-skill jobs in those fields for decades (Kalyani, 2025). Compared to traditional financing, venture capital has a larger impact on firm formation, employment, and payroll growth (Cole et al., 2014). Beyond funding, venture capital can also provide expertise, industry connections, monitoring, and strategic guidance helping small businesses build their reputation and scale. In this section, we examine the limited flow of venture capital to rural areas and highlight successes in expanding access to this critical funding to rural entrepreneurs.

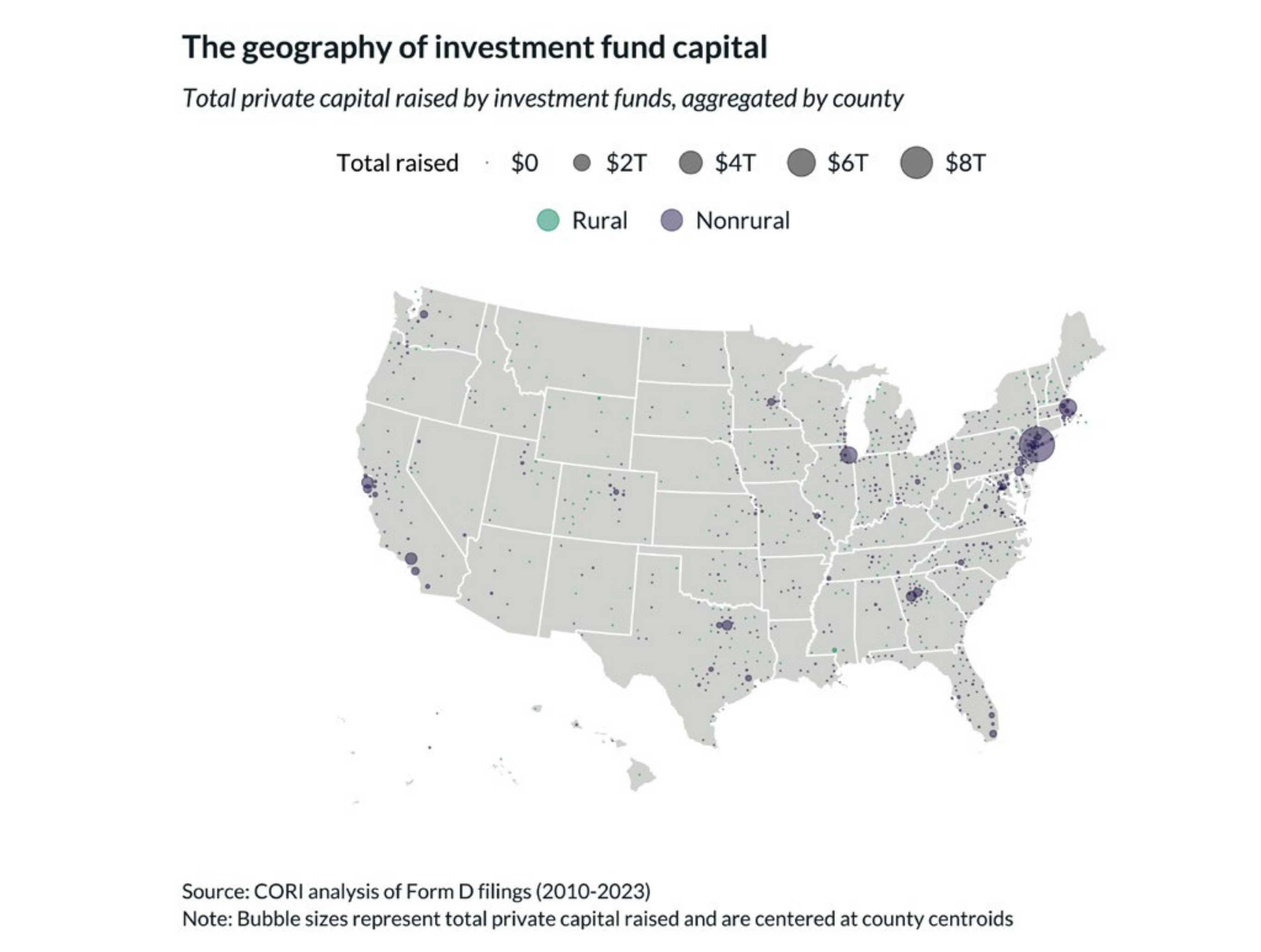
Rural businesses face significant barriers to securing venture capital, particularly in emerging tech sectors (see Appendix B for a look at venture capital by industry for rural and nonrural areas). While 12% of U.S. businesses are in rural counties, less than 1% of venture capital reaches these areas (see Figure 3 and Center on Rural Innovation, 2024). On a per capita basis, venture capital funding in nonrural areas is more than 7 times higher (Figure 8). This lack of access not only hinders rural business growth but also prevents investors from tapping into the innovations emerging from rural America.

Figure 8: Venture capital investment in rural businesses is growing, but still lags far behind urban areas



Understanding the uneven distribution of venture capital is key to addressing rural funding disparities. Research shows that venture capital firms display a strong local bias in their investment decisions (Cumming & Dai, 2010; Chen et al., 2009a; Sorenson & Stuart, 2001). Historically, funding has been heavily concentrated in the Northeast and Pacific Coast regions, particularly in Silicon Valley, Boston, New York, and Los Angeles (Florida et al., 2012; Erber, 2008; Babcock-Lumish, 2009; Chen et al., 2009a). Figure 9 illustrates this stark concentration, with the majority of private capital still flowing to these regions. This pattern is self-reinforcing, as past success attracts further investment, creating self-sustaining entrepreneurial ecosystems (Chen et al. 2009a; Chen et al. 2009b; Babcock-Lumish, 2009; Florida and Kenney, 1988; Florida and Smith, 1993). Gompers et al. (2005) introduced the concept of "entrepreneurial spawning," whereby entrepreneurs from successful venture-backed companies spawn new ventures that can take advantage of existing knowledge and networks. Erber (2008:16-17) notes that the "U.S. venture capital market even attracts innovators and start-up entrepreneurs all over the world to relocate their activities to the U.S. centers."

Figure 9: Venture capital investment is highly concentrated in just a few areas in the U.S.



The hands-on nature of venture capital - offering mentorship, network access, and strategic oversight - has traditionally relied on geographic proximity (Powell et al., 2002; Chen et al., 2009a). Information asymmetry arises between startups and venture capital funders because entrepreneurs hold specialized knowledge about their ventures that investors lack, making trust and networks vital for bridging this gap (Shane and Cable, 2002). Face-to-face interactions can enhance trust, information flow, and tacit knowledge transfer, particularly in high-tech sectors like biotechnology (Babcock-Lumish, 2009; Lindgaard, 2007). Proximity also reduces transaction costs and mitigates risk through closer oversight and maintaining a steady flow of investment opportunities through stronger deal pipelines (Wuebker et al. 2012, Lutz et al. 2013; Powell et al. 2002; Chen et al., 2009a; Lindgaard 2007).

To broaden access to venture capital beyond local limits, some investors and entrepreneurs are leveraging technology - such as virtual pitch events and social media (Wang et al., 2024). Spagnolo (2021) notes that the COVID-19 pandemic necessitated remote deal-making, and a survey of over 100 venture capital firms revealed that a majority of surveyed firms will continue to conduct founder calls remotely. Still, some investors maintain a preference for in-person meetings. Melinda Little, coordinator of the Point Positive, Inc. angel investor network in Saranac Lake, New York, finds that in-person founder meetings allow her to better observe nuances like body language and are more beneficial for building the necessary trust between investor and entrepreneur.

The social dynamics of venture capital networks along with limited deal flow restrict investment in rural areas (Sahlman, 1990; Strebulaev & Dang, 2024; Barkley et al.,2001). Investor bias and network exclusivity play a major role—venture capital decision-making is often shaped by referrals and shared experiences (Sahlman, 1990; Gompers et al., 2016; Babcock-Lumish, 2009). The industry remains overwhelmingly white, male, and socioeconomically homogenous, with elite business schools, Harvard, Stanford, and Wharton, dominating venture capital networks (NVCA 2021; Hegde & Tumlinson, 2014; White, 2013; Rubio & Thorne, 2024). Higher household net worth increases access to and amounts of external business funding, disadvantaging low-wealth founders (Frid et al., 2016). These exclusive networks create barriers for rural entrepreneurs, especially those from underrepresented backgrounds, limiting their access to venture capital and stifling innovation.

Despite these barriers, the number of rural businesses funded by venture capital is expanding. While Figure 8 above shows that disparities in access to venture capital funds persist, it also shows that venture capital investments in rural areas have increased by 53% in the last four years, compared to just 10% growth in metro areas. Encouragingly, venture capital growth has been even more pronounced in rural communities with disproportionately large shares of minorities (Figure 10). Additionally, crowdfunding is gaining traction - rural businesses now account for over 6% of startup crowdfunding investments, up from less than 1% in 2017 (Robb, 2021). However, even when rural startups secure external funding, they typically receive smaller investments (Figure 11).

Figure 10: Venture capital investment has grown more in communities with higher shares of minority residents, signaling a shift toward more equitable capital distribution in rural areas

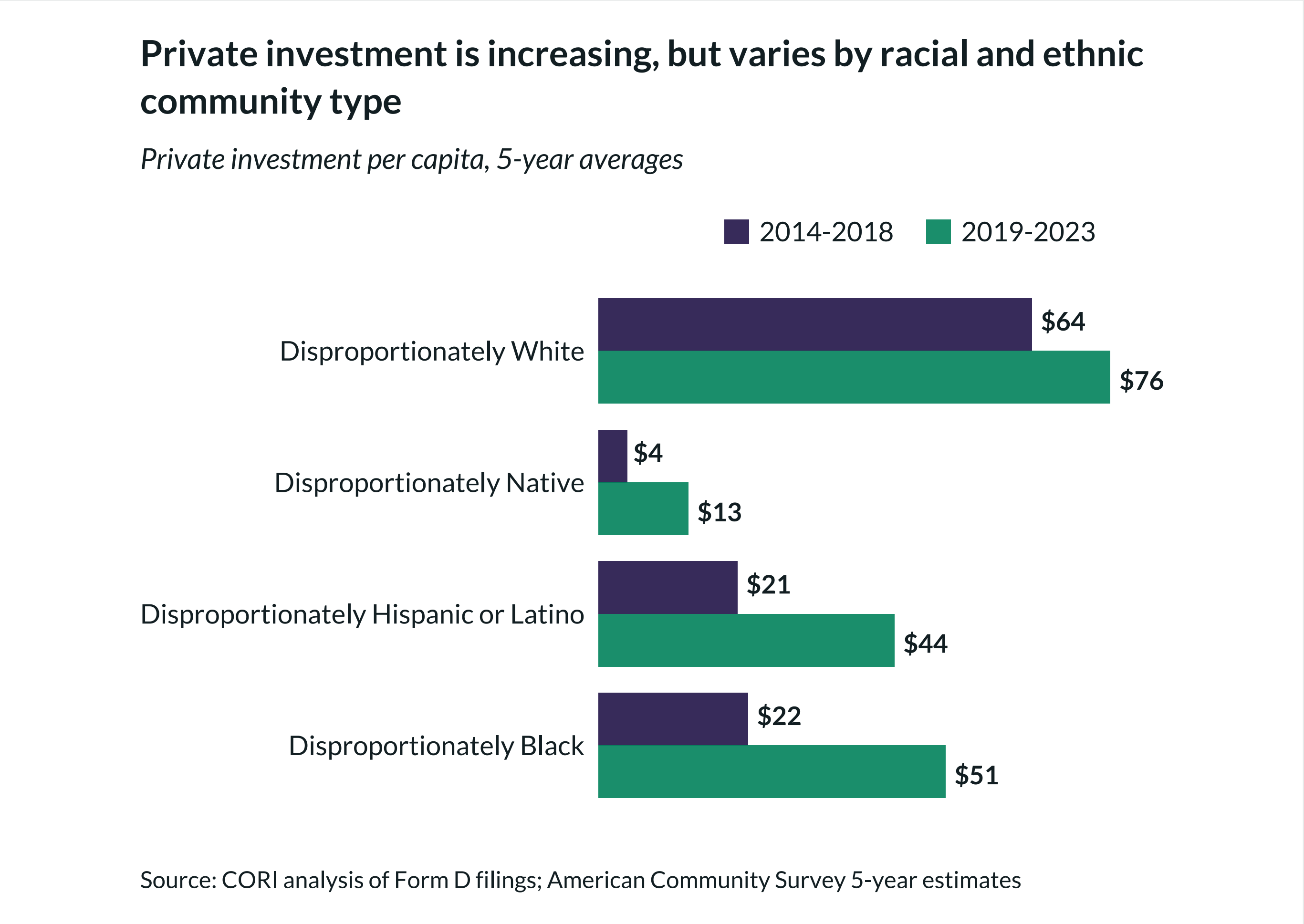
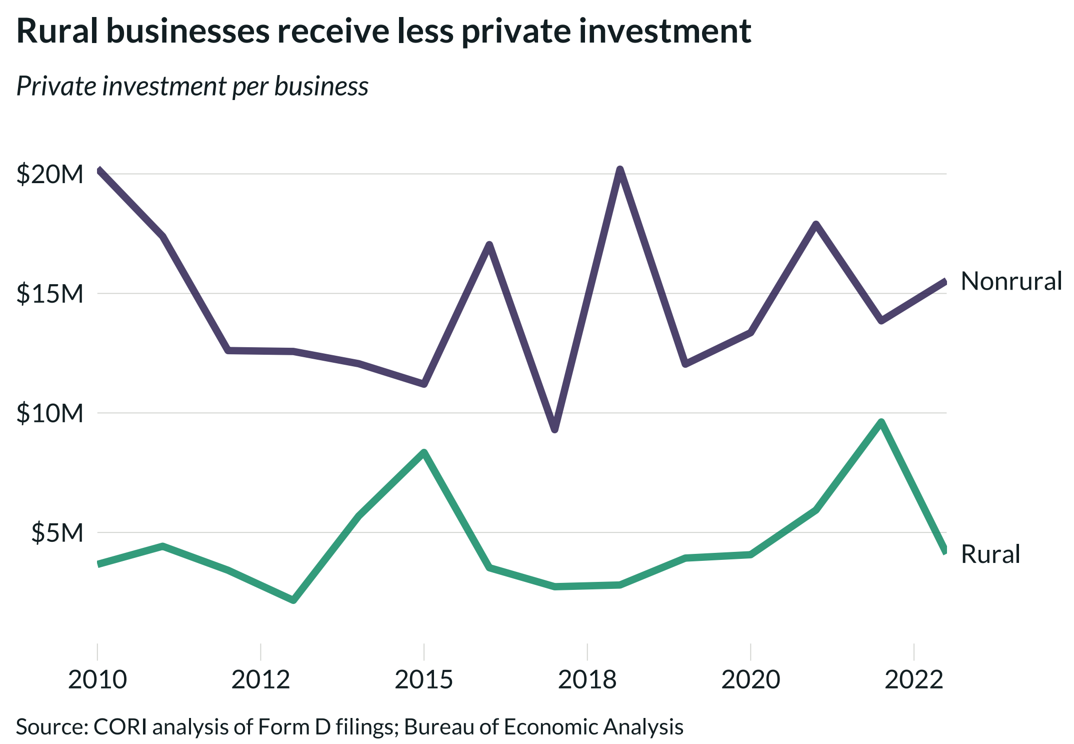


Figure 11: Rural businesses receive lower levels of investment than their nonrural counterparts



Successful rural venture capital initiatives are demonstrating how targeted programs can drive growth. A common characteristic of rural areas that are attracting venture capital is the presence of local venture capital investors or angel investor networks (with Park City, Utah as a prime example). Rural-based funds and region-specific investment initiatives can channel resources into rural communities while fostering networks and expertise tailored to rural needs. Angel investing in particular is important for early-stage businesses (pre-seed and seed stage), especially in tradable services (e.g., SaaS, digital marketing, IT), where firms lack collateral that bank loans require and need funding for product development and market entry.

Rural Angel Investor Networks:

Park City Angels, based in Park City, Utah, is a group of 85 angel investors serving Utah and the Mountain West. Founded in 2008, they provide capital and expertise to companies that are "often overlooked by venture capital." The group has made investments in over 100 companies in sectors including Software as a Service, healthcare, and artificial intelligence.

Northern Michigan Angels, founded in January 2012 and based in Traverse City, Michigan, is a nonprofit angel investor group focused on supporting high-growth startups in Northern Michigan and the Great Lakes region. The group aims to stimulate economic development and improve quality of life in the area. Its 54 accredited members make individual investment decisions and offer both capital and strategic guidance to early-stage companies. As of 2021, members have invested over $7.4 million in more than 20 startups across sectors such as satellite communications, personal climate control, and human resources technology.

Point Positive Inc., based in Saranac Lake, New York, is a 25-member angel investor group founded in 2014 that supports entrepreneurs in and around New York State's Adirondack Park, the biggest protected area in the contiguous United States, and one of the largest rural areas in the northeastern U.S. Entrepreneurs in this remote rural region often struggle to obtain financing for their business ventures. Member investors deploy their own private funds to startups. Point Positive has invested in 12 rural startups in a variety of sectors including clean energy technology, consumer goods, and food production and processing.

Venture capital - from seed to growth-stage investments - is crucial for startups to develop products, test markets, and scale operations across sectors. It is especially important in the tradable services sector, which relies on rapid innovation and the development of intangible assets to achieve high growth. Rural-focused venture capital funds have helped direct funding to rural entrepreneurs, with some leveraging federal funding programs such as the State Small Business Credit Initiative (SSBCI) to expand investment capacity.

Rural Venture Capital Funds:

The **Greater Colorado Venture Fund** (GCVF) founded in 2018 in Durango, Colorado, addresses the disparities in access to venture capital funding in rural Colorado. While Colorado entrepreneurs secured $6.8B in venture capital funding in 2022, just $70M reached rural businesses. Marc Nager, a partner at GCVF, also identified the absence of robust peer networks that are common in urban startup hubs as a critical gap for rural entrepreneurs. These networks, he noted, play a vital role in offering both moral support and practical knowledge exchange, while also connecting founders with specialized professionals such as legal counsel, sales leaders, and technical architects who are essential for guiding early-stage tech startups. In response, GCVF has worked to foster these connections and build a stronger support ecosystem for rural entrepreneurs. GCVF has made 48 investments across sectors like SaaS and agtech, backed by private capital and public funds from the Colorado Venture Capital Authority, also supported by federal SSBCI funding.

Ag Ventures Alliance, a farmer-owned cooperative based in Mason City, Iowa, is helping bridge the rural venture capital gap by investing directly in agricultural technology startups from within the farming community. Founded in 1998, Ag Ventures is distinct from many metro-based, investor-led ag venture capital funds in that it is rooted in rural America and led by farmers. To date, the cooperative has made 70 investments, many in early-stage companies developing cutting-edge agricultural technologies. Through its farm trials program, rural farmers not only benefit from innovation but also help shape it via on-farm research. Beyond its venture fund, Ag Ventures expands access to capital through Countryside Angels, a member-managed angel group that gives rural investors a stake in high-growth startups. Members also gain access to the Angel Capital Association, providing critical training and resources to strengthen rural investment capacity.

Founded in 2017 in La Junta, Colorado, BOPA Precision Agriculture developed the Autonomous Nano Tractor and has received support from the Greater Colorado Venture Fund and the CORI Innovation Fund.

The **[CORI Innovation Fund](#)** (CIF), launched in 2020 by the Executive Director of the Center on Rural Innovation, Matt Dunne, brings venture capital to overlooked rural tech entrepreneurs across the U.S. Inspired by Endeavor's global model of supporting high-impact entrepreneurs in underserved regions, CIF was founded on the belief that rural America is rich with talent but systematically excluded from traditional venture capital networks. As Managing Director Jay Bockhaus notes, venture capital is a powerful economic driver - but one that rarely reaches rural communities. To overcome the limited deal flow typical of any single rural area, CIF works to build a national pipeline of rural startups, identifying and investing in promising rural founders across a growing network of rural tech hubs. Based in Vermont's Upper Valley, the fund is working to prove that scalable innovation can come from anywhere - and that rural communities deserve a seat at the venture capital table.

Rural business incubators are also playing a growing role in providing both capital and support services. Programs like Codefi in Cape Girardeau, Missouri and Sprocket in Paducah, Kentucky offer pitch competitions with cash awards, mentorship, technical assistance, and access to peer networks. As Marc Nager of the Greater Colorado Venture Fund noted, "One of the biggest values we can add time and time again [is] is just getting our founders together and building a peer group."

While venture capital disparities persist, emerging examples of rural-focused investment provide tangible evidence of what's possible and offer insights on strategies to overcome longstanding barriers. These success stories show how targeted venture capital along with strong ecosystems and networks can unlock rural entrepreneurship. It also enables entrepreneurs to scale businesses locally, leveraging the unique strengths of rural communities. Matt Allen, founder of DifferentKind (a SaaS company serving the dental industry) stated that one of the motivations for founding his business in rural Buena Vista, Colorado was to bring high-quality stable jobs to the region, which is dependent on precarious tourism-related employment. He also noted the shared sense of community in Buena Vista, and stated, "One of the best parts about rural entrepreneurship there's this general-shared sense of we all want each other to succeed, and that's incredibly uplifting and encouraging." Rob Squire, founder of Aprexis (a healthcare SaaS company based in rural Montpelier, Vermont) echoed Matt Allen's comments, and stated "There's a lot of cooperation, there's a lot of collaboration." Squire also noted that the Vermont-based venture capital firms he's engaged with are interested in bringing jobs and economic vitality into the region and "have a little bit of altruism baked into" their portfolios.

Advanced Mobile Propulsion Test, founded in 2009 in Durango, Colorado, specialized in hypergolic rocket engine testing before merging with Agile Space Industries to expand into propulsion system design and manufacturing

Expanding investment networks and access to venture capital is helping rural areas compete in the growing tradable services sector and drive innovation. Sustaining this momentum will require expanding public-private partnerships, university-led initiatives, and state-backed venture funds that support rural startups and correct the market's failure to recognize the innovation potential of rural America.

The Need for More Effective Government Investment in Rural

With limited access to private capital contributing to the decline in business startups, many state and local governments turn to financial incentives to attract large corporations. Since 1990, the size of these incentives has tripled, with the average subsidy reaching $178 million for 1,500 promised jobs (Bartik & Austin, 2019; Slattery & Zidar, 2020). Despite evidence that small, locally owned firms create more jobs than large corporations (Rupasingha, 2013; Neumark et al., 2011), the vast majority of incentives go to large firms, reinforcing economic disparities. "More than 30% of all establishments with over 1,000 employees receive discretionary subsidies, while the percentage is less than 0.2% for establishments with under 250 employees" (Slattery & Zidar, 2020). This misallocation of resources raises concerns about the effectiveness and fairness of traditional economic development policies, especially for rural America.

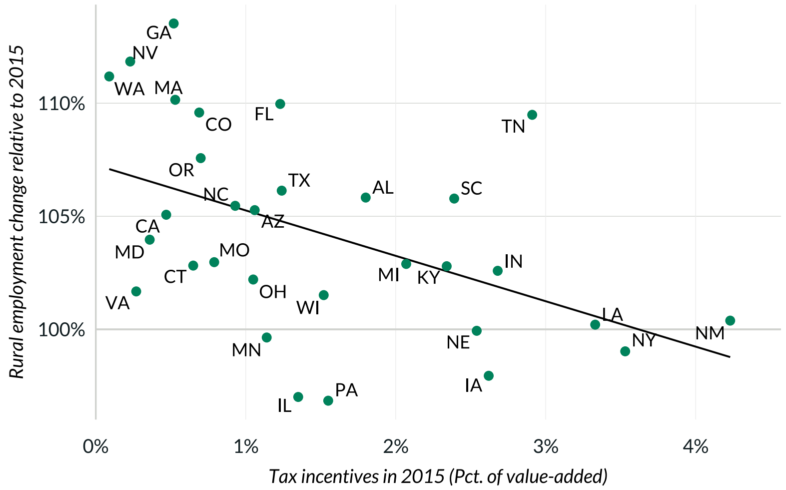
Research suggests that the costs of incentive programs often outweigh the benefits. Incentives influence business decisions in less than 25% of cases, meaning most firms would have expanded or relocated without them (Bartik, 2018). Additionally, firms receiving incentives typically fail to create more jobs than similar firms without them (Donegan et al., 2021; Jensen, 2017; Neumark et al., 2007; Gabe & Kraybill, 2002). Larger incentive programs often result in higher taxes or reduced public services, which can crowd out local businesses and discourage new startups (Ruger & Sirens, 2018; Kilkenny & Partridge, 2009; Partridge et al., 2020).

Originally introduced in 1936 through Mississippi's Balance Agriculture with Industry program, place-based tax breaks were designed to attract manufacturers to struggling rural economies (Conroy & Deller, 2015). As these incentives became widespread, rural areas found it increasingly difficult to compete with metropolitan areas to attract large plants. Even when rural areas succeed in luring a large plant, automation leads to dramatically less job creation compared to 1936. Additionally, overreliance on a single large employer can stifle local economic resiliency and entrepreneurship, particularly in communities that traditionally had high self-employment rates. States with larger incentive programs see lower job growth in rural counties (see Figure 12 and Patrick, 2014; Weinstein & Erouart, 2024).

Figure 12: Larger state tax incentive programs lower job growth in rural areas

States with higher tax incentives in 2015 experienced less rural employment growth in the last 7 years

Tax incentives in 2015 (pct. of value-added) vs. 2022 rural employment change relative to 2015 by state



Source: Bartik, Timothy J. 2017. "A New Panel Database on Business Incentives for Economic Development Offered by State and Local Governments in the United States," prepared for The Pew Charitable Trusts; Bureau of Economic Analysis (2015 and 2022)

Notes: 100% line indicates no change in rural employment between 2015 and 2022. The Pearson Correlation Coefficient is -0.483.

State incentive programs also contribute to economic inequality and the decline of the middle class by disproportionately subsidizing higher-wage industries dominated by white men, which tend to cluster near large metropolitan areas (Patrick & Stephens, 2020; Slattery & Zidar, 2020; Martinez, 2023). Instead of addressing financial disparities, these programs have widened geographic and demographic gaps in access to financial capital. State and local incentives account for over 75% of place-based job policies (Bartik, 2020), yet they largely bypass rural entrepreneurs and small businesses, which need capital the most. Instead of subsidizing large corporations, state and local governments should turn their attention to supporting entrepreneurship, including policies that incentivize investment in small businesses. For example, Minnesota offers a 25% Angel Investment Tax Credit for new investments in qualified small early-stage, high-growth Minnesota businesses. Maine has a Seed Capital Tax Credit Program that provides state income tax credits for equity investments in Maine businesses with annual gross sales of less than five million dollars.

The federal government should focus on expanding small business financing programs, which have proven effective in fostering sustainable rural entrepreneurship. The Small Business Administration (SBA) 7(a) and 504 loan programs provide essential funding, but rural businesses receive fewer loans despite lower default rates (DeYoung et al., 2019). Even when rural firms secure financing, loan amounts are smaller, leading to significantly lower per capita SBA lending in rural areas (Small Business Credit Survey, 2023). Figures 13 and 14 illustrate this persistent rural-urban funding gap, showing the differences in disbursed SBA loans in rural and nonrural areas. Credit unions and smaller lenders in rural areas may face expertise and capacity barriers that limit their participation in SBA programs. Expanding partnerships with third-party lenders or reducing the administrative burden of SBA loan applications could help overcome these challenges (Conrey, 2025b).

Figure 13: The rural-urban gap in SBA 7(a) loan amounts per capita

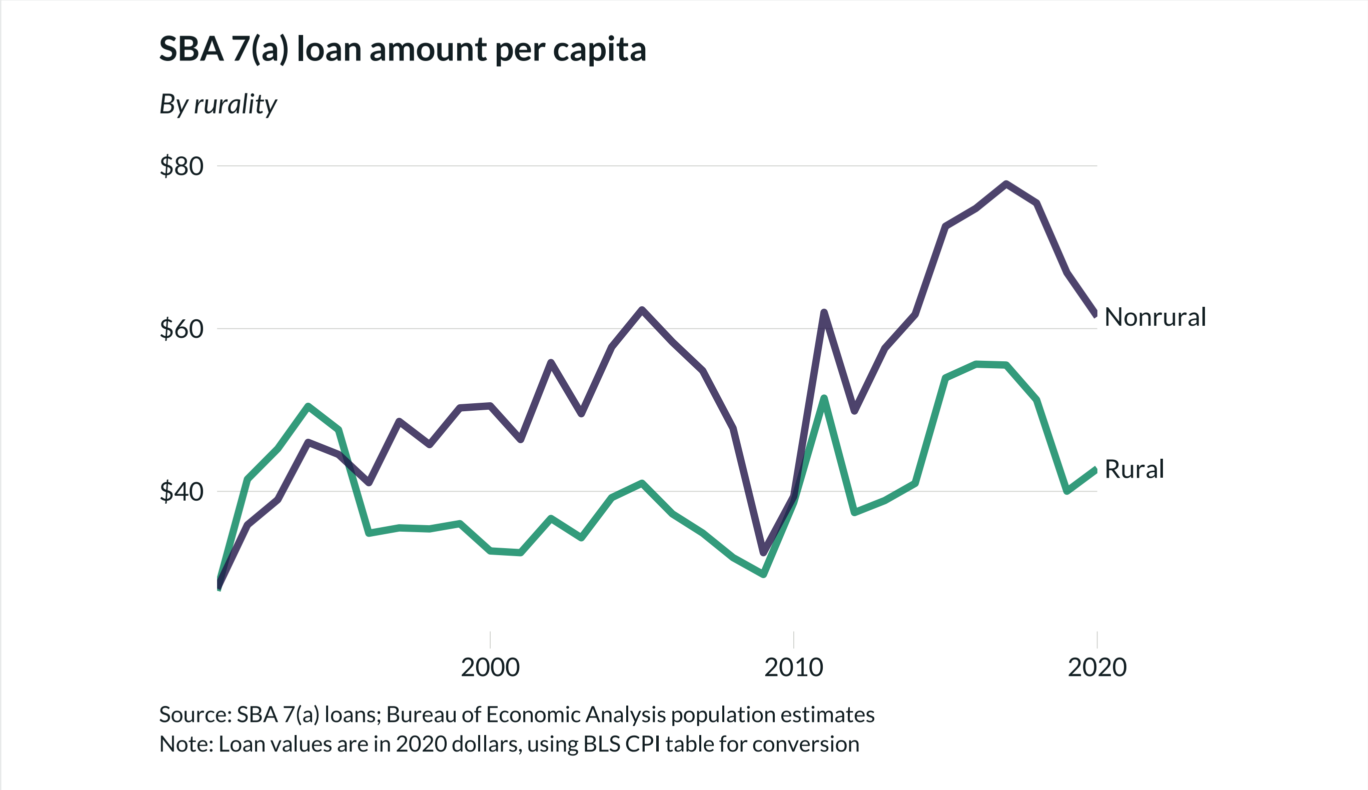
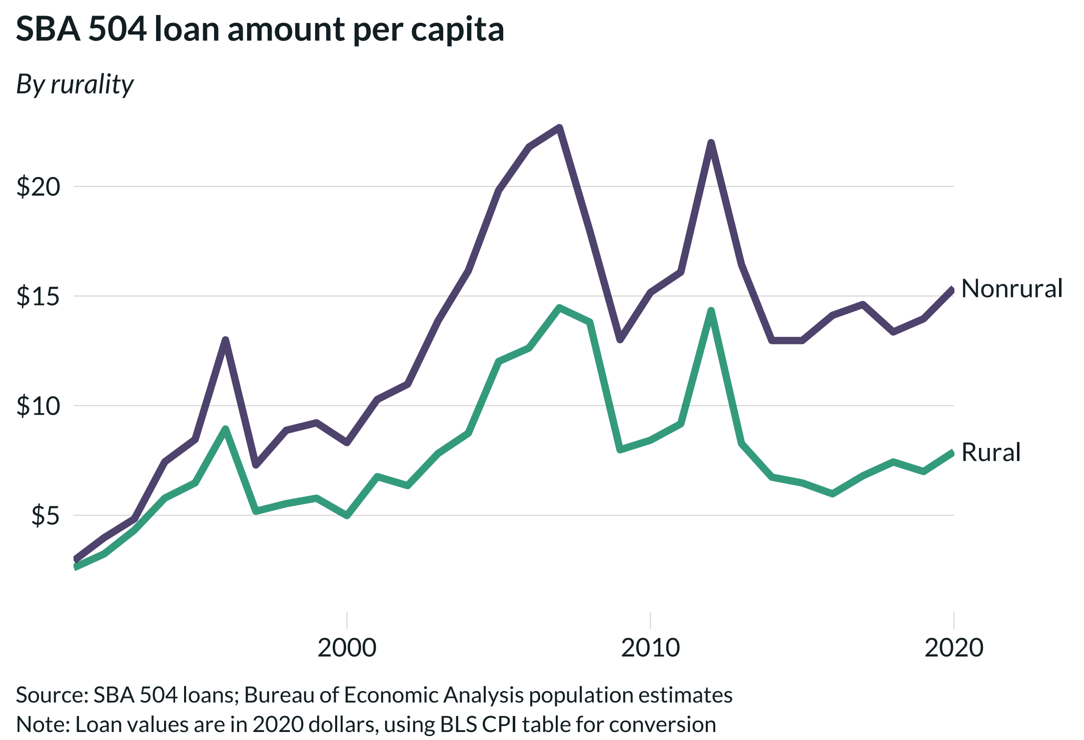


Figure 14: The rural-urban gap in SBA 504 loan amounts per capita



Community Development Financial Institutions (CDFIs) are important for bridging capital gaps in rural areas by offering not only flexible loan products but also financial counseling, business assistance, and outreach programs tailored to underserved entrepreneurs (CNote, 2019). Unlike conventional banks, CDFIs prioritize community service over profit. Historically, rural areas have been underrepresented by CDFIs, and as a result, rural businesses are also less likely to seek financing from them (Robb, 2021). Recognizing this gap, the T.L.L. Temple Foundation, a philanthropic organization dedicated to supporting rural communities in East Texas, launched the Rural Opportunity Catalyst for East Texas (ROC-ET) initiative, supporting the expansion of CDFIs like Communities Unlimited (in Nacogdoches) and PeopleFund (in Lufkin), increasing access to capital for local businesses. The recent success of the ROC-ET Initiative in East Texas shows that with flexible funding, trust-based partnerships, and locally rooted support, CDFIs can unlock entrepreneurial potential and drive inclusive economic development in rural regions (Kenney et al., 2024). According to the 2023 Federal Reserve survey, 25% of responding CDFIs now primarily serve rural areas. Despite increasing demand for rural financing, CDFIs still struggle with funding constraints, particularly the cost of lending capital and operational expenses (Carpenter et al., 2023).

The Treasury Department's State Small Business Credit Initiative (SSBCI) aims to increase lending and venture capital for startups, particularly in underserved communities. Yet, only 6% of its venture capital investments support rural businesses (Robb, 2021). Recent efforts to prioritize rural areas have increased this share to 9%, but this remains well below the rural share of the U.S. population at 14% and the rural business share at 12% (SSBCI 2023). Rural startups also receive just 4.2% of funding from Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs, which support research-driven firms (Robb, 2021). Expanding these programs could help bridge the capital gap for rural entrepreneurs.

A promising approach to addressing gaps in SSBCI deployment is through strategic partnerships. One example is the Green Mountain Accelerator Fund (GMAF), a $3 million pre-seed fund launched in 2024 by the Center on Rural Innovation (CORI) in partnership with the Vermont Economic Development Authority, which also provides funding through its SSBCI allocation. GMAF supports scalable rural tech startups in Vermont, investing $50,000 to $100,000 in early-stage companies with a minimum viable product and strong growth potential. Preference is given to businesses that have completed accelerator programs. Initial investments include $75,000 to Tacitly, Inc., a Rutland-based startup developing augmented and virtual reality training solutions. To strengthen relationships with rural founders, GMAF employs a coordinator based in rural Vermont who travels statewide to connect directly with entrepreneurs. Allocating SSBCI funding explicitly to rural areas could help encourage and scale these kinds of place-based partnerships.

The USDA's Rural Business Investment Program (RBIP) is designed to channel equity capital into rural areas, but its impact remains largely concentrated in the agriculture sector. As of 2024, only 3 of the 22 active Rural Business Investment Companies (RBICs) invest outside of agriculture, and most are headquartered in major metro areas like New York, Chicago, and St. Louis. One exception is the Open Prairie Rural Opportunities Fund II, based in Effingham, Illinois - a micropolitan area. Addressing these disparities will require more rural-focused funds that are not only geographically rooted in rural communities but also designed to serve the diverse sectors driving rural economic growth. Expanding RBIP to support a wider range of industries could significantly increase access to capital for high-growth rural businesses beyond agriculture.

Government programs that provide loans, grants, and venture capital disproportionately favor urban areas, widening financial gaps between rural and metropolitan businesses. The USDA's Rural Business Investment Program (RBIP) remains an exception, highlighting the need for more targeted, place-based investment strategies to close the rural capital gap. By expanding government funding for small businesses and leveraging public-private partnerships, policymakers can enhance rural entrepreneurs' access to capital to build stronger, more resilient rural economies.

FreshTracks Capital "Peak Pitch 2025" event at Vermont's Sugarbush Resort.

Conclusion

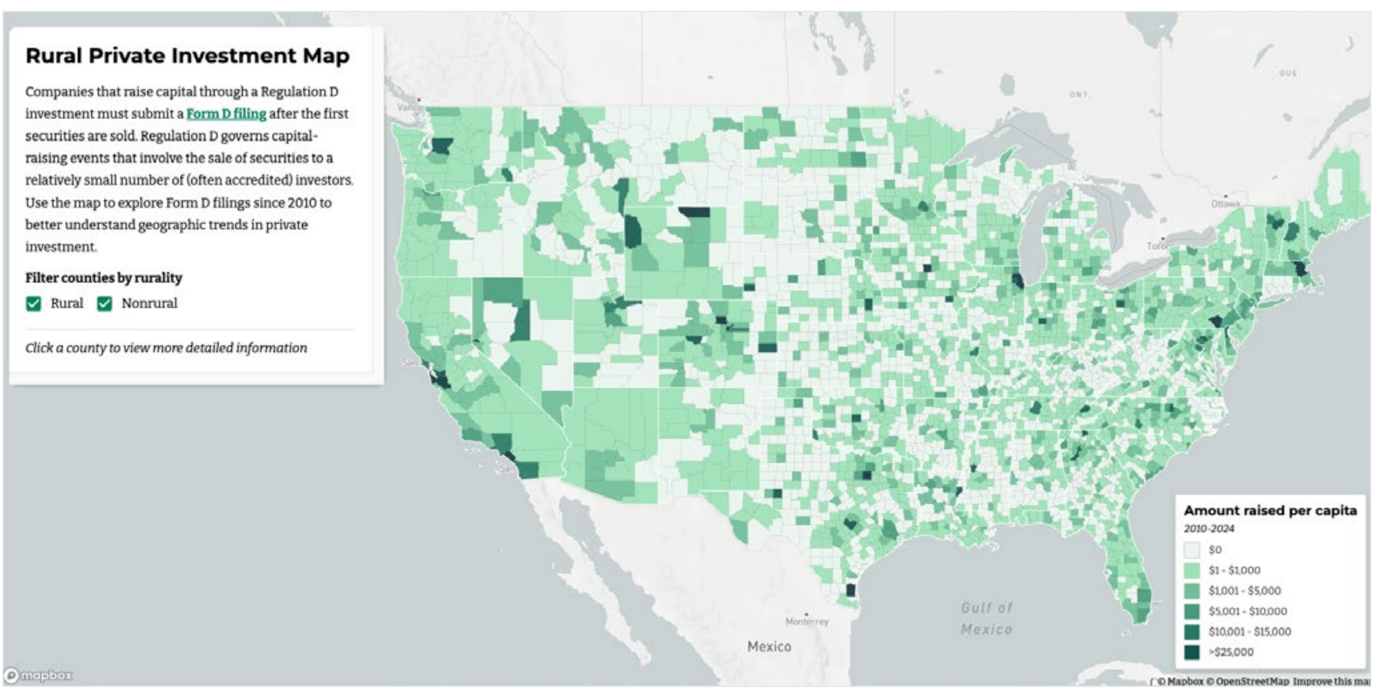
Rural entrepreneurship remains a cornerstone of economic development, offering a pathway to prosperity and opportunity in areas that often face systemic barriers to accessing capital and resources. Declining access to community banks and persistent gaps in venture capital continue to limit the ability of rural entrepreneurs to launch and scale innovative businesses. While community banks provide critical support for sustaining many rural businesses, venture capital plays a transformational role - particularly in the tradable services sector, where rural areas lag behind driving employment disparities. Addressing these financial capital gaps is not just a matter of equity; it is a strategic imperative for unlocking untapped innovation and fostering long-term economic growth in rural America.

Despite these challenges, rural areas show strong entrepreneurial potential, with high rates of proprietorship, growing non-employer businesses, and higher business survival rates (Conroy et al., 2019; Deller and Conroy, 2016). Rural residents are also more likely to aspire to business ownership (G.R.O.W. Report, 2024). Yet, venture capital networks remain overwhelmingly concentrated in urban and coastal hubs, excluding rural entrepreneurs - especially women and minority founders - from the financial ecosystems needed to scale high-growth startups. This geographic inequity not only stifles rural economic potential but also limits the diversity of ideas and innovations shaping the national economy. By expanding investment to rural entrepreneurs - particularly those from underrepresented backgrounds - venture capital can broaden the geography of innovation and foster the rise of new rural startup hubs.

Venture capital is more than just funding - it drives innovation, fosters mentorship, expands networks, and builds self-sustaining entrepreneurial ecosystems. Research shows that regions receiving venture capital investments experience long-term economic gains, as successful startups generate patents, attract skilled talent, and inspire new businesses. When applied to rural America, this cycle of innovation can transform communities into hubs of high-tech employment and opportunity

To illustrate these trends, you can explore our interactive map showing where venture capital is going in rural (and nonrural) America, highlighting emerging investment patterns and innovative businesses. This visualization underscores funding disparities but also challenges outdated narratives by demonstrating the entrepreneurial potential already taking root in some rural areas. The data comes from Form D filings, which companies are required to submit after raising capital through a Regulation D investment, providing insight into where private capital is flowing.

Explore the Interactive Map of Investment Funding in Businesses
https://private-funding-map.ruralinnovation.us/



Rural America's challenges in accessing capital are the result of policies and choices. Closing the rural financial capital gap requires action on multiple fronts. Venture capital investors must proactively seek out rural opportunities, partner with local organizations, and establish region-specific funds to unlock untapped potential. Meanwhile, rural entrepreneurs can strengthen their appeal by leveraging local resources, expanding networks, and showcasing the unique value of their innovations. Addressing the financial disparities facing rural entrepreneurs will require not only policy change but also intentional innovation—fintech and new digital platforms could play a role in bridging these gaps by connecting rural and remote founders to the capital and support networks they need to launch and grow their businesses.

Public investment must also play a role. Government programs can catalyze private capital by expanding and better targeting small business loan programs, strengthening community banks, and increasing support for regional venture funds. Treating rural areas as emerging markets - rather than afterthoughts - will help policymakers and investors create the conditions for transformational economic change. Diversifying venture capital portfolios to include rural entrepreneurs is essential to fostering a more innovative, inclusive, and prosperous national economy.

While financial capital is a critical component in developing rural entrepreneurship, the Community Capitals Framework (Emery & Flora 2006) highlights the importance of other kinds of capital as well - natural, cultural, social, and human capital - in driving positive economic change. Communities themselves play a fundamental role in developing these other kinds of capital by investing in infrastructure, expanding broadband access, and supporting business incubators and accelerators that connect entrepreneurs with mentorship and capital. Notably, rural areas attracting venture capital tend to have better broadband access, higher educational attainment, and more supportive local ecosystems.

To fully bridge the gap, government investment must also focus on foundational economic drivers - including broadband, education, and workforce development - to ensure that deeply disadvantaged rural communities are not left behind. Future reports in this series will explore how inequities in government funding exacerbate these challenges and outline policy solutions to address them.

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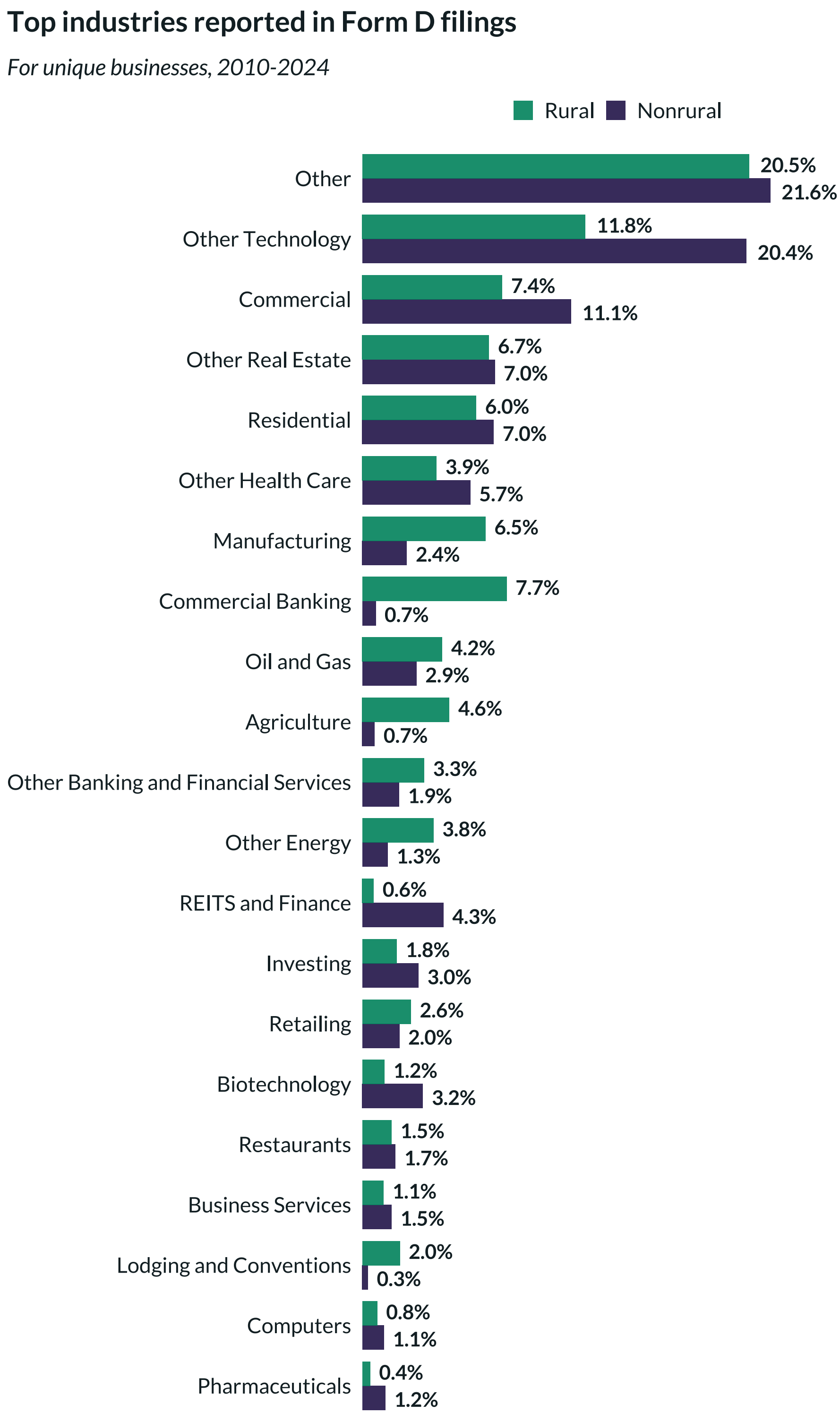
Appendix A

Funding sources by business stage and industry.

BUSINESS STAGE	TRADABLE GOODS (MANUFACTURING, AGRICULTURE)	TRADABLE SERVICES (SAAS, IT, CONSULTING)	LOCAL GOODS & SERVICES (RETAIL, RESTAURANTS, ACCOMMODATION)
Pre-Seed (Idea & Concept Development)	Funding: SBIR/STTR (Phase I), SSBCI, Angel Investors, Personal Savings, SBA Microloans, crowdfunding Uses: Prototyping, market research, IP protection, feasibility studies	Funding: Angel Investors, Pre-Seed VC, SSBCI, Bootstrapping, crowdfunding Uses: Software development, minimum viable product, creation, hiring early team	Funding: Personal Savings, Friends & Family, SBA Microloans, SSBCI Programs, crowdfunding Uses: Business registration, lease deposits, branding
Seed (Product Development & Early Market Testing)	Funding: SBIR (Phase I & II), Seed VC, SSBCI-backed lending, crowdfunding Uses: Small-scale production, compliance approvals, initial sales	Funding: Angels, Seed VC, SSBCI VC, Business Credit Lines, crowdfunding Uses: Beta testing, hiring developers, customer acquisition	Funding: SBA 7(a) Loans, SSBCI-backed lending, Community Grants, crowdfunding Uses: Lease payments, initial equipment purchases, staffing
Startup (Launch & Early Revenue)	Funding: SBA 7(a), Early-Stage VC, SBIR (Phase II), USDA RBIC (for rural businesses), Revenue-Based Financing, crowdfunding Uses: Expanding production, supply chain setup, distribution partnerships	Funding: Seed VC, SSBCI VC, SBA Loans, Business Credit, crowdfunding Uses: Scaling infrastructure, software security, launching new features	Funding: SBA Loans, Revenue-Based Loans, Local Development Grants, crowdfunding Uses: Opening storefront, launching marketing campaigns, hiring employees
Growth (Scaling)	Funding: Series A/B VC, SBA SBIC, USDA RBIC (for rural areas), Commercial Loans Uses: Increasing manufacturing capacity, hiring more employees, logistics improvements	Funding: Series A/B VC, SSBCI-backed Growth Funds, Business Loans Uses: Customer growth, marketing campaigns, operational automation	Funding: SBA 504 Loans, Franchise Loans, USDA RBIC (if rural) Uses: Opening new locations, expanding menu/services, upgrading facilities
Expansion (Franchising, Acquisitions, or Global Growth)	Funding: Series C/D VC, Private Equity, Commercial Loans, USDA RBIC (for rural areas), Export-Import Bank Loans (for global trade) Uses: Entering international markets, large-scale automation, acquisitions	Funding: Late-Stage VC, Private Equity, Mezzanine Financing Uses: Enterprise partnerships, Mergers & Acquisitions, scaling to new industries	Funding: SBA 504, Private Equity (if a large chain), Business Expansion Loans Uses: Franchising, corporate partnerships, acquiring competitors

Appendix B

Venture capital by industry for rural and nonrural areas



Source: CORI analysis of Form D filings
Note: "Rural" refers to the nonmetro definition which includes all nonmetro counties.

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