

Upgrading the Hillbilly Highway

Appalachians are getting a taste of venture capital money to fund startups throughout the region. But isolation created by the interstate highways keeps many businesses from moving into the country. By Brad King.



LILLIAN WENNENBERG AND Midge Palmer watched as Corning, Ohio, eroded.

Buildings in the downtown area stood empty, casualties of the shrinking coal mining and railroad industries. Once the economic backbone of the small, southern Ohio town, the business district of the 3,000 resident town was feeling the economic squeeze.

Even the town's tallest building -- the three-story North Valley Bank Building -- went unused. That is, until Wennenberg and Palmer decided to transform the town into a mini-technology sector.

Wennenberg and Palmer renovated the bank, creating the Southern Perry Incubation Center for Entrepreneurs. In just a short period, they convinced the Data Entry Processing Service to move into Corning, creating 18 new jobs and filling up one of the empty downtown buildings.

The two women are just one part of independent efforts to "wire" Appalachia, a movement many hope will transform one of the poorest areas in the country.

A new Appalachian venture capital fund is ready to begin offering startup funding, while several coalitions are working to educate the local work forces on emerging

technology.

Despite their best efforts, the Corning women have run into the same problem that plagues much of the rural Appalachian region: no broadband access. Many of its cities and towns are located well off the beaten track, making economic development -- especially in technological areas -- extremely difficult.

"Just from a technology perspective, the distance many of these areas are from airports and cities is a major factor in development," said Tom Reid, director of Ohio University's Communication Network Services -- a consortium of colleges and businesses studying the Appalachian region.

"The isolation of rural communities makes commercial broadband providers take one quick look before saying 'never.'"

Populations throughout the Appalachian states aren't dense enough to justify the costs of a high-speed network, Reid said. In extremely isolated towns, there is only one resident for every 20 acres.

Despite the geographic hurdles facing the region, there is hope. Home-grown investors -- wealthy private citizens, regional banks and universities -- have created venture capital funds to help residents take the first steps necessary to join the technology revolution.

Adena Ventures -- named for the Native Americans who built spiritual mounds throughout southern Ohio -- has raised \$32 million to fund technology startups throughout West Virginia, Ohio and northeastern Kentucky.

Although the fund hasn't officially started soliciting business plans, executives have already received 70 inquiries, said founder David Wilhelm, a former Democratic National Committee chairman and Ohio native. He expects to fund 30 new startups.

Still, Appalachian businesses face a long, uphill struggle to catch up.

Last year, U.S. companies received \$103 billion in venture funding, according to Venture Economics. The 29-county region, which Wilhelm's fund will serve, received only \$23.6 million of that -- and that money went to only three businesses.

"One of the things that have held back Appalachia is access to capital, and that's true of rural America generally," Wilhelm said. "Once you get past cities and hub airports, you have to look and look and look to find any regions that have money."

The gap between the coasts and rural Appalachia is wide, but Wilhelm hopes that by focusing on a few well-backed start-ups, other venture capital firms will see the benefits to working in rural areas.

"Money follows money, and success follows success," Wilhelm said. "We hope this is just the start. We will demonstrate that this region can develop a fund that matches the equity of other funds. Then, we'll see other funds coming in."

The region offers a tremendous opportunity for any company that can bridge the technological gap.

Appalachia is a 200,000-square-mile land tract running from New York to Mississippi, encompassing 13 states and 406 counties. The area is home to 22 million people, which accounts for 8 percent of the U.S. population.

The problem is that 42 percent of Appalachians live in rural areas, hidden from highways and major transportation centers, leaving them isolated and untouched by much of the technology revolution.

The geographic location -- along with a low population base growing at a much slower rate than the rest of the nation -- has made the area unattractive to many technology companies, helping stunt the economic growth of the region.

Unemployment rates are often double the national averages, and poverty rates hover around 30 percent in distressed areas, according to a study by the Appalachian Regional Commission last year.

There is little that technology can do to overcome the barriers of location, which were determined 45 years ago when America's interstate highways were built.

Before the Pennsylvania Turnpike ushered in the age of the interstate freeways in the 1940s, most Americans traveled on two-lane state highways weaving through small towns. Tiny hamlets and townships littered the backwoods roads.

But in 1956, Congress approved funding -- which eventually reached \$329 billion -- for the construction of a 42,000-mile national highway system that would radically alter the landscape of the country.

As travelers flocked to the high-speed roads that bypassed much of rural Appalachia, small towns -- particularly rural towns -- were cut off from the rest of the world, literally abandoned.

"From Maine to Florida, you should get on I-95, that's the safest, most efficient way to go," said Richard Weingroff, information liaison specialist for the Federal Highway Administration. "The highway construction had to bypass small towns because the roads were so big, and the towns were so small.

"Today, when you travel along a highway to a mall, you see your chain stores, but you go along the U.S. highway system, you see a completely different economic impact. And when you become the second road, it's hard to reverse that trend."

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