

ARKANSAS ENTREPRENEURSHIP POLICY FRAMEWORK



Conductor

small business makes up
47.1%
of all private sector employees.

(SBA, 2020)

98%

of the roughly 300K
U.S. Companies that
export are small and
medium businesses
+ they account for

1/3 of U.S. exports.

(U.S. Chamber of Commerce, 2021)

From 2000 to 2019, small business generated

10.5 million jobs

nearly 2 times more than large businesses.

(SBA, 2020)

small business accounts for

65.1%
of new jobs created

The average startup creates

4.74

jobs in the first year.

(Kauffman, 2021)

(SBA, 2020)

67¢ of every \$1 spent in local
small businesses goes back into
the community

(American Express & NFIB, 2018)

POLICYMAKERS AND STAKEHOLDERS,

Arkansas' entrepreneurial ecosystem has grown significantly in size and maturity over the last decade, across geography and sector. According to the U.S. Small Business Administration, over 2,100 new ventures emerged in the state in the last quarter of 2018; small businesses accounted for almost half of all Arkansas employment and nearly all job growth.

Despite the growth of the state's entrepreneurial landscape, **the individuals who take on the challenge of starting a new venture or growing an existing one are faced with a myriad of challenges** both locally and beyond, often hampered by burdensome policy, limited access to capital, and inaccessible resources.

The rise of the SARS-CoV-2 virus and the resulting pandemic also placed unprecedented burdens on businesses and operators. This uncertain period highlighted the challenges many small business owners find themselves facing: not enough cash on hand to weather temporary closures, labor shortages, and difficulty navigating complex government aid applications and compliance.

Startup Junkie Consulting was founded over a decade ago in Northwest Arkansas with the mission to empower entrepreneurs, innovators, and makers. As such, our organization has had a front-row seat to the quick but deliberate growth of the Arkansas venture ecosystem. To amplify its impact on that ecosystem, our organization expanded services to Central Arkansas with the launch of Conductor.

In the time since we have worked with thousands of entrepreneurs and have raised multiple funds for investment in early-stage companies. **Our teams have worked with and alongside entrepreneurs and small business owners, learning in real-time the challenges they face – both pre-existing and spurred by the pandemic.** Those learnings in the field, filtered through the lens of the Ewing Marion Kauffman Foundation's America's New Business Plan and the Small Business Majority's policy agenda, helped us identify key policy recommendations intended to increase entrepreneurial endeavors and successes specifically and strategically in the state.

Furthermore, we have updated our policy recommendations to reflect the additions of the most recent America's New Business Plan, our on-the-field assessments of issues brought on by the pandemic and economic uncertainty, and the Arkansas Entrepreneurial Policy Summit findings held in the spring of 2022.

We hope you will review these recommendations and join us in advocating for changes in policy that lower barriers for entrepreneurs at the local, state, and national level.

Respectfully,

Jeff Amerine, Founder and Managing Director, Startup Junkie Consulting
Brett Amerine, Managing Director, Startup Junkie Consulting
Jeff Standridge, Ed.D., Managing Director, Conductor

ARKANSAS ENTREPRENEURIAL POLICY SUMMIT

The Arkansas Entrepreneurial Policy Summit was made possible by the Kauffman Foundation in partnership with Conductor and Conway Foundation. The purpose of the summit was to create region-specific policy maps of Northwest, Northeast, Central, Southwest, and Southeast Arkansas. During the three-day summit, speakers and facilitators led engaging discussions that highlighted region-specific concerns and barriers to entry and success for entrepreneurs, anticipating significant discrepancies from region to region. However, the challenges and barriers associated with entrepreneurship identified during the summit were less region-specific and instead highlighted disparities between urban and rural ecosystems.

Challenges Identified by the Regional Summit Participants:

Rural Arkansas Entrepreneurs are faced with...

- Limited or no broadband accessibility
- Limited access to information and/or guidance on how to start a business
- Limited e-commerce domain knowledge
- Little to no access to reliable transportation, public transportation, or ride-sharing for themselves and their employee base
- Limited access to traditional sources of capital

Urban Arkansas Entrepreneurs are faced with...

- Obsolete yet static local and state policy
- Prohibitive and inconsistent enforcement of existing code
- Limited access to social capital, i.e. professional networks and mentorship
- Limited access to institutional, non-predatory capital
- Limited access to public funding opportunities as well as venture capital

Generalized Findings:

- Entrepreneurs, regardless of location, are faced with limited access to non-predatory capital with reasonable terms at all stages of funding
- Existing or aspiring entrepreneurs across the state would benefit greatly from improved business and financial education
- A general lack of knowledge on where and how to start a business and a struggle to identify the existing resources
- Each ecosystem experiences cultural barriers such as generational poverty, the lack of representation, and few champions for change
- Each ecosystem also experiences directional barriers such as limited leadership capacity, inefficient top-down policy solutions, and a feeling of indifference to entrepreneurship from policy leaders

POLICY CONTRIBUTORS

 **EforAll** | EparaTodos
NORTHWEST ARKANSAS


HARRISON REGIONAL CHAMBER OF COMMERCE


Paragould
ECONOMIC DEVELOPMENT CORPORATION
Moving in the right direction

 **startup
junkie**



 **Arkansas State University**
Delta Center for
Economic Development

 **Clarksville**
ARKANSAS


Arkansas
PTAC
PROCUREMENT TECHNICAL
ASSISTANCE CENTER

 **THE
VENTURE
CENTER**

 **Conductor**



**COMMUNITIES
Unlimited**


The
INNOVATION
Hub
AT WINROCK INTERNATIONAL



 **FORGE**
COMMUNITY LOAN FUND

 **SEVIER COUNTY
ECONOMIC
DEVELOPMENT**

ASBTDC
ARKANSAS SMALL BUSINESS AND
TECHNOLOGY DEVELOPMENT CENTER



 **HEARTLAND
FORWARD**
AN INSTITUTE FOR ECONOMIC RENEWAL



POLICY RECOMMENDATIONS

Federal

State

Local



Further described in *Creating Startup Junkies* by Jeff Amerine and Jeff D. Standridge, the Startup Junkie and Conductor teams have created a Four Pillar framework for building vibrant and thriving entrepreneurial ecosystems. **The four pillars that provide the structure and support for the rest of the entrepreneurial ecosystem are**

- Talent
- Culture
- Community Engagement
- Capital

The talent pillar represents a skillful and well-equipped workforce and serves as the most important element of a successful ecosystem. A talented workforce is composed of **entrepreneurs, business partners, employees, mentors, and advisors with a passion for innovation, risk-taking, and opportunity-seeking.**

The culture pillar embraces entrepreneurs and the entrepreneurial spirit of exploration and risk-taking at all levels. Beginning with entrepreneurs and their business ventures and expanding to municipal leaders, government officials, and the investment of resources by industry giants. **Entrepreneurial culture appreciates and supports those who are innovative, determined, confident, self-disciplined, and open-minded self-starters.**

The community engagement pillar serves as a sustainability force for entrepreneurship and is a catalyst for growth. **An engaged community consists of enterprises, public institutions, local government, and the general public working together to identify, develop, fund, and sustain entrepreneurship.** Deeply interdependent on talent, capital, and culture, community engagement is what helps a business grow and renew the entrepreneurial ecosystem cycle.

Lastly, ***the capital pillar*** represents the availability and accessibility of financial capital. Such capital can be in the form of venture funding, SBA-backed commercial loans, CDFI microloans, or crowdfunding. **A thriving entrepreneurial ecosystem must have capital available and a clear way for entrepreneurs to find it.**

We believe by fostering activity that supports talent creation, an entrepreneurial culture, community engagement, and access to capital, Arkansans will be better equipped to start and grow companies that will positively impact the economic landscape of our state. The following policy recommendations are organized according to the 4 pillars.

TALENT

Federal

State

Local

FOSTERING PRO-ENTREPRENEURSHIP WORKFORCE PROGRAMS TO EQUIP THE NEXT GENERATIONS OF ENTREPRENEURS AND CHAMPIONS OF CHANGE

1. Ensure the SBA's highly effective Regional Innovation Cluster (RIC) program is a permanent part of the budget in the same way as the funding for the SBA's SBDC program. In addition, ensure there are at least two active RIC programs per state. ● ●
2. Support the work of entrepreneur support organizations (ESOs) :
 - Develop grants specifically for entrepreneurial support organizations to create minority-focused programs with an emphasis on facilitated learning through connections and peer support in entrepreneurial ecosystems. ● ● ●
 - Increased funding for training, coaching, and incubation programs for micro-entrepreneurs. ● ●
 - Expand the number of ESOs that receive workforce training funding. ● ●
3. Consider entrepreneurship in regards to workforce training programs:
 - Prioritize entrepreneurial skill-building, access to networks, and new business creation as key components of workforce training programs to foster a workforce prepared with entrepreneurial capabilities. ● ●
 - Include entrepreneurship and applicable information and tools in workforce training programs to help tens of thousands of young Americans start their own businesses. ● ●
 - Ensure local entities work closely with employers, especially new businesses, on the alignment of curriculum with workforce needs. ● ●
4. Support workforce development initiatives by expanding access to shared workspaces, accelerators, and incubators that provide the physical and operational infrastructure for entrepreneurs to start and grow new businesses. ● ● ●
5. Conduct regular reviews of state and local business licensing requirements and update outdated regulations that particularly impact immigrants and people of color, as many start their businesses from their homes. ● ●
6. Evaluating public transportation infrastructure and investing in innovative public transit options for entrepreneurs and their employees, specifically in rural areas. ● ● ●

7. Implement policies that would help more working parents afford child care, understanding this is essential to retaining a skilled workforce. ● ●

Did you know?

*The Small Business Majority reported that **more than one-third** of small business owners with children report that lack of access to affordable, high-quality child care was a barrier to starting their business.*

8. Support expansion of the H-1B visa program to allow more visas for skilled workers. ●

9. Promote U.S. Small Business Administration (SBA) and other programs that foster peer-to-peer mentoring and encourage expanded procurement opportunities for very small businesses, particularly those owned and run by women and entrepreneurs of color. ● ●

10. Establish a startup visa that authorizes foreign entrepreneurs to start businesses in the United States. ●

By The Numbers

*Kauffman Foundation Indicators of Early-Stage Entrepreneurship:
the rate of new entrepreneurs was 0.44 percent for immigrants, which is substantially higher than for native-born Americans (0.28 percent).*

The Impact

*A study by the Kauffman Foundation concluded that granting 75,000 startup visas would create **\$500,000 to \$1.6 million in new American jobs** in 10 years.*

CULTURE

Federal

State

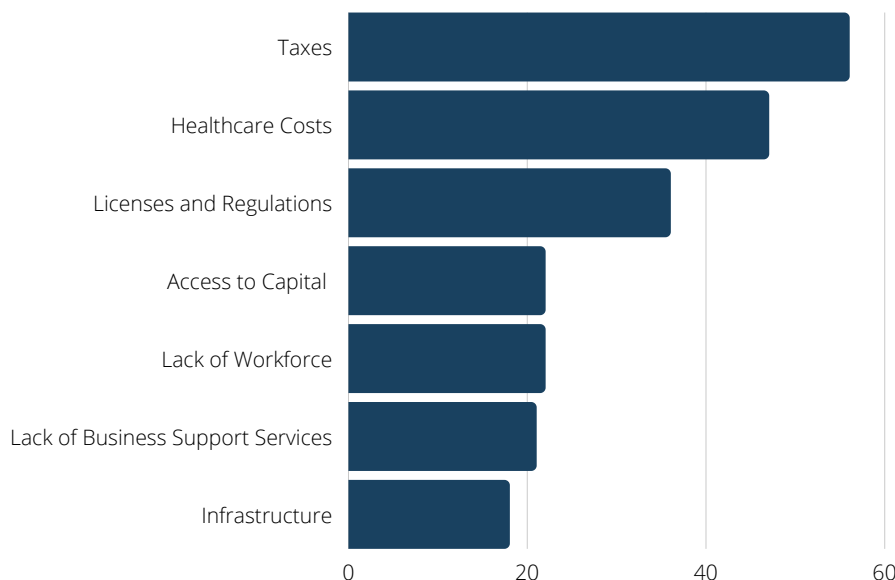
Local

EMBRACING A SPIRIT OF RISK-TAKING & EXPLORATION

1. Replace the 2017 tax bill's pass-through component with a provision allowing small businesses to deduct their first \$50,000 in business income, whether they file their tax returns as a pass-through entity or as a C corporation. This approach will provide income tax benefits to most small enterprises and businesses owned by people of color. ●
2. Permit entrepreneurs to make "reach-back" contributions to their retirement accounts for a limited number of years, and to have the tax deferral apply to the current tax year in which those payments are made. ●
3. Support health insurance coverage for entrepreneurs:
 - Reform and expand the limits on the provisions of Health Savings Accounts and Flexible Spending Accounts to bridge the healthcare coverage gap for entrepreneurs. ● ●
 - Allow the self-employed to fully deduct the cost of their health insurance premiums. ● ●
 - Provide tax incentives to new businesses to offset health care costs. ● ●

Why it matters

According to the findings of the Small Business Majority, small businesses identified the **barriers to maintaining and growing their businesses** as:





4. Alleviate the burden of student loan debt relief:

- Provide additional student loan debt relief program for Americans who take the risk to start businesses. ● ●
- Provide entrepreneurs who maintain a residence in the state an exclusion from state income tax equal to the amount of student loan payments made in a year up to a capped amount. ● ●

5. Ensure programs that support rural entrepreneurs maintain full funding. For example, the 2018 Farm Bill provided funding for the Department of Agriculture's Rural Development programs, including the Rural Microentrepreneur Assistance Program, Rural Business Development Grants, and the Intermediary Relending Program. ● ●

Fast Fact

40% of rural business owners have trouble accessing capital. (SCORE)

COMMUNITY ENGAGEMENT

Federal

State

Local

ENGAGING FLAGSHIP ENTERPRISES, PUBLIC INSTITUTIONS, LOCAL GOVERNMENT, AND THE GENERAL PUBLIC IN THE COMMON INTEREST OF FURTHERING ENTREPRENEURSHIP

1. Create an Arkansas-specific list of all requirements to start any business and easy-to-read guides that walk entrepreneurs through the permitting process. These should be translated into multiple languages and posted in public offices and in an easy-to-find location online. ● ●

Why it matters

*According to the Peterson Institute for International Economics, in countries that had a more efficient business formation process (the amount of time it took to start a new business), **entrepreneurship was more likely to increase.***

2. Require coordination across agencies to simplify all federal, state, and local procedures, forms, licenses, and permits required to start a business. ● ● ●

3. Create federal and state incentives for local authorities to reduce barriers to starting businesses, even down to the smallest fees and forms. ● ● ●

4. Create a statewide guide for entrepreneurs to navigate the existing resources to help start and grow a business. ● ●

5. Ease and streamline Minority and Women-Owned Business Enterprise Certification processes to increase participation and reduce additional barriers. ● ●

6. Require an Entrepreneurship Impact Statement (EIS) for all new laws, regulations, and rules developed that affect businesses less than 5 years old. ● ● ●

7. Reduce vendor requirements for participation in government procurement to allow more minority-owned businesses to bid on government contracts. ● ● ●

8. Restrict the use of non-competes through bans or by shortening the maximum duration of these contracts and narrowing the scope of industries and jobs for which non-competes may be used. ● ●

9. Streamline licensing requirements. States can develop regional or interstate compacts to ensure occupational licenses are transferable to or recognized by neighboring states, just like a driver's license. Federal preemption would accomplish a similar purpose. ● ●

Did you know?

The share of US jobs requiring an occupational license increased from 5% in the 1950s to 22% in 2020 according to the U.S. Bureau of Labor and Statistics.

The Impact

Arkansas is one of the worst states in the nation when it comes to licensing lower-income occupations and is ranked 3rd in the U.S. by the Institute for Justice for the 'most broad and onerously' licensed state.

10. Implementation of Microenterprise Home Kitchens permits for home food preparation and sales, specifically targeted to support entrepreneurs with limited resources. ● ●

11. Evaluate broadband accessibility and the impact on entrepreneurs, specifically in rural areas, and expand broadband access to better serve affected areas. ● ● ●

By the Numbers

*A 2020 Federal Communications Commission report stated that 98.5% of Americans in urban areas have access to fixed terrestrial broadband, but **only 77.7% of those in rural areas and 72.3% on tribal lands have access.***

CAPITAL

Federal

State

Local

CREATING EQUAL ACCESS TO THE RIGHT KIND OF FUNDING TO LEVEL THE ECONOMIC LANDSCAPE FOR ENTREPRENEURS AND FUTURE ENTREPRENEURS.

1. Completely eliminate the SEC accreditation rules that require investors in private companies to be accredited investors (i.e., an income of \$200,000 per year in two subsequent years or a net worth greater than \$1,000,000 not including a primary residence). ●

2. Expand the Opportunity Zone tax benefit to include a dollar-for-dollar federal tax offset to ordinary income. Currently, Opportunity Zones have restricted the tax advantage to a complicated benefit tied to capital gains, ensuring only the very wealthy with privileged exposure, and legal and accounting support can participate. ● ●

3. Require state retirement plans to carve out 5% of alternative asset class investments to be dedicated to “in-state” ventures, with at least 10% allocated specifically to minority-owned enterprises. ● ●

4. Increase liquidity for microloan intermediaries that provide technical assistance support to underserved and minority-owned businesses. ● ●

Fast Fact

According to the 2021 Capital Scan, **Arkansas ranks 32nd in population but 12th among all states in terms of the size of its Black or African American population.** Nationally, we have seen that minority business owners have different economic outcomes and a harder time accessing capital than white-owned businesses.

5. Increase funding for SBIR/STTR programs, and provide targeted assistance for research programs at Historically Black Colleges and Universities. ● ●

6. Instruct relevant departments and agencies to make concrete recommendations for how existing capital access programs can be improved to reflect the fact that the age of a business, not its size, is the key factor in job creation. ● ● ●

7. Establish policies that encourage venture capital investment for startup businesses in rural areas. ● ●

8. Provide emergency funding to the EIDL and Restaurant Revitalization Fund to process the remaining applicants that remain unfunded. ● ●

9. Expand access to SBA loan programs:

- Increase access to sub \$200K SBA-backed loans by subsidizing fees, reducing the loan fees, increasing loan guarantees, and creating a simpler model to replace underwriting requirements. ● ●
- Increase the SBA loan guarantee percentage for underserved markets to increase the number of loans granted to underserved entrepreneurs. ● ●

The Impact

*The Minority Business Development Agency reports that the latest nationally representative data on the financing of minority firms indicates large disparities in access to financial capital. Minority-owned businesses are found to pay higher interest rates on loans. They are also **more likely to be denied credit and are less likely to apply for loans because they fear their applications will be denied.***

10. Expand access to the Small Business Investment Companies (SBICs):

- Increase the cap on the SBA guarantee to \$250 million to facilitate more financing opportunities for entrepreneurs. ● ●
- Reduce licensing requirements to allow smaller funds to participate in the program and reduce the barriers to participation. ● ●
- SBA should encourage SBIC programs to increase the diversity of board members and educate people of color to become fund managers. ● ●

11. Increase investments in federally-funded programs to include credit-building programs and products that educate business owners on how to strengthen their credit. ● ●

Why it matters

*The U.S Federal Reserve Banks published the Small Business Credit Survey - 2021 Report on Firms Owned by People of Color: Prior to the pandemic, **small businesses owned by people of color, in aggregate, faced greater challenges than white-owned firms.** The 2020 Small Business Credit Survey (SBCS) provides evidence that **the pandemic exacerbated those challenges**, an important finding as those businesses continue to weather the impact of the COVID-19 pandemic.*

By the Numbers

*According to the Kauffman Foundation, **1% of Venture Capital went to African American founders and <2% went to women in 2016.***

CALL TO ACTION

Federal

State

Local

President and Members of Congress

The President and Members of Congress should take advantage of opportunities to place significant priority on the enabling and cultivation of new and existing small businesses and other entrepreneurial endeavors, including:

1. Reviewing existing legislation and regulations to maximize entrepreneurial and small business opportunities at the federal level.
2. Using the State of the Union and other public addresses and events to highlight the importance of entrepreneurs to the American experiment and economy.
3. Asking the Congressional Research Service or Government Accountability Office to review the most significant federal regulations within select departments and agencies that affect the creation and growth of new businesses.
4. Adding “entrepreneurship” to the House Small Business Committee name. The Senate Small Business Committee was established in 1940, but in 2001, the name was changed to the Senate Small Business and Entrepreneurship Committee. The House committee should do the same.
5. Requesting that the Small Business Administration (SBA) administrator examine ways the SBA can better support Americans starting new businesses, in addition to the role the agency plays in supporting established small businesses.
6. Holding congressional hearings, including with entrepreneurs testifying, to guide the development and implementation of policies that reduce barriers to entrepreneurship.
7. Supporting federal data collection efforts to better understand entrepreneurship at a granular level in order to appropriately target national and local interventions that reduce barriers to new business creation. When able, make data public for use by state and local governments, entrepreneur support organizations, and researchers.
8. Developing a comprehensive action agenda to improve the economic environment in the U.S. for small businesses in the following months and years to come. Inherent to achieving this goal is the coordinated work of Congress through the Senate and House Small Business Committees, the administration through the U.S. Small Business Administration and the Office of Advocacy, and small-business advocacy groups.



State Leaders


State legislators and policymakers must explore opportunities to highlight entrepreneurship and small business ownership, while also leveraging their influence to reduce barriers, including:

1. Using their State of the State and other public addresses to make increasing entrepreneurship a priority by highlighting the benefits to individuals, families, and the community.
2. Reviewing the impact of existing legislation and other regulations on the creation of new businesses and the growth of existing businesses, and work to eliminate or revise them as appropriate.
3. Charging economic development agencies with making the support of new, homegrown entrepreneurs a top priority, hiring managers in city agencies who understand this priority and investing in entrepreneurs instead of prioritizing business recruitment.
4. Playing a leading role in supporting incubators, accelerators, and other entrepreneur support organizations through actions ranging from touting the vital role they play in local economic development to providing them with needed resources.
5. Building ecosystems with strong networks of entrepreneurs, including leaders of incubators, accelerators, and entrepreneur support organizations, who can help entrepreneurs across the state navigate issues related to starting a business, accessing capital, and developing talent.

Municipal Leaders

Mayors and city council members should explore opportunities to highlight entrepreneurship and small business ownership, while also looking for ways to streamline the municipal process and licensing/permitting requirements, including:

1. Convening city department leaders to review current policies and practices to ensure favorability for local entrepreneurs and small business owners.
2. Using their State of the City and other public addresses to make increasing entrepreneurship a priority by highlighting the benefits to individuals, families, and the community.
3. Conducting focus groups and town hall meetings with entrepreneurs to learn how to address barriers to starting and growing businesses.
4. Requiring a review of the impact of existing ordinances, licenses, permits, zoning requirements, and other regulations on the creation of new businesses, and work to eliminate or revise them as appropriate.
5. Examining how city contracting and procurement can support new businesses and be more entrepreneur-friendly, including among underserved areas and populations.
6. Developing and leveraging a place-based identity or brand for locally made goods and services to support local makers and entrepreneurs.



These recommendations originated from the Ewing Marion Kauffman Foundation's *America's New Business Plan* and the Small Business Majority's policy agenda with the addition of recommendations based on the Arkansas Entrepreneurship Policy Summit.

For more information about the Kauffman's America's New Business Plan
please visit <https://www.startusupnow.org/>

For more information about the Small Business Majority's Policy Agenda
please visit <https://smallbusinessmajority.org/>



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