

RURAL MICROBUSINESS FINANCING STUDY

*Local Rural Economic Development
Driven by
Support for Microbusinesses*

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Background

Many communities in rural Australia are facing challenges in establishing a base for local economic development.

Existing strategies tend to focus on bringing external employers in, or looking for government support. Neither builds the diversity of local economic activity which is needed for stable prosperity and community development.

The first of these, the “*white knight*” strategy, seeks to attract one major company to employ local labour. There are clear disadvantages to this approach. Large companies have substantial research resources and have already canvassed location options: if they are not already there, it is probably for a good economic reason. Economic inducements are often necessary to get them to relocate, which can be a substantial cost. Even where firms do relocate, their decisions are driven exclusively by their business priorities, which may or may not include the general community priorities. Where most of the community’s income comes from one firm, the risks to the community’s long-term well-being are significant.

The second strategy, *government support*, has costs as well as benefits. Funding is competitive; priority is given to infrastructure; one round of funding is the rule, two rounds the exception; and funding usually comes with requirements that are more centrally than locally geared.

Microbusiness-led development

A better approach is to develop locally self-reliant businesses. Support for microbusinesses has been shown to be a powerful, cost-effective driver of robust and stable local economic development in rural communities.

Microbusinesses are small enterprises of up to about \$100,000 in annual turnover, and employing fewer than five people. If proactively supported microbusinesses can deliver real economic growth and important social outcomes, in the short- and medium-term. They are a core community asset on which communities can build.

Microbusiness-led development has proved itself nationally and internationally. Studies have indicated some clear advantages of microbusiness-led economic development:

- Microbusinesses by definition have the *potential for growth*, and are thus capable of bringing new elements to the economic foundation of the community.
- Microbusinesses are *diverse*, building the community's economic base across a range of economic sectors and spreading community development risk.
- Owners and employees can *grow in business knowledge and experience* along this trajectory. This builds the capabilities and skills of the community, opens new synergies, develops economic self-sufficiency, and positions the community for success in a business environment of accelerating change.
- Microbusinesses are more likely to draw on the *local labour market*, with all the multipliers in economic and social activity for the community that this brings.
- Owners of microbusinesses are typically *entrepreneurs*, willing to take risks to establish new enterprise and to be self-reliant in their approach. This places the economic development of the community on a solid ground of expanding internal achievements, driven not by external parties such as government or other grants but by the growth of home-grown skills, capabilities and experience.

Financing microbusiness

Microbusinesses are not well supported financially by the levels of government or by financial institutions. They are likely to have risk profiles that are too high for normal government grants or loans, or for funding by financial institutions.

Although not start-ups, they sit below the small-business threshold at which such funding becomes available. This represents a major limiting factor, for the businesses themselves and for the communities they are part of. *Access to funding is a critical success factor for local rural community economic growth.*

Microbusinesses are also likely to be isolated from support networks which can provide crucial knowledge and experience. Providing these intangible assets, in the form of *mentoring and networking*, are additional success factors.

The need: research into models of microbusiness financing in rural communities

We know very little about successful models and success factors in financing rural microbusiness in Australia. Partly that is because its importance to rural communities has not been recognised. Some studies of rural microbusiness financing in developed economies have been carried out overseas. However, there have been few Australian studies and the degree to which these studies transfer to Australian conditions is not clear.

In addition, there do exist some local schemes already, but these are home-grown, below the radar, and are not widely known. In our work with rural communities we have come across a number such initiatives. For example, these include: a community association with an asset base donated shortly after WWII; a community cooperative funded by small donations across the community; a local council initiative leveraging low cost funds from the state Local Government Finance Authority; and an informal network which connects local investors with local businesses.

Another model we have been looking at centres on a loan fund structure. Under this model funds would be secured from government, corporations, foundations and private donors. The low cost of funds would for low interest loans to be made to microbusinesses, as defined above. Loans would be short-term and capped at

low levels, with the ability to renew on repayment. Microbusiness borrowers would be supported by local mentors and linked online in sector networks, as in incubators. The fund would be owned and operated locally with RCA support. Major banks have indicated their willingness to support such a project with advice on policies and systems.

There is an urgent need for research into models of rural microbusiness financing. Both existing and potential models would be investigated.

The outcomes of the study will be:

1. a detailed review of rural microbusiness financing models in Australia and overseas;
2. recommendations on the best models under different community conditions;
3. a feasibility study for the first implementation of the top-ranked financing model.

Study approach, budget and people

Study phases

The proposed study will be in four phases:

- A. A detailed review of the research and case-study literature will be undertaken of rural micro-business financing in Europe, North America, and New Zealand. The focus of this survey will be on identifying in these studies the costs and benefits of different approaches, drivers of successful outcomes, and the correlation of these to particular rural business environments.
- B. Fieldwork will be undertaken to identify financing schemes that might already be in existence. For this study rural communities in Victoria and South Australia would be targeted (subsequent work is planned to broaden this scope to other states). Where schemes are identified as operating, they will be researched and documented as in-depth case studies. Based on current information, six schemes will be documented.

- C. An analysis of the fieldwork findings will be undertaken. The framework of the literature review—costs and benefits, drivers of success, and links to community and business environments—will be extended to these local schemes. Models on the ground will be ranked by their effectiveness across a number of economic and social factors. Attention will also be given to the networking and support structures that work best.

- D. For the best-performing model emerging from this analysis a feasibility study/business plan will be developed for the first implementation.

Timeline

The following chart presents the estimated timeline across the four phases of the study:

ID	Task Name	Start	Finish	Duration	Nov 2013				Dec 2013				Jan 2014				Feb 2014			
					3/11	10/11	17/11	24/11	1/12	8/12	15/12	22/12	29/12	5/1	12/1	19/1	26/1	2/2	9/2	16/2
1	Literature & case-study review	1/11/2013	28/11/2013	4w	█															
2	Fieldwork	15/11/2013	9/01/2014	8w					█											
3	Analysis & conclusions	1/01/2014	28/01/2014	4w									█							
4	Feasibility study/business plan	3/02/2014	28/02/2014	4w									█							

Budget

National/international review of best practice	1,000
Survey development	1,250
Survey implementation	5,000
Travel, accommodation, etc	1,800
Analysis and report	4,000
Feasibility study	3,500
Total	16,550

People

Dr Geoff Wells, Director, Rural Communities Australia, is principal investigator for this study. He has researched and published in sustainable business, natural resource valuation, local government planning and management responses to climate change, and community engagement. He has consulted for two decades to local government and businesses across Australia, including local government in southeast South Australia, and has international experience in both universities and business. Dr Wells is a former Senior Research Fellow and Dean in the University of South Australia business school.

Prof Steven Li, Professor of Finance, Graduate School of Business and Law, RMIT University, is technical advisor to the project. He has a strong background in quantitative finance. He has recently applied these methods to local government responses to climate change, as well as to a large range of technical finance problems. Prof Li has published over 40 journal papers in many leading international journals. He has consulted for both international and local organisations, including the LGA South Australia.

Dr Wells and Prof Li will be assisted by a graduate student in the RMIT Graduate School of Business and Law, and by RCA volunteer staff.