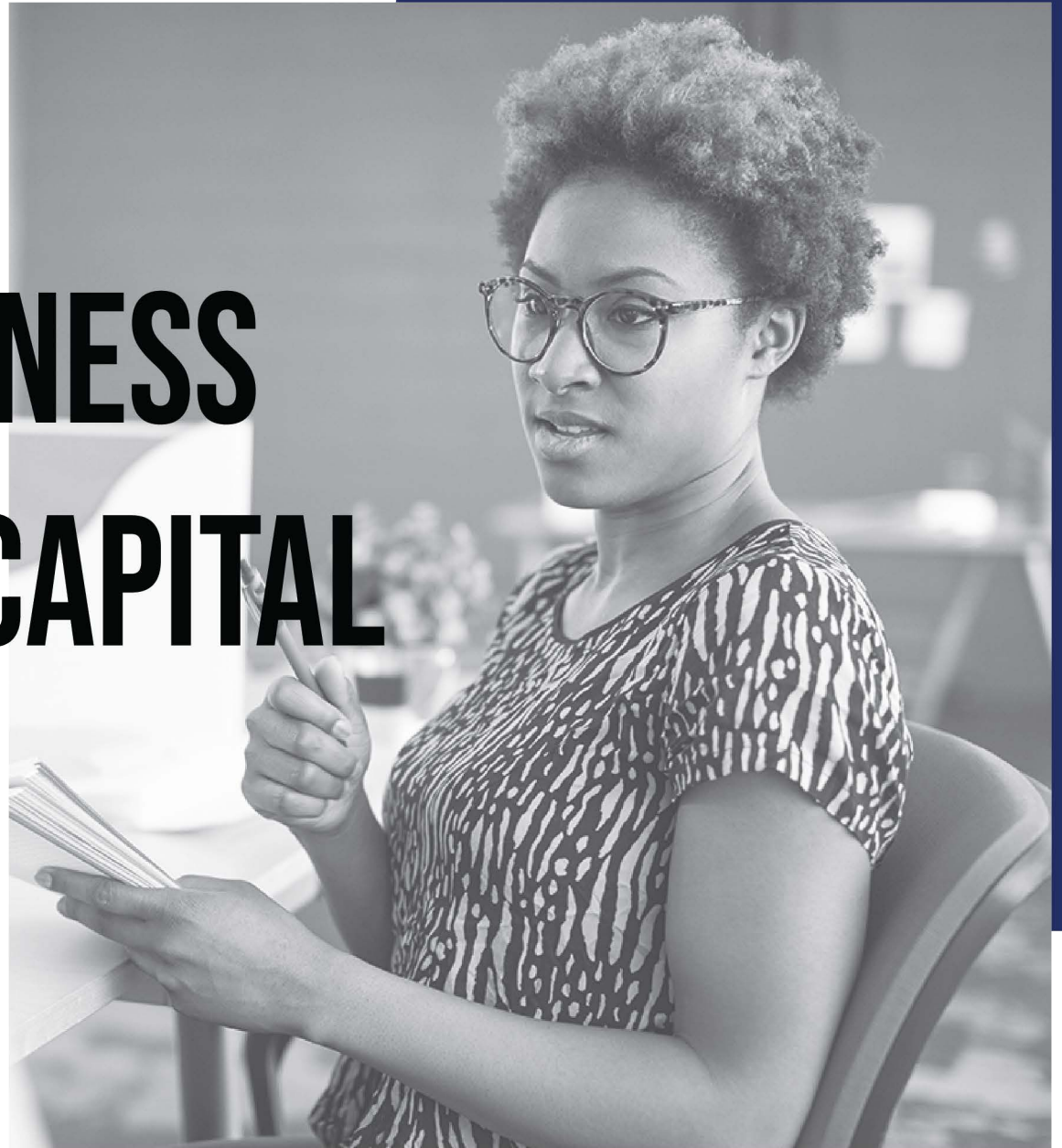


ARKANSAS SMALL BUSINESS ACCESS TO CAPITAL STUDY



Arkansas Small Business Access to Capital Study

Prepared for
Winthrop Rockefeller Foundation
Winrock International

This report was developed under contract with the Arkansas Community Foundation.

Prepared by
Precise Data Consulting, LLC

June 2019

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Disclaimer: Precise Data Consulting, LLC advises that this report was prepared in accordance with the scope of services mutually agreed upon between Precise Data and The Winthrop Rockefeller Foundation and Winrock International. The Access to Capital Survey was developed and administered by Precise Data via QuestionPro®. The report was prepared by Precise Data based on information gathered. Due to rounding some percentages total percent range between 99% and 101%.

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Executive Summary

Arkansas' economy depends on the growth and performance of its small business community. Within Arkansas, small businesses account for 99% of all establishments and hire 48% of the total workforce. Thus, the health of Arkansas small businesses is vital to the health of the economy. An economy risks collapse and higher unemployment without the presence of thriving small businesses. A flourishing small business environment depends on the ability of entrepreneurs to access funds to start their business, maintain their operations, and scale-up. Unfortunately, an entrepreneur's race and ethnicity can impact their access to funds, when compared to others with similar business performance and credit risk (Federal Reserve Bank, 2017).

The Federal Reserve Bank (FRB) recently reported that Black-owned businesses have a loan approval rate 19 percentage points lower than white-owned businesses, even though they apply at a rate 10 percentage points higher. What's more, when comparing businesses with similar credit characteristics, 40% of minority businesses received the full application amount, compared to 68% of white-owned businesses. Further, 40% of Black-owned businesses reported they had not applied for financing because 'they did not think they would be approved', compared to 14% of white-owned businesses and 21% Hispanic- and Asian-owned businesses.

Women own nearly 25% of the businesses in the United States; of those, almost half (47%) are minority women-owned. These businesses generate over \$1.8 trillion in sales and employ almost 9 million people (Women Business Enterprise National Council, 2018). Arkansas's percentage of women-owned businesses is 34%, higher than the national average. However, for business funds, women business

owners are less likely to seek financing and more likely to use credit cards; whereas men business owners are more likely to seek financing and use equity investors (SBA, 2019).

The federal government spends nearly \$105 billion a year in contract dollars, awarding 23% to small businesses. Yet in 2016, minority-owned small businesses received only 5% of Prime Contracts, and 10% were awarded to women-owned small businesses (SBA, 2019). This report offers insight into the reality of Arkansas small business owners, of their experiences in accessing capital to start and grow their business and doing business with the government.

Overall, the key findings show:

Minority small business owners rely on personal funds more than financing.

- In Arkansas, nearly 75% of minority entrepreneurs depend on personal cash and funds to finance their businesses, compared to 55% of white entrepreneurs.
- In the last 3 years, minority business owners applied for lending at a disproportionately lower rate than white business owners, yet were denied lending at a higher rate.
- Across business owners of all races and ethnicities, the primary reasons for denied lending were lack of collateral and low credit score.

Women-owned businesses seek funding at a lower rate than men-owned businesses.

- Women sought start-up capital at a rate of 10 percentage points lower than men.
- More women than men reported not applying for financing out

of fear of being denied because of concerns with credit history.

Minority business owners feel traditional lending institutions do not support them or cater to their individual needs.

- Compared to white-owned businesses, minority business owners reported not feeling supported by financial institutions at a disproportionately higherrate.
- During focus groups, many minority business owners reported discontent with traditional banks perpetuating a cold, intimidating culture.

Public financing programs like the U.S. Small Business Administration are making limited investments.

- Between 2015 and 2019, Arkansas small businesses received nearly \$1 billion in financing through the

SBA 7(a) program. Only 1.2% (\$12M) of these investments supported Black-owned businesses, and 1.8% (\$18M) supported Hispanic-owned businesses.

Arkansan small business owners lack the knowledge on how to compete for government contracts.

- In Arkansas, most small business owners have little or no knowledge about government contracting.
- Half of small business owners (50%) are either unaware they can compete for government contracts or are uncertain of the process.

Introduction

As of 2018, Arkansas has approximately 247,000 small businesses (Small Business Administration (SBA) Office of Advocacy). Minority business owners, which include people who identify with all races and color other than white, own about 15% (36,000) of small businesses. Almost one third of small businesses are owned by women (32%, or 79,000). Small business growth continues to increase, creating jobs, adding employers to the workforce, and generating millions of dollars to the economy.

Nationally, the number of small businesses is projected to continue increasing, gaining a greater share of total businesses. A small business's ability to provide jobs is an indicator of its growth and sustainability. However, in Arkansas, minority small businesses employ an average of 7 employees, whereas white-owned small businesses employ an average of 10 employees (U.S. Census Bureau's American Community Survey, 2017). Access to capital is a major factor in a business's ability to create jobs in their community. Thus, lacking access to capital can interfere with a business owner's ability to grow and sustain their businesses.

National studies have shown unequal treatment of loan applications, where minority businesses request access to capital and receive disparate approvals. According to the National Minority Supplier Development Council (NMSDC), "[the] minority business community generate[s] significant economic benefits for not only the local communities in which they exist, but also the nation as a whole." As minority-owned businesses continue to grow, the ability of those business owners to access capital will remain critical to the formation, advancement, and sustainability of their businesses. A survey conducted by the U.S.

Department of Commerce in 2002 reported that if minority business owners had obtained economic parity, they could have potentially impacted the U.S. economy by as much as \$2.5 trillion, and created as many as 16.1 million jobs. When the survey was conducted again in 2007, minority-owned businesses had increased by 55%, and gross receipts grew to \$1 trillion. However, the gap in parity also increased, indicating these businesses did not reach the economic potential at the rate comparable to the number of minority small business owners. In 2012, NMSDC surveyed 456 certified MBEs (Minority Business Enterprises) and found that 71% of them did not have, or have never had, an outside investor; and that as few as 2 out of 5 (39%) businesses that applied for financing were approved. The other 60% encountered barriers that prevented them from receiving loans and/ or lines of credit.

Along with funding sources like external investments, bank loans, and lines of credit, government contracting was examined by the Minority Business Development Agency (MBDA) by reviewing 100 disparity studies, reports, and summaries. The imbalances in government contracting revealed a 78% disparity ratio between minority and white business owners. The review further revealed that minority business owners "typically secure[d] a lower number and dollar amount of contracts in proportion to the number of available MBEs."

NMSDC projects that by the end of 2044, minority-owned small businesses will account for more than 50% of the entire labor market. Yet, lending discrimination harms minority business owners, impacts employment growth in minority communities, and produces long-term economic effects. As previously stated, 15% (36,000) of Arkansas small businesses are minority-owned. Thus, unequal capital access could

stifle the growth of thousands of businesses and households, and prevent economic advancement of communities across the state.

Similar to the national studies, micro-level disparity studies have been conducted in many large cities like Atlanta, GA; Cincinnati, OH; St. Louis, MO; Philadelphia, PA; Charlotte, North Carolina; Minneapolis, Minnesota; and more. However, prior to this report, no known study has focused specifically on the disparities that exist in the state of Arkansas.

Precise Data Consulting, LLC partnered with The Winthrop Rockefeller Foundation and Winrock International to carry out an in-depth investigation to (1) understand the factors and barriers to capital access and (2) the disparities that impede the growth of minority-owned businesses in Arkansas. The focus of the study resembled previous research performed at the national, state, and city levels. This study used a mixed methods research approach to triangulate secondary data with primary data; like survey, focus group, and case study data used to lead the dialogue concerning the economic inequities and need for equitable investments in the growth of all small business in the state.

The basis of this study was guided by the following research questions:

1. What factors create barriers and cause disparities in access to and full participation in lending and business capital programs?
2. What factors create barriers and cause disparities in full participation in government (federal, state, city, county) contracting opportunities?
3. What barriers do MBEs encounter to fully participate and be included in business opportunities, i.e., financial capital growth, private and venture capital funds, and business-to-

business transactions?

4. What are the barriers, advantages, and disadvantages to the State of Arkansas M/WBE certification process?
5. To what degree have local financial institutions supported the advancement of minority-owned businesses and their access to capital?

Methodology

Precise Data implemented a mixed method approach to examine inequities in access to capital for Arkansas small business owners. The approach included quantitative and qualitative data analyses of information gathered from primary and secondary sources. The collection of primary data occurred in three phases: Phase I: Access to Capital Survey; Phase II: Focus Group Sessions; and Phase III: Case Studies. Analysis of secondary data was performed after the primary data collection phase to highlight consistencies or inconsistencies in how access to capital is perceived by small business owners.

Phase I: Access to Capital Survey

Precise Data developed a survey to discover feedback from small business owners across the state regarding their experience with access to capital. The survey was administered via an electronic survey tool called QuestionPro®. Participation in the survey phase of the study was opened to small businesses in the state. No exclusions were applied. The survey was open for a total of 8 weeks to allow interested business owners ample opportunity to participate.

Phase II: Focus Groups Sessions

Five (5) 90-minute focus groups were conducted to gather

a deeper insight into the experiences and barriers to accessing capital for minority business owners and women business owners. Precise Data strategically sectioned Arkansas counties into five regions to achieve data collection across the state. Participants were selected to attend the focus group in their region using a first-come-first-serve strategy for those who met the criteria of owning a small business in Arkansas.

Phase III: Case Studies

Precise data selected five (5) business owners to participate in the case study phase. These case study participants were selected by the researchers from the pool of business owners who participated in

the focus group phase. The purpose of the case studies was to capture the unique stories and experiences of selected minority business owners and women business owners.

Phase IV: Analysis of Secondary Data

Precise Data assessed secondary loan data from the Arkansas District Office, Small Business Administration. Data provided showed the number of loans and amount by business owner characteristics over a 5-year span from 2015 to 2019.

Data collected in each phase of the study was analyzed and results are presented in this report.

Section I: Access to Capital Survey

Over 3,000 small business owners from around the state of Arkansas were invited to participate in the first phase of the Access to Capital study. Business owners were asked to respond to a set of closed-ended questions designed to gather their feedback and opinions about their experiences with lending institutions, business certifications, and government contracting. The survey was administered electronically using QuestionPro® software. Business owners received notifications via email, social media, and SMS messaging platforms.

Data Collection

In all, 307 business owners responded to the Arkansas Small Business Owners' Access to Capital Survey. A total of 73 participants did not complete the survey in its entirety and three responses were disqualified or eliminated. The final count for analysis included 231 (75%) responses. A 2 x 2 cross-tabulation method was used to analyze comparisons and relationships between race, ethnicity and gender. Two categories of race and ethnicity—minority and white—were used to examine gaps in experiences between business owners of different racial and ethnic groups. The first category were business owners who identified with the following racial and ethnic backgrounds: Asian, Black/African American, Hispanic/Latino, Native Hawaiian/ Pacific Islander, and Other. The second category were business owners who identified as white. Gender was categorized as female versus male.

The survey consisted of 39 closed-ended questions, such as force choice, rating scales, and multiple selection type questions. The survey also included one open-ended item. Questions were

grouped into four sections: business financing, certifications, government contracting, and demographics. Responses were summarized and the aggregated results are presented in this report.

Respondents

Exhibit 1. Location of respondents by county.

Small business owners from 36 out of 75 counties (or 46%) were included in the final analysis.

Pulaski county had the largest number of respondents with 83 (40%) participants.

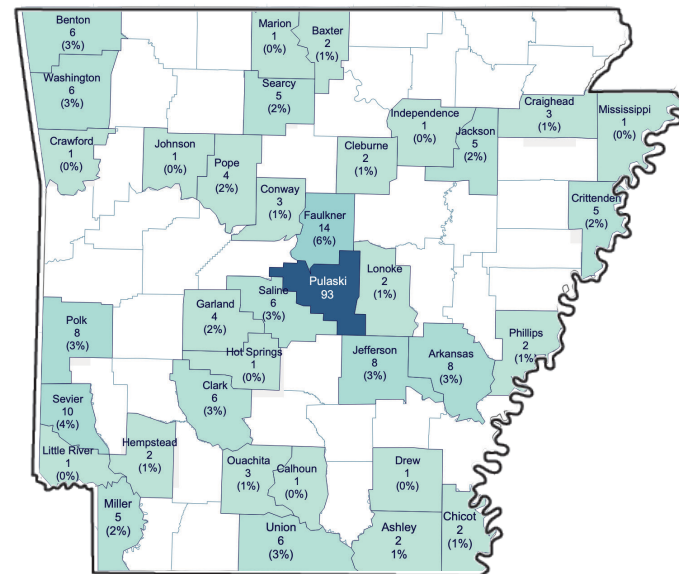


Exhibit 2. Race/Ethnicity and gender.

Total Minority: 135 (58%)
 Female = 83
 Male = 52
 Total Female: 141 (61%)
 Minority = 83
 White = 58

Total White: 96 (42%)
 Female = 58
 Male = 38
 Total Male: 90 (39%)
 Minority = 52
 White = 38

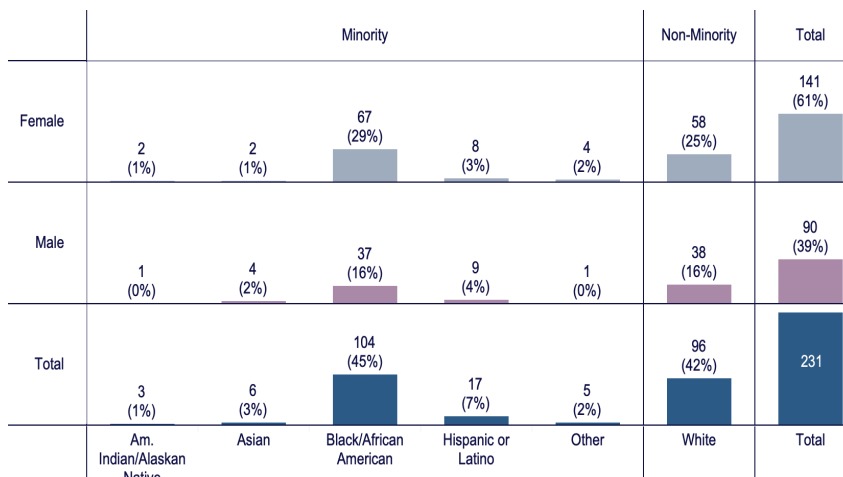


Exhibit 3. Type of business structure.

- Ninety-two percent (92%) of respondents own a for-profit business.
- As many as 46% own a business that is structured as a limited-liability company or partnership, followed by 20% sole-proprietorships.

	For Profit		Not For Profit		Total	
	Count	Percent	Count	Percent	Count	Percent
Corporation	27	12%	7	3%	34	15%
Limited Liability Company/ Partnership	107	46%	---	---	107	46%
Nonprofit	---	---	6	3%	6	3%
Partnership	1	0%	1	0%	2	1%
S-Corporation	34	15%	1	0%	35	15%
Sole Proprietorship (dba)	43	19%	3	1%	46	20%
Tribal Unincorporated	1	0%	---	---	1	0%
Total	213	92%	18	8%	231	100%



Exhibit 4. Years in business by number of full-time employees.

- A majority of the respondents have either been in business 10 years or more (35%) or less than 3 years (34%).
- Most respondents (76%) reported having between 1 to 10 full-time employees.

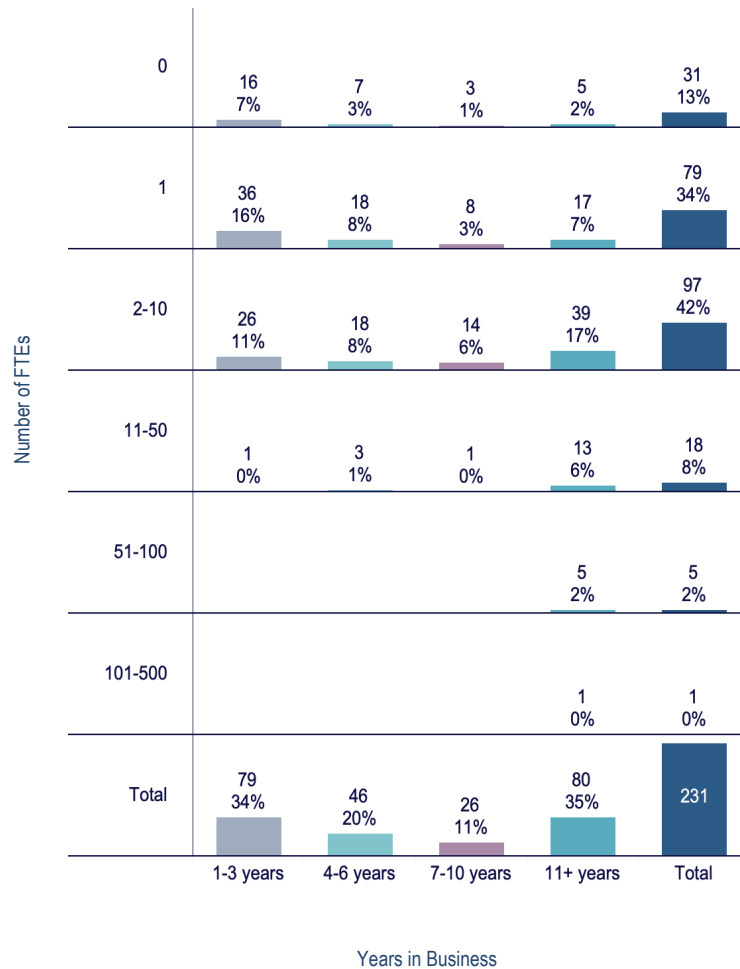
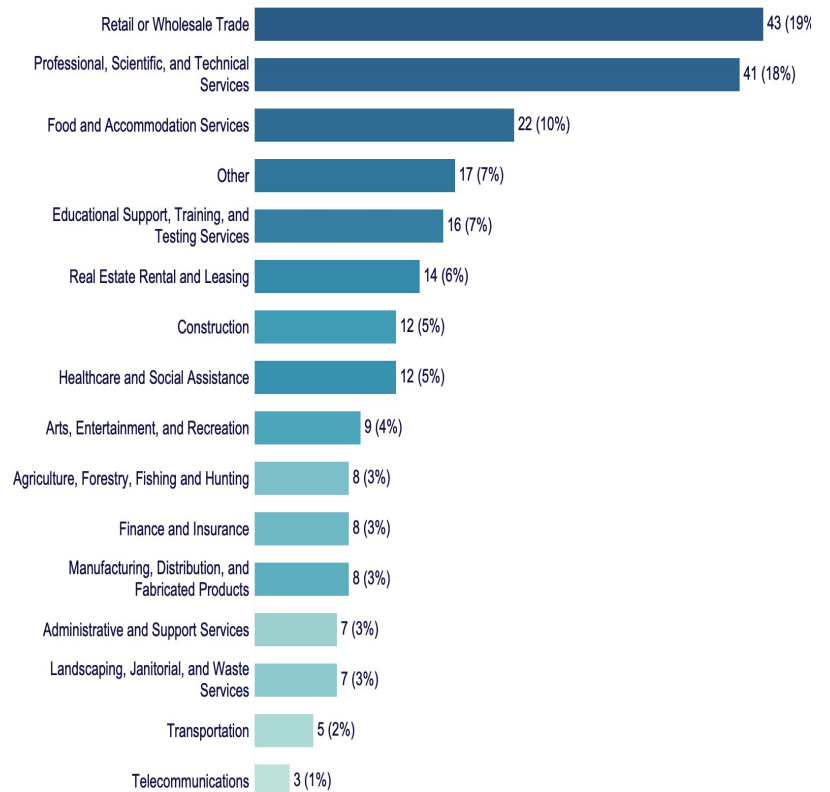


Exhibit 5. Business industry or sector.

- Respondents from over fifteen (15) different industries or sectors were represented in the survey results.
- Business owners from the retail or wholesale trade industry had the highest number of respondents (19%), followed by respondents from professional, scientific, and technical services (18%).



Business Financing

Exhibit 6. Financing options used during first three (3) years of startup.

- Majority of small business owners used personal cash from savings, stock, investments, earnings, tax refunds, etc. to help fund their business during the first three (3) years of startup.
- Minority business owners and white women business owners have relied on earnings to finance their business at a higher rate than white men.
- Approximately one-third of small business owners tended to rely on credit cards as a finance option.
- White business owners used bank loans as a financing option during the initial startup phase at a higher rate than minority business owners.

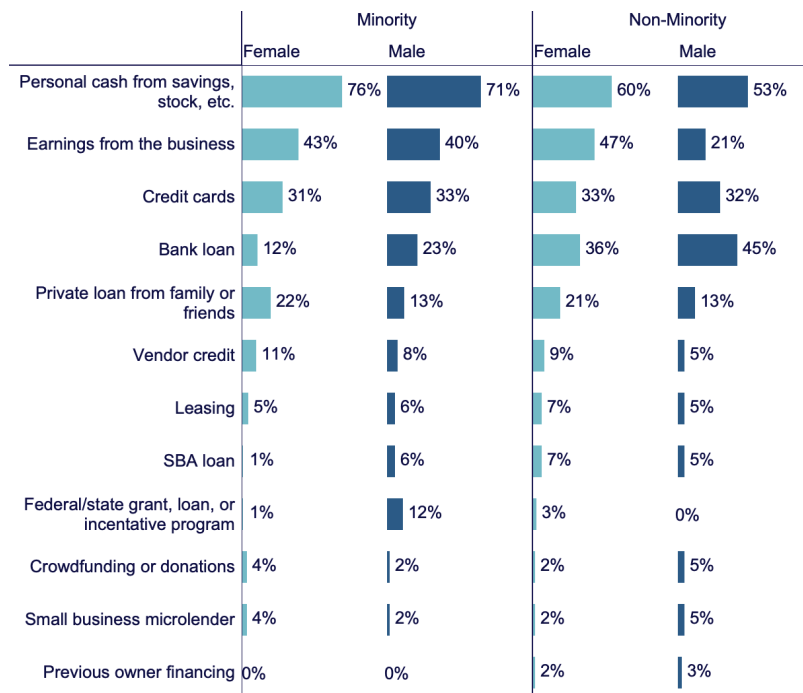


Exhibit 7. Number of times applied for a loan or line of credit in last three (3) years.

- In all, 98 (42%) of the respondents reported they had not applied for a loan in the last three years.
- When comparing by race/ethnicity and gender, male (46%) and female (54%) minority business owners have applied for a loan or line of credit at a lower rate than their white counterparts (63% and 82% respectively).
- For those who have applied, men were more likely than women to seek lending services.
- White male business owners applied for more loans (82%) over a three- year span than any other group.

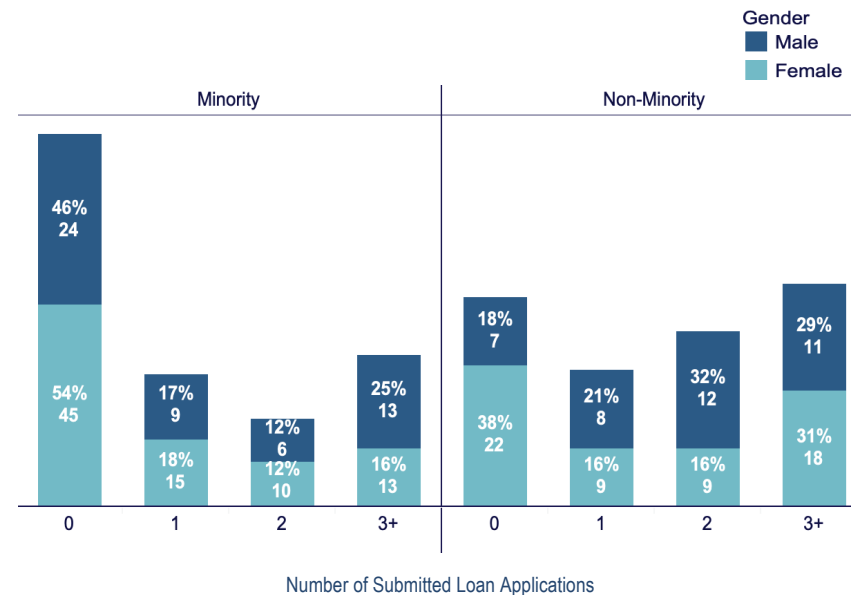


Exhibit 8. Primary reason for not applying for a loan or line of credit.

- The primary reason 42% of the small business owners have not applied for a loan or line of credit in the last 3 years is because they did not have a need for one.
- For many minority women business owners, concerns regarding their credit history interfered with their willingness to apply for lending assistance.
- Other reasons include:
 - not knowing how,
 - not wanting the debt or payment, and
 - low profit margins.

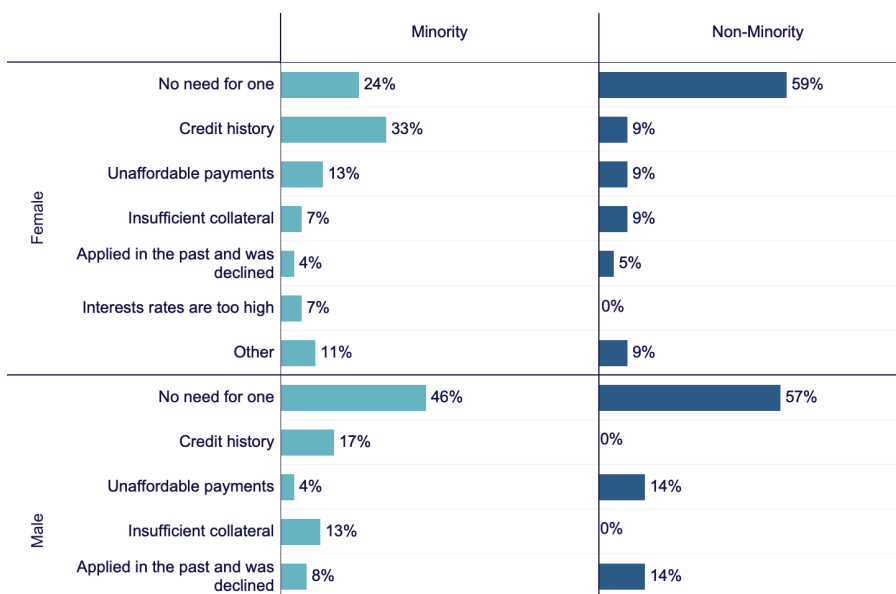


Exhibit 9. Type of lending source used to apply for loan or line of credit.

- A traditional bank is the type of lending source most small business owners have accessed when applying for a loan or line of credit.
- Nearly 20% of small business owners have applied for lending assistance via an online or out-of-state lender.
- A small percentage of business owners have also applied for financial assistance via credit cards, Community Development Financial Institution funds, or credit union.

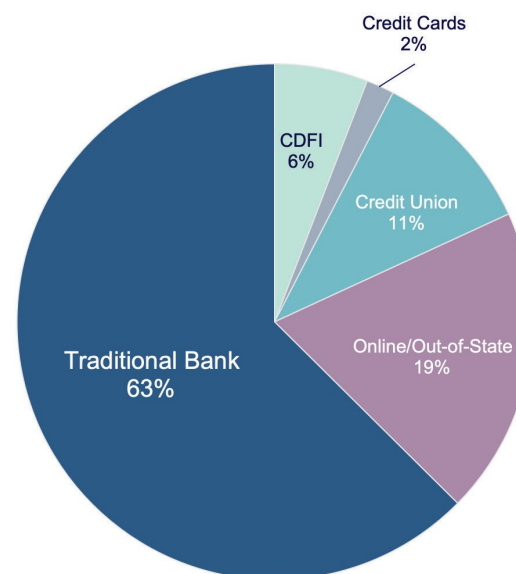


Exhibit 10. Approved or denied a loan or line of credit in the last three (3) years.

- Minority business owners reported being denied a business loan or line of credit at a higher rate than white business owners.
- Likewise, white business owners report being approved for a loan or line of credit at a higher rate than minority business owners.
- The rate of approval for lending services for men and women were similar within their respective racial/ethnic group.

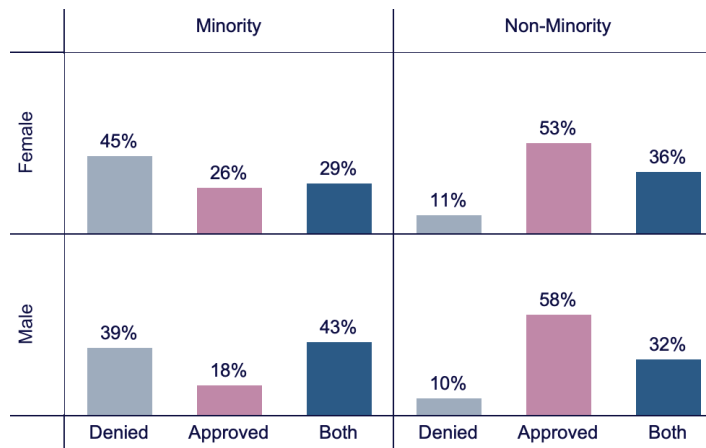


Exhibit 11. Experience with lending process.

- More minority women business owners have unsatisfactory experiences in every aspect of the lending process compared to every other groups of business owners.
- Interest rates and fees, payment terms, and loan closing were the top three elements that business owners rated unsatisfactory to satisfactory.
- White male business owners reported better experiences (good to outstanding) with the lending process than minority business owners and white women business owners.

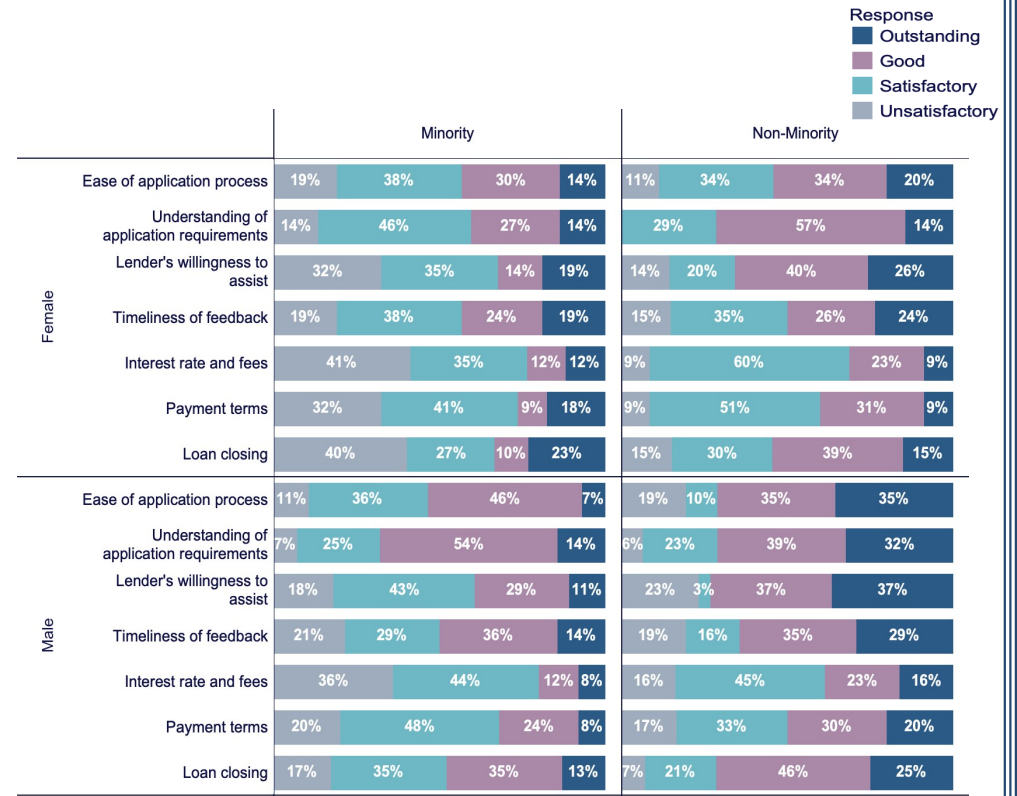


Exhibit 12. Impact of receiving loan or line of credit.

- Seventy-one percent (71%) of small business owners indicated that the #1 benefit of receiving lending assistance was provision of working capital.
- Access to capital enables many business owners to purchase needed equipment (45%) and inventory (34%) as well as establish business credit (22%).

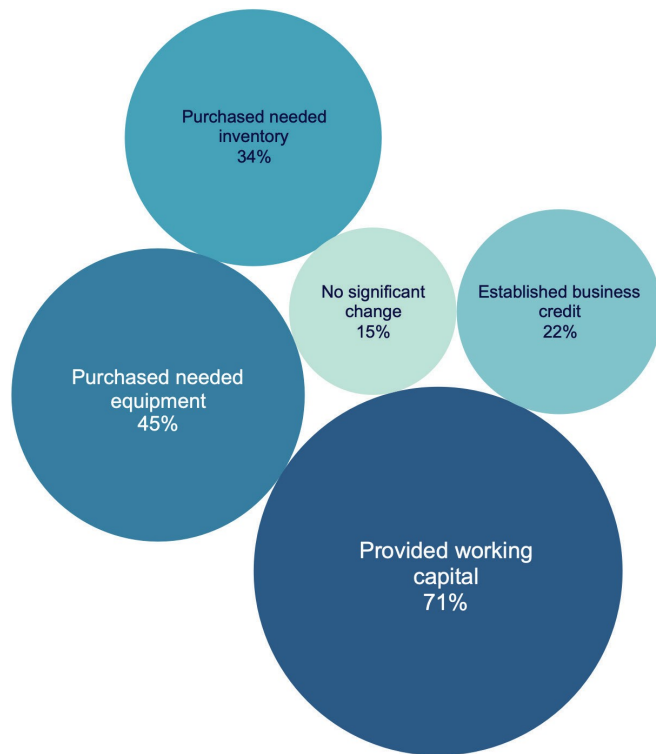


Exhibit 13. Impact of not receiving loan or line of credit.

- The top 5 adverse impacts of not receiving loans or line of credit include:
 1. insufficient operating capital (71%),
 2. inability to compete on a higher scale (57%),
 3. inability to expand products or services (56%),
 4. inability to purchase needed equipment (49%), and
 5. inability to grow workforce as needed (49%).

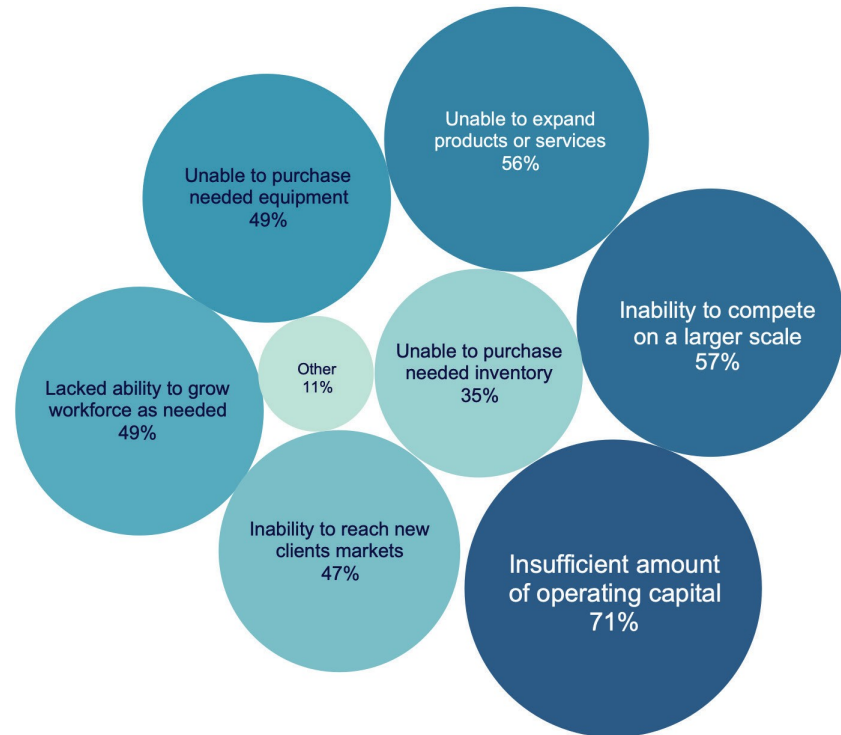


Exhibit 14. Primary reasons loan was denied.

- For many minority business owners, not having enough collateral seemed to be one of the primary reasons their loan was denied.
- Low credit score and length of time in business seemed to be an issue for all small business owners, regardless of race or gender.
- Other reasons provided by the respondents were:
 - not being recognized as a viable business,
 - marital status (single),
 - high debt to income (DTI) ratio, and
 - politics.

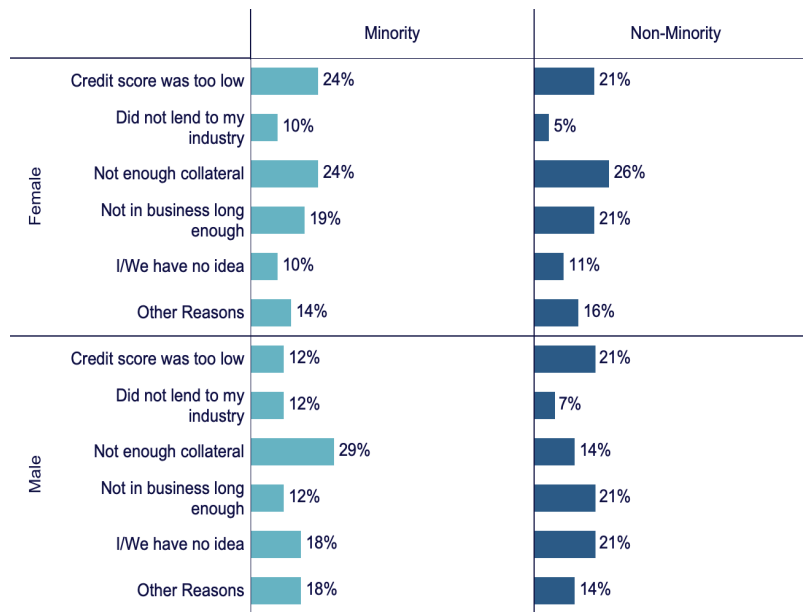


Exhibit 15. Overall perception of lending sources.

- Across all groups, online lenders had the highest rating of very unfavorable perceptions of lending sources.
- White business owners report an overall better perception of Arkansas Small Business Administration (SBA), Community Development Financial Institutions (CDFI), credit unions, and traditional banks than minority business owners.
- For minority business owners, the top lending sources that were rated very or mostly favorable were Arkansas SBA and CDFIs.

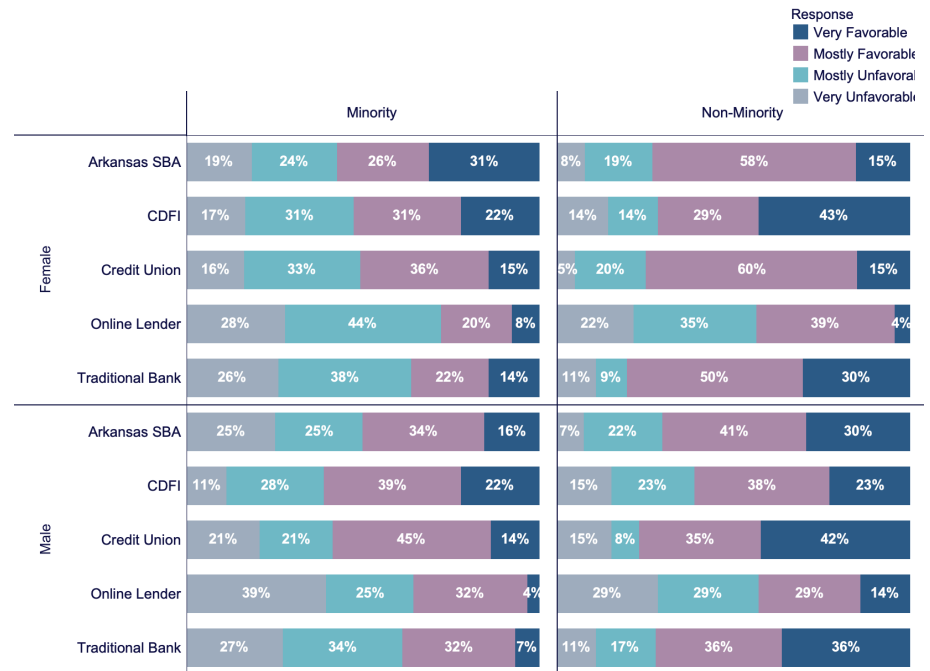


Exhibit 16. Level of support felt from financial institutions related to financial needs.

- When it comes to feeling supported by financial institutions for their financial needs, minority women business owners reported the highest rating of feeling not at all supported.
- White male business owners had the highest favorable rating of feeling very supported and somewhat supported by financial institutions.
- In both categories, male business owners feel more supported by financial institutions compared to their female colleagues.

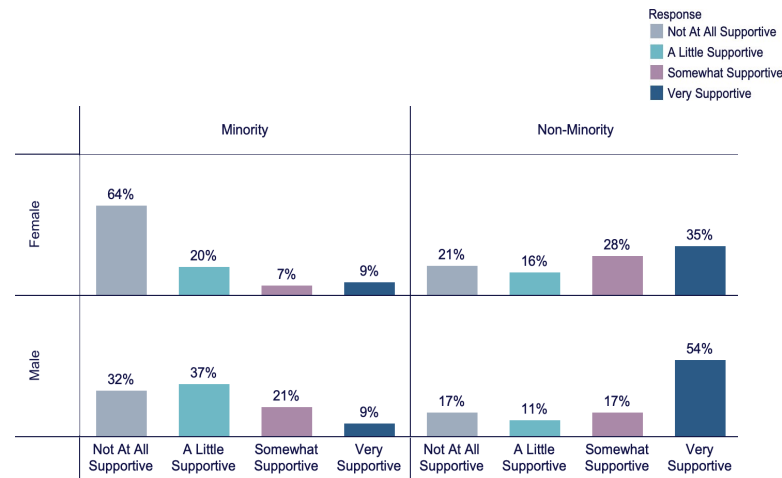


Exhibit 17. Level of knowledge regarding funding sources.

- In general, most business owners admit to not knowing much about the different business funding sources.
- Minority business owners report knowing more about angel investors than white business owners; whereas white business owners report knowing more about traditional lending institutions than minority business owners.
- Male business owners report being more knowledgeable about funding sources, such as cash value of insurance, CDFIs, and debt financing, compared to female business owners, who reported feeling less knowledgeable.

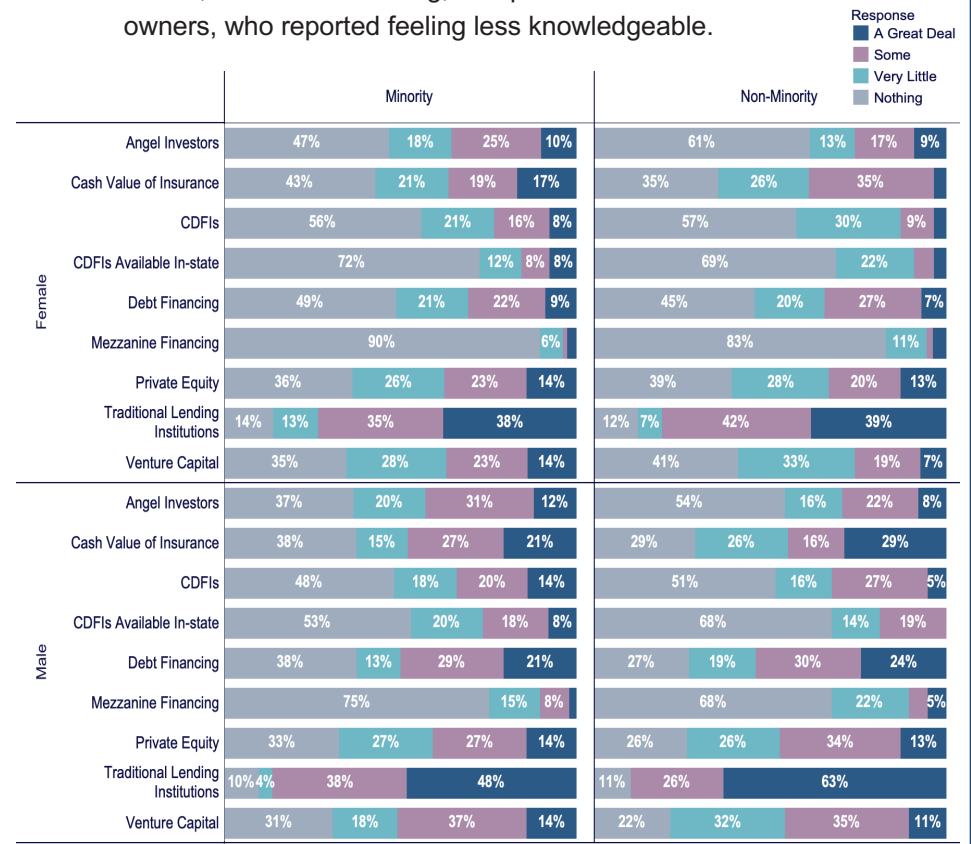


Exhibit 18. Types of business investors.

- Across all groups, many small business owners in Arkansas do not have business investors.
- For those who have, or have had, an investor, their friends and family tended to be the most utilized type of investors.
- The types of investors least often involved are angel, individual, private equity and venture capitalist.

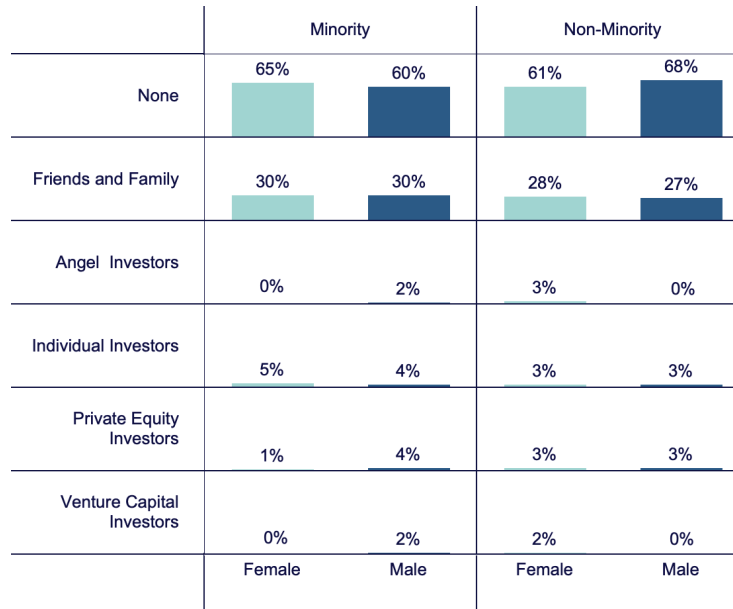
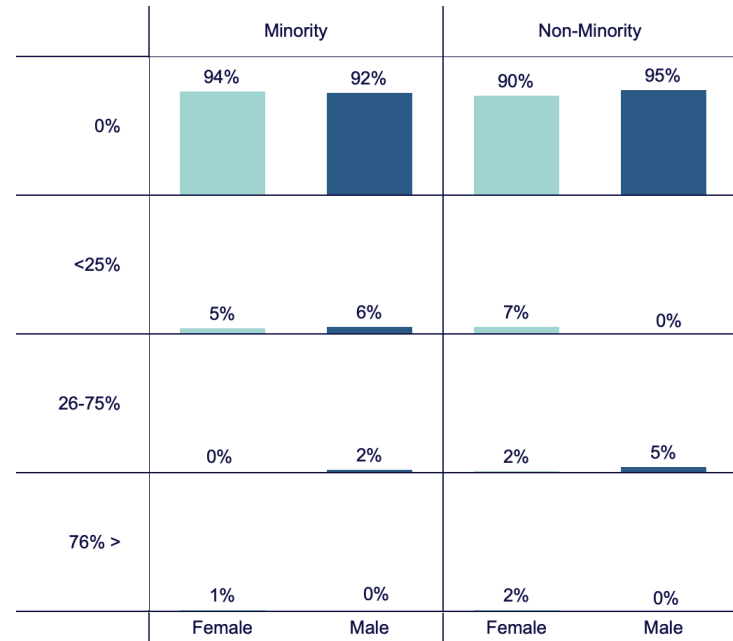


Exhibit 19. Percent of ownership of outside investor.

- A majority of small businesses (regardless of race/ethnicity) do not include ownership from outside investors.
- For small businesses with outside equity investors, the percentage of ownership tends to be less than 25%.
- A few business owners reported equity investors with ownership of 26% or greater.



Certifications

Exhibit 20. Impact of lack of capital on aspects of the business.

- In general, minority business owners reported experiencing adverse impacts from lack of capital at a significantly higher rate compared to white business owners.
- Minority women business owners appear to be adversely impacted the most by lack of capital.
- Comparatively, lack of capital does not appear to adversely impact white male business owners' ability to offer competitive pricing, quality product/services, or build successful partnerships.

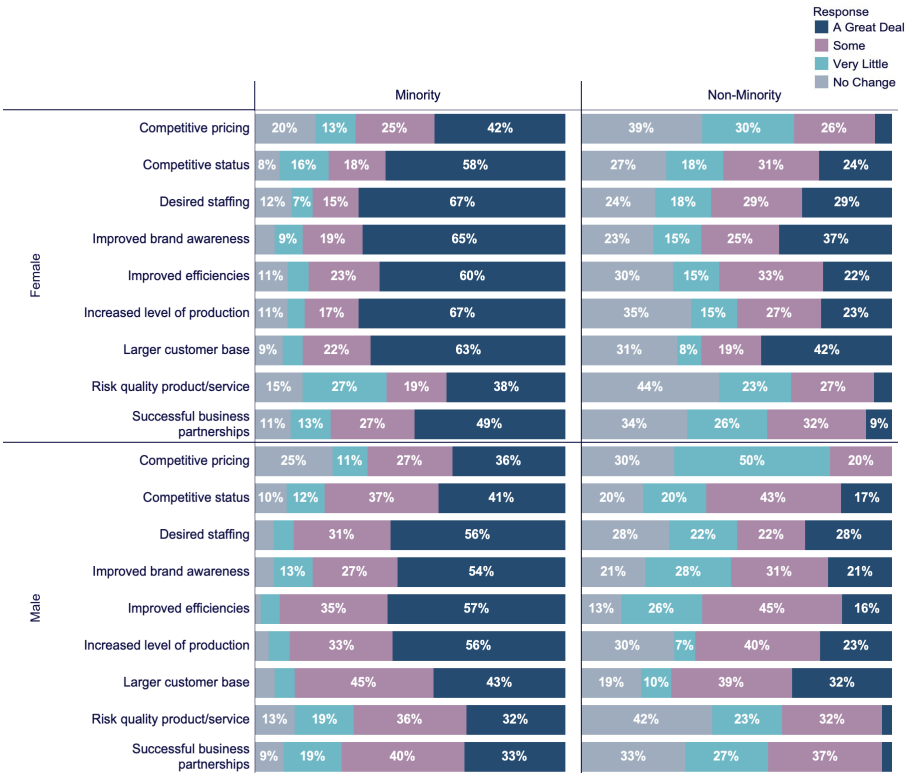


Exhibit 21. Knowledge of benefits of and process for certifications.

- White male business owners appeared to have the least amount of knowledge about the process and benefits of Socially and Economically Disadvantaged Business Enterprise (DBE) or Minority and Women Business Enterprise (MWBE) certifications, which may be because many of the certifications are not applicable to them.
- Male minority business owners appeared to be the most informed about DBE and MWBE certification benefits and process.

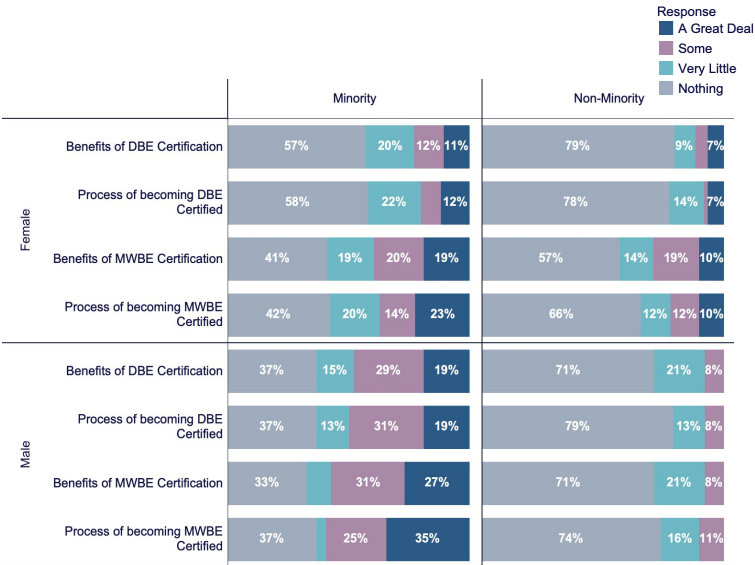


Exhibit 22. Eligibility for certifications.

- Fifty-one percent (51%) of the respondents indicated their eligibility for minority-owned and women-owned business certifications.
- Twelve percent (12%) indicated their eligibility for socially or economically disadvantaged and veteran owned status.
- A small proportion of business owners indicated their ineligibility or uncertainty regarding eligibility to become certified.

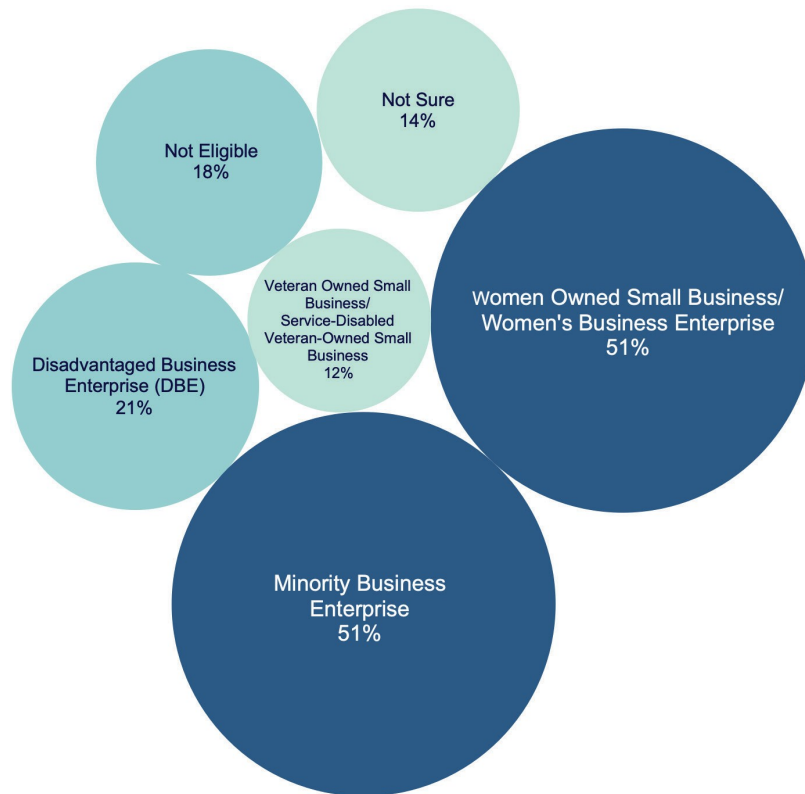


Exhibit 23. Certifying bodies or agencies.

- A total of 60 businesses indicated receiving a certification from one or more certifying body or agency.
- Most business owners (74%) do not have any certifications.
- Seventeen percent (17%) (39 business owners) who responded to the survey are certified through the Arkansas Economic Development Commission (AEDC).
- Other certifying bodies or agencies include the SBA, National Minority Supplier Development Council, Arkansas Department of Human Services, Arkansas Department of Transportation and U.S. Department of Veteran Affairs.

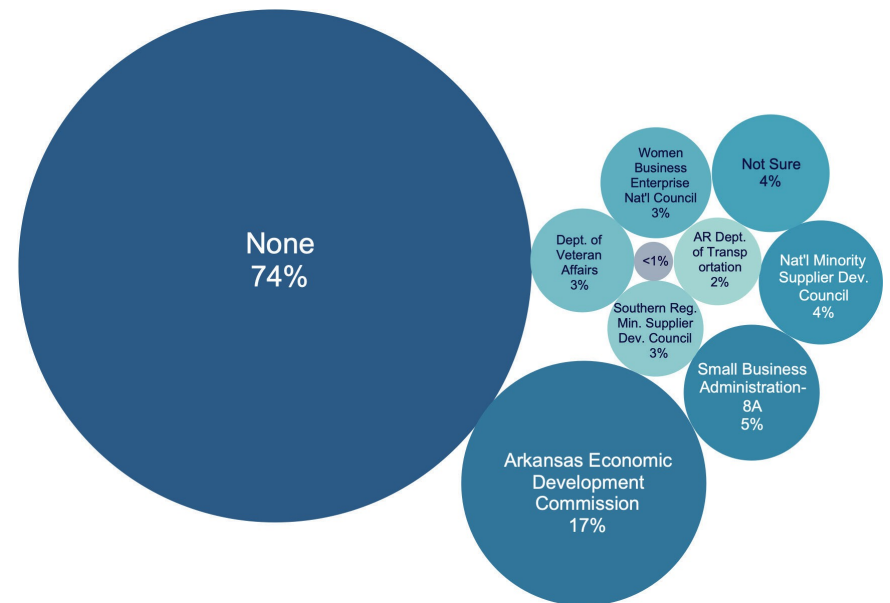


Exhibit 24. Extent certification assisted in achieving business goals.

- Most small business owners reported little benefit from certification helping them achieve their business goals, where the certification was reported beneficial to a small extent or not at all.
- A small percentage of minority small business owners (male (17%) and female (15%)) believe their certification assisted them in achieving their business goals to a large extent.

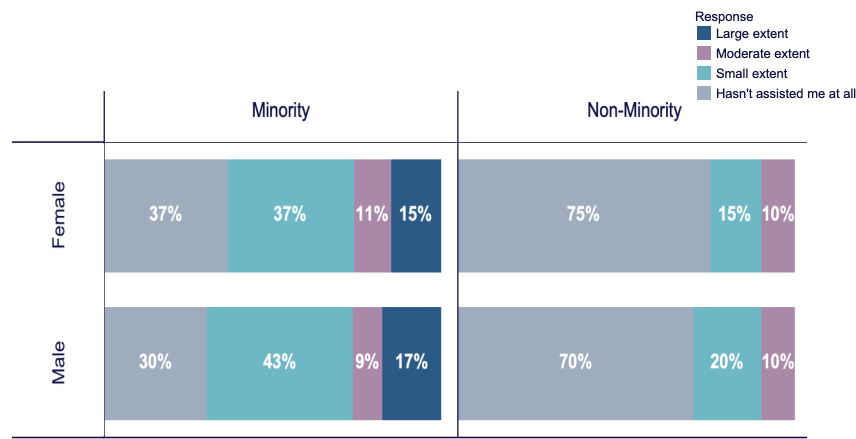
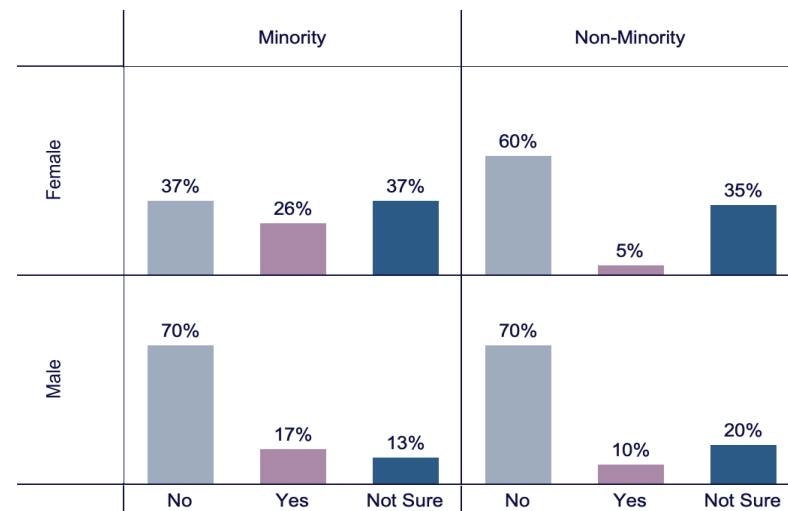


Exhibit 25. Impact of loss of certifications on ability to retain current customers.

- When asked whether the loss of certifications would jeopardize their ability to retain current customers, most male business owners (70%) and many white women business owners (60%) indicated it would not impact them.
- Minority women business owners showed the highest ratings indicating that they felt losing certification would adversely impact their ability to retain current customers.
- More women than men were unsure of how the loss of certifications would impact their customer retention rates.



Government Contracting

Exhibit 26. Primary reasons business is not certified.

- The primary reason most small businesses are not certified is because business owners admit that they are unsure of what to do or unaware of the process involved.
- At a higher rate than all other groups, minority women business owners reported low profit margins as their secondary reason for not being certified.
- Not being in business long enough was one of the top three reasons as to why a business was not certified.

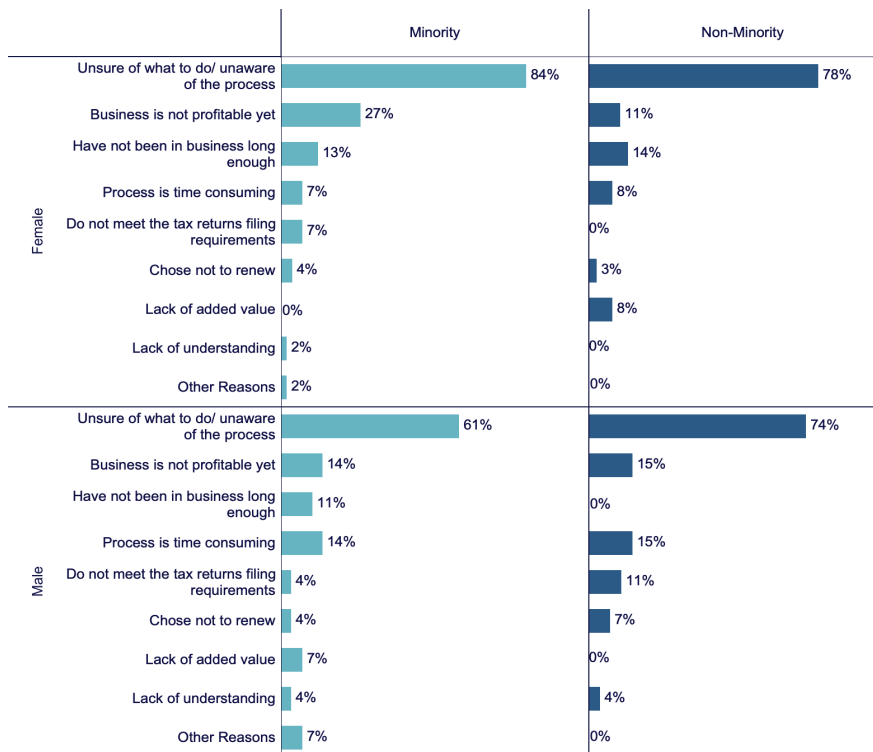


Exhibit 27. Knowledge about government contracting.

- Many male minority business owners indicated they have some to a great deal of knowledge about how to compete for government contracts, as well as how to comply with the terms once awarded, more-so than their white counterparts.
- More white women business owners reported knowing nothing about government contracting, compared to other groups.
- In general, when it pertains to small businesses, minoritized respondents indicated higher levels of knowledge about government contracting than white respondents.

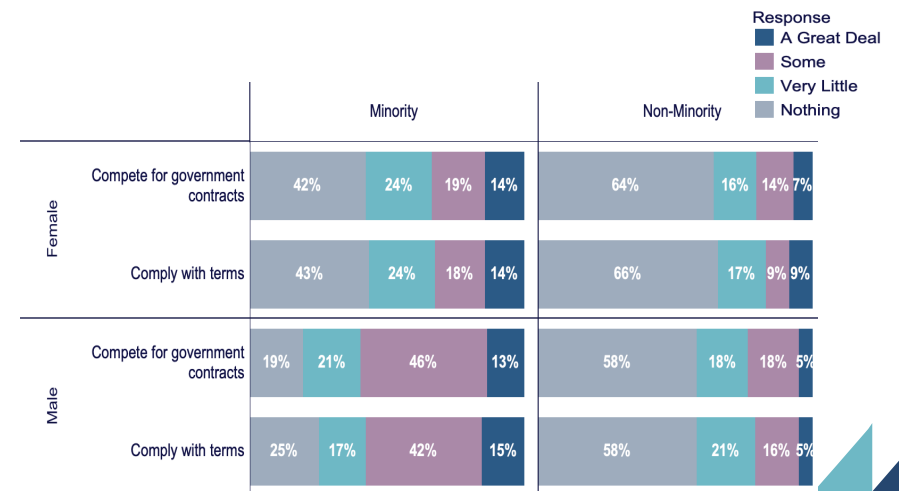


Exhibit 28. Percent of business owners who have submitted a bid.

- Most of the small business owners have never submitted a bid for a government contract.
- Minority male business owners have submitted more bids than any other group, in contrast to white male business owners reporting the lowest percentage of submissions.
- In general comparison, minority business owners indicated bid submissions at a higher rate than white business owners.

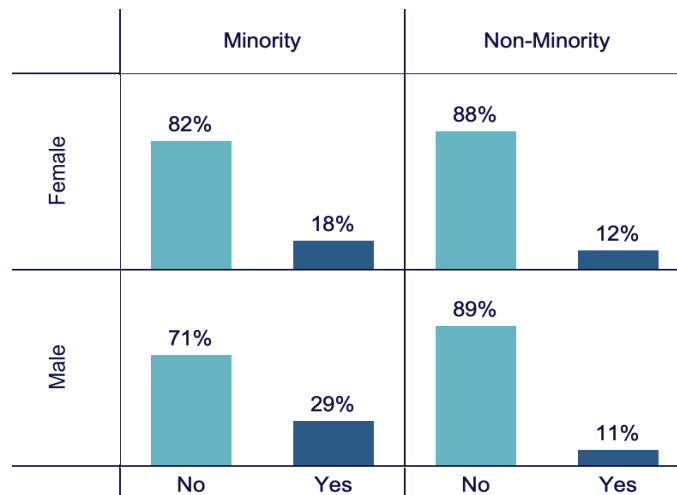


Exhibit 29. Primary reasons for not submitting bids.

- The greatest primary reason business owners indicated that they had not submitted a bid is because they didn't know they could.
- Some business owners admitted to uncertainty of how to submit a bid, as well as disinterest in working with the government.
- Some other reasons listed include:
 - not relevant to my business or my business is not the type,
 - not a primary focus for my business,
 - no bid opportunities available,
 - just getting started, and
 - not certified.

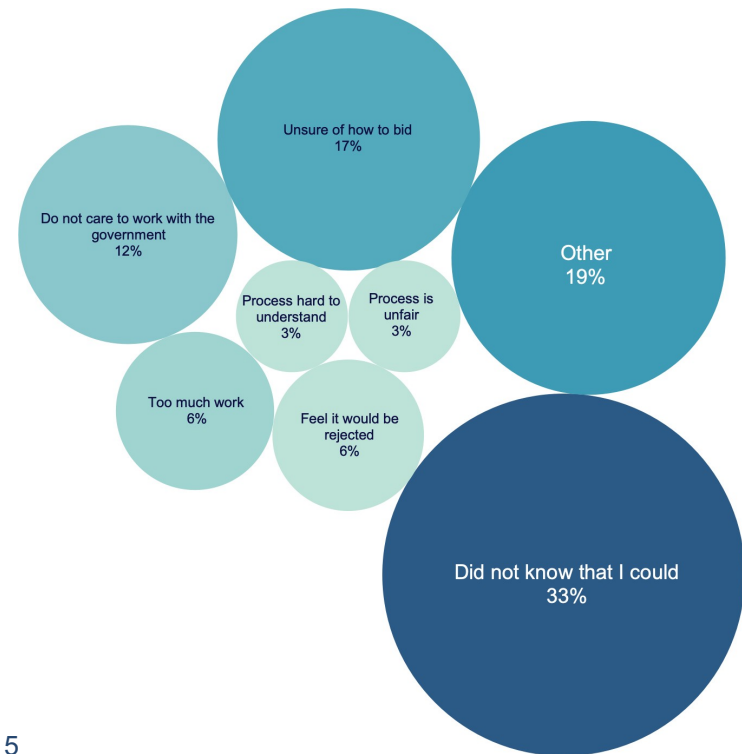


Exhibit 30. Average percent of contract awarded versus the percent of time receiving award as promised.

- Twenty-six (26) of the 231 respondents (11%) have been awarded government contracts.
- Fifteen (15) small business owners reported that, on average, they were awarded less than 96% of the contract.
- Of the 26 business owners who received government contracts, on average, 14 (54%) indicated that the frequency in which they received the contract awarded amount or work that was promised to them was between 96-100% of the time.

	On average, the percent of total contract(s) awarded	On average, how often received percentage of work and awarded amount as promised
Less than 10%	3	4
11-25%	3	1
26-50%	5	2
51-75%	2	2
76-95%	2	3
96-100%	11	14
Total	26	26

Exhibit 31. Reasons bidder was not the winning bid.

- Of the small business owners who indicated that they had not received a government contract, few reported that they:
 - did not know why they were not the winning bid,
 - their bid was not the lowest bid, or
 - they lacked the experience.

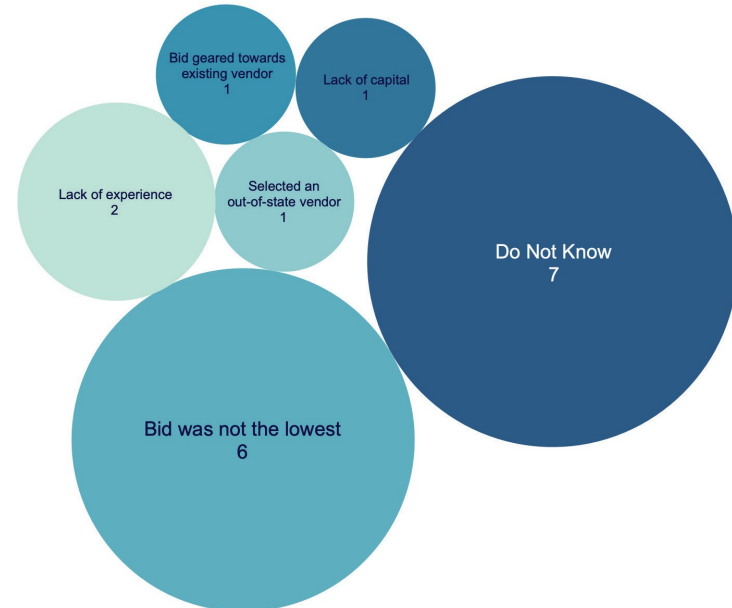


Exhibit 32. Knowledge of Arkansas-based programs.

- A majority of small business owners in Arkansas have never heard of many of the Arkansas-based programs.
- Largely, business owners have learned about programs via professional and networking groups.
- In comparison to white business owners, a higher percentage of minority business owners reported hearing about Arkansas-based incubator programs via professional and networking groups.

	Minority							Non-Minority						
	AR Dev. Finance Authority	Conductor	Delta I-Fund	Grit Studios	Innovate Arkansas	Startup Junkie	Venture Center	AR Dev. Finance Authority	Conductor	Delta I-Fund	Grit Studios	Innovate Arkansas	Startup Junkie	Venture Center
Never heard of it	69%	87%	89%	96%	64%	75%	76%	68%	90%	92%	96%	74%	84%	84%
Email List	1%	---	1%	1%	2%	5%	1%	2%	1%	1%	---	2%	1%	1%
Friend or Family Member	3%	1%	1%	---	5%	4%	1%	1%	---	1%	---	1%	1%	1%
Local Newspaper/Magazine	2%	---	---	---	---	---	---	4%	1%	1%	1%	2%	1%	1%
Professional/Network Grp	19%	10%	7%	1%	23%	13%	16%	19%	6%	5%	3%	16%	9%	13%
Radio Ad	---	---	---	---	1%	---	---	---	---	---	---	---	---	---
Social media	1%	1%	1%	1%	4%	2%	5%	1%	1%	---	---	3%	2%	---
Other	5%	1%	1%	1%	1%	1%	1%	5%	1%	---	---	2%	1%	---



Summary: Survey Results

Two-hundred and thirty-one (231) small business owners from over 15 industries responded to a survey regarding their experiences with applying for business loans (or lines of credit), certifications, and government contracts. Respondents were asked up to 39 questions, in which some questions were dependent upon their response to a previous question.

The data was collected online via an electronic survey tool and analyzed to ascertain experiential gaps between business

owners who identify as minoritized racial/ethnic groups (Asian, African American, Hispanic/Latino, Native American/Hawaiian Pacific and Other) and white business owners, and between female and male business owners.

Overall, the results of the survey revealed a number of disparities between the answers of minority respondents and white respondents, as shown in Exhibit 34 below. For a majority of the variables presented in the table, the results did not reveal considerable differences between female and male business owners' responses.

Exhibit 33. Summary of disparities in survey responses.

Variable	Minority	Non-Minority	Disparity	Female	Male	Disparity
Startup Capital:						
Personal funds/Self-funded	74%	55%	+19	68%	62%	+06
Bank loan	18%	41%	-23	24%	34%	-10
Submitted a loan application in last 3 years	50%	72%	-22	55%	68%	-13
Primary reason for not applying for a loan:						
Do not have a need for a loan	35%	58%	-23	42%	52%	-10
Concerns with credit history	15%	5%	+10	21%	9%	+12
Loan approved in last 3 years	58%	90%	-32	72%	76%	-04
Loan denied in last 3 years	78%	45%	+33	61%	62%	-01
Good to Outstanding overall loan experience	37%	57%	-20	43%	55%	-12
Favorable perceptions of:						
Arkansas SBA	55%	72%	-17	62%	59%	+03
CDFI Loans	55%	65%	-10	59%	62%	-03
Credit Unions	55%	76%	-21	58%	67%	-09
Traditional Banks	38%	76%	-38	54%	54%	0
Feel Somewhat to Very Supported by financial institutions	23%	67%	-44	40%	51%	-11
Adverse impact of lack of capital on business	75%	50%	+25	66%	68%	-02
Some to A Great Deal of knowledge about certification benefits and process	84%	25%	+59	20%	21%	-01
Moderate to Large Extent certification has assisted in achieving goals	26%	10%	+16	18%	18%	0
Would be adversely impacted if lost certification	22%	8%	-11	16%	14%	+02
Some to A Great Deal of knowledge about government contracting	92%	42%	+50	27%	43%	-16

Section II: Focus Group Sessions

During Phase II of the study, Precise Data facilitated five 90-minute focus groups to gain further insight into small business owners' experiences with access to capital. Small business owners who indicated in the survey that they would be willing to participate in a discussion regarding this topic received the initial announcement inviting them to participate in a group. Other small business owners were invited via social media or by an email notification from their local chamber or professional networking groups.

Focus group participants were invited to attend the session held within their geographical region. For the purpose of the study, the state was subdivided into five regions: central, northwest, northeast, southwest, and southeast Arkansas (see Appendix A for a list of counties by region.) Focus groups were held at the following locations in Arkansas: Hughes Community Center (Russellville), East Arkansas Planning & Development District (Jonesboro), Philander Smith College (Little Rock), University of Arkansas Hope-Texarkana (Hope), and University of Arkansas at Monticello (Monticello).

During the session, business owners were asked a series of questions about their perceptions and experiences with banks and lending services, and the challenges/barriers impacting small business communities. The session discussions were guided by four primary questions:

1. What would the ideal situation for starting a business look like?
2. What are your perceptions about the banking services in the small business community?
3. What are some of the major challenges or barriers people like you face in the small business community?
4. How could banks improve their services to the small

business community?

Dialogue from each session was transcribed, and the comments were coded using an inductive coding approach to analyze participants' responses. The emergent themes from the analyses are presented in this section.

Participants

Exhibit 34. Participant gender and race/ethnicity per session.

- A total of 38 small business owners participated in the Access to Capital focus groups.
- Each focus group averaged an attendance of 7-8 participants.
- Females totaled 22 (58%) participants and males totaled 16 (42%) participants.
- Total minority participants numbered 32 (84%), with 6 (16%) white participants.

Session	Female	Male	Minority	Non-minority	Total
Central	5	5	8	2	10
Northwest	3	1	3	1	4
Northeast	4	2	4	2	6
Southwest	5	5	9	1	10
Southeast	5	3	8	0	8
Total	22	16	32	6	38

Results

Exhibit 35. What would the ideal situation for starting a business look like?

- Two (2) themes emerged from small business owners' responses regarding an ideal situation for starting a business:
- (1) Business owners expressed the need for operating capital during startup phase to assist with hiring experts and staff, paying for marketing and advertising, purchasing inventory and equipment, and securing facilities.
- (2) Business owners would like to have access to startup programs and resources to assist them during the start-up phase, such as low interest rate loans and easier access to obtaining funding.

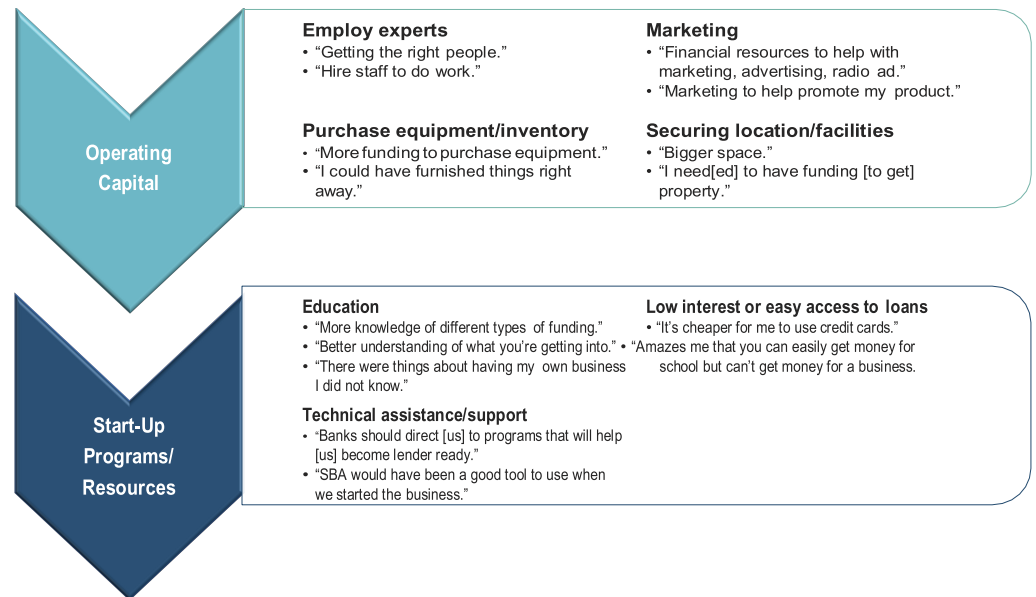


Exhibit 36. What are your perceptions about the banking services in the small business community?

- The three (3) themes that emerged from small business owners' perceptions of banking services were: (1) banks are company-centered; (2) their products and services are zero-sum in favor of the bank (one-sided), and (3) feeling dissatisfied.
- Many business owners expressed their disappointment in how the banking institutions only appear concerned with how the loan benefits the bank, and not the community.



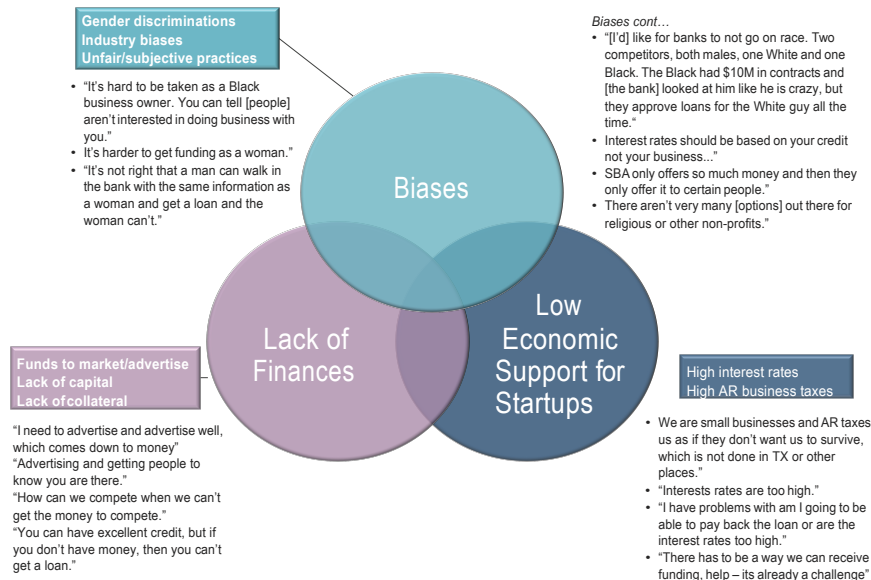


Exhibit 38. How could banks improve their services to the small business community?

- Business owners offered three (3) overarching themes for how banks could improve their services to the small business community: (1) connect with the business community; (2) offer more lending options; and (3) provide technical assistance.
- Banks can connect with the community by building better relationships, having representatives that reflect the community, looking at the bigger picture of how small businesses contribute to the economy, and showing a vested interested in the community.
- Business owners would like to see more lending options that involve incentives for startups, consideration for differences
- in how some industries generate revenue, display more objective criteria for qualification, and frequent reporting to Dun & Brad Street.
- Some expressed a need for more technical assistance from the banks to help business owners become lender ready and provide or connect them to resources, including financial literacy assistance/education.

Exhibit 37. What are some of the major challenges or barriers people like you face in the small business community?

- Many business owners admit to being confronted with biases, lack of finances, and low economic support.
- These three (3) themes overlap and can present a strong challenge or barrier for many small business owners.
- Inadequate capital causes business owners to lack operating capital needed for marketing and advertising, and sufficient collateral.
- Various biases and discriminations prevent some from accessing funding.
- Business owners are challenged with paying taxes or worrying about high interest rate loans while trying to grow.

Connect With Business Community

- Build better relationships
- Employees that represent the community
- See the bigger picture
- Show vested interest

- "Go out in the community, introduce yourself, make relationships with people and see if there is anything you can do."
- "They'll say, 'we can't let so-so business go down' because he's White, but if an African American restaurant is closing, we don't get that outreach. They don't let us know what is available."
- "Stop looking at us as a number. See the individual or what [we're] trying to create and get accomplished."
- "Have faces the represent the community."
- "I wish the banks would look at themselves as investors and not owners. We are investing into what the community needs."
- "Look at economic perspective and economy as a whole. Don't just go off numbers, but look at the unique situations. Treat us like human beings."
- "Banks need to know what community they're in and know the market. Meet the needs of the community."
- "Would like to see banks operate with the mentality that helping this small business I am going to get more of a return."

Offer More Lending Options

- Incentives for startups
- Loan programs that industry specific
- Objective lending models
- Report to credit

- "Give us the first few years to get off the ground and get going before we pay interest."
- "No interest for the first two years. Find ways to negotiate payments based on the nature of the business."
- tax breaks from the government and low interest rates from banks.
- "We can help the government better if get a tax break in the beginning and be allowed grow. Other states do that."
- "If we could get interest only payment loans the first two years to give [us] a chance to get the business off the ground."
- In California, they have banks that have programs for small business. Scared to take loans here because the interest rates are so high."
- "Take into consideration the growth my business is showing and not necessarily the debt that we have."
- "Use Duns number and create credit for my business. They should have like a second chance program for those who may not have the credit or

Provide Technical Assistance

- Financial literacy assistance
- Lender readiness assistance
- Provide resources

- "Banks need to be more informative."
- "We don't know what we don't know. Get the information to the citizens and let them make the choice if they want to be a part of the program."
- "Implement processes to assist people who are interested in at least being able to qualify for a loan. A checklist of stuff to do/get done."
- "validation system, preps you; mentorship, teach me how to stay on top; professional development with bank staff."
- "[Banks] should direct you through the programs and/or classes in the city that will assist you and walk you through becoming lender ready."
- "Sometimes we don't know what we have access to....the bankers should go to the business and say 'hey what do you need? Do you need some advice or some mentoring?' etc."
- "Share resources instead of saying no."
- "Do follow-ups."

Summary: Focus Group Sessions

Thirty-eight (38) small business owners from around the state participated in a 90-minute focus group session to share their barriers to gaining access to capital and their perceptions about doing business with lenders in Arkansas. A blend of small business owners from different racial/ethnic backgrounds and industries participated in this phase of the study.

In each session, participants were asked to respond to four (4) underlying questions:

1. What would an ideal situation for starting a business look like?
2. What are your perceptions about the banking services in the small business community?
3. What are some of the major challenges or barriers people like you face in the small business community?
4. How could banks improve their services to the small business community?

Participants' responses were analyzed using an inductive coding technique. The results of the analyses revealed 2 to 3 global themes for each underlying question. These themes seem to parallel across each question explored.

In an ideal situation, business owners would like to have adequate operating capital to hire experts earlier on, market and advertise more, purchase needed materials and equipment, and secure a business space. Business owners desired access to more resources and programs to assist them with what they don't know. Some expressed dismay at their ability to get other types of non-revenue producing lending, like credit cards, student loans, and mortgages, more easily than a business loan.

The overall perceptions of banking services in the small business community are negative. Many small business owners feel that banks are only focused on their bottom-line profits and are not there to serve the community. Some view the banks and their services as company-focused and zero-sum in favor of the banks, and that banks do not look at the bigger picture of how small businesses support the economy or serve as an asset to the community. Small business owners would like to see a shift in the culture of bankers, from appearing as cold and intimidating to exerting more friendly, supportive, and welcoming attributes. In addition, business owners expressed the need for banks to provide products that have more realistic expectations for payment terms that hinge on the industry and nature of the business.

Racial, gender, and industry biases, as well as lack of finances, and low economic support for startups, inevitably put small business owners at a disadvantage for succeeding at and growing their businesses. Some business owners assert that unfair or discriminatory practices and bankers' lack of industry knowledge have played a role in their inability to gain access to capital. Similarly, high-interest rate loans, prompt start on repayment, and taxes during the infancy stage of building a business worry many entrepreneurs who already lack the finances to withstand operating cost, funds for marketing and advertising, or sufficient collateral to obtain capital.

Small business owners offered several suggestions for how they believe banks could improve to better serve the small business community. Many respondents said that they would like to see banks build stronger community relationships by showing a vested interest in, and having a better understanding of, the communities they serve. Small business owners would like banks to see them as an asset, and that they, (the bank), are

investing in this asset, and in the community. In addition, banks could improve by using more objective measures to offer other lending options to better meet the needs of small business owners in the startup phase. Lastly, small business owners would like to receive more technical assistance from the bank, where the bank builds a relationship to assist business owners in becoming lender ready, and provides financial and business resources, instead of just saying 'no'.



Phase III: Case Studies

Phase III of the Access to Capital Study involved documenting a selected group of entrepreneurs' stories. The purpose of the case studies was to gather detailed information about their journey, challenges, and achievements.

Five (5) small business owners were intentionally selected from the pool of focus group participants. Of the business owners invited to participate, three (3) were female and two (2) were male. The female case study participants identified as Asian, African American and white business owners. The male case study participants identified as African American and Hispanic/Latino business owners. Each of these business owners were from differing industries: telecommunications, health and beauty, trucking, journalism, and candle making.

Participants met with researchers for a 90 to 120-minute one-on-one session. Each entrepreneur was asked to tell their story. No formal or prepared set of questions was used to guide the conversation. Nor were interviewees limited on what they wanted to share.

Conversations were recorded and later transcribed. The raw transcripts were used to compose the narratives of each case story which are presented in this section. The section concludes with a summary of commonalities that emerged across their experiences.





Case Study #1 Zoraida Aguilar

Zystein, LLC
Fayetteville
Asian, Female

Introduction

Zystein, LLC of Fayetteville, Arkansas is a research and development company that infuses biotechnology and nanotechnology to produce all-natural skin and health-care products. Zystein was formed in 2013 by Zoraida Aguilar, Ph.D. in Analytical Chemistry. Aguilar is an Asian woman whose journey to Zystein began at 54 years old, when she noticed her face developing wrinkles. In that moment, Aguilar decided to leverage her skills and knowledge in biochemistry and nanotechnology to develop a solution to rid her of wrinkles.

While working full-time as Director of Research and Development at Ocean NanoTech, Aguilar spent her spare time designing new creations almost weekly until she produced 5 to 6 satisfying products. When her samples were ready, Aguilar used her friends as guinea pigs to test her products. Her friends immediately fell in love with her skin-care solutions, with some saying, “We love them but, if you only have samples what good is that? You should start your own business.” With the demand for her skin care, Zoraida began to produce her own line of products, which was the start of her cosmetic company, Zystein.

Challenges

In the beginning, Aguilar used her monies from W2 employment, consulting work, savings, and retirement accounts to fund her business. Aguilar admits that she has never applied for funding, but she constantly receives high interest pre-approved

offers all the time. She has been tempted to go the funding route but is afraid it might cause the death of the company. She doesn't know who to go to at local banks, preventing her from seeing what programs are available. “I have no idea and I don't have much of a network,” says Aguilar. She believes that the capital would be useful for Zystein to hire a marketing or business expert, and that those efforts would also increase sales and operations. Everything is done in-house, and more assistance is needed with other aspects of the business.

By 2014, Aguilar had created as many as 15 different products, while working on packaging and slowly selling her products to interested friends and online. One day, a company from Dallas, Texas contacted Aguilar about doing business with Zystein. The Dallas-based company, along with another multi-million-dollar company out of Los Angeles, California, wanted to conduct a site visit. At that time, Aguilar was still producing her products in-home and lacked the capital to secure facilities for a laboratory. However, she didn't want to miss the opportunity to do business with these companies. Skillfully, Aguilar came up with a plan. She solicited a friend to help her temporarily arrange a vacant space to give the appearance of laboratory for the site visit. Aguilar brought everything from home to the borrowed space in order to prepare for the tour, which turned out to be a success. Consequently, she was able to negotiate with the landlord, and continues to operate out of that space today. Three months later, those companies became her first major clients.

Aside from not having the desired capital, Aguilar has experienced barriers being an Asian woman. During the infancy phase of her company, Aguilar would often attend business startup events where she noticed most of the attendees were white. These events would repeatedly feature or recognize white entrepreneurs. It was bothersome for Aguilar that someone like her, who was producing revenue, could not get the exposure she needed to grow. Aguilar stated, “In my mind, if I was a government official, I would be supporting the ones that are already producing revenue to grow them faster.” She believes she attended many conferences in Arkansas where other startup companies

were strongly promoted by universities and/or government and public officials. While Zystein has been visited by a public official, nothing profitable has resulted from it. Aguilar disclosed knowing about accelerator programs in Texas like the MassChallenge, but she is unaware of these types of programs in Arkansas.

Achievements

Despite challenges with lack of capital, Aguilar has secured contracts with companies outside of Arkansas. After 18 months of working with Zystein's first two clients, other companies also sought her products. Different companies inquiring about their products, along with visiting their location, has been a huge accomplishment for Zystein.

Aguilar continues to generate revenue with online sales and repeat business. She believes the reward to her hard work is having people buy their products. "It is an indication that Zystein's products are working, and people love them." Customers from all over share their results of using the products via the company website and Facebook page. This is an indication for Aguilar that Zystein is successful in helping people and that people are happy with their products. Nonetheless, Aguilar doesn't consider the business a success until sales increase to the point where she's able to say, "Okay we are now making this much profit each year."

Aguilar believes Arkansas can grow when it supports the growth of small businesses. "They [Arkansas] need to step up and support small businesses." An example of how they can support small businesses involved offering opportunities for small businesses to meet up and gather together.

Aguilar has Minority Women Business Enterprise certification in Arkansas, but she expressed reservations about applying for Minority Women Business Enterprise certification outside of Arkansas, such as the national certifications which costs more money. In her perspective, she is being charged a fee to tell these certification programs what she is: a minority, woman business owner. "If I enroll in particular certification and there is no return of investment (ROI), I would rather use the money in developing another product where I know there is ROI." In spite of that, Zystein is currently registered with the FDA as a voluntary registered company.

Inquiries into Zystein's products and small-scale manufacturing capabilities are occurring more frequently now. Zystein offers a unique technology which involves biodegradable, biocompatible, nanomaterials for life sciences applications. No other business in Arkansas offers the same capabilities in bio-nanotechnology like what Zystein offers to its clients.





Case Study #2

Eddie Garcia

Amigo Newspaper
Hope
Hispanic Male

Introduction

Known for being the only Latino newspaper in the southwest, Amigo Newspaper was established by Eddie Garcia, a Hispanic male. Garcia's journey to entrepreneurship started with various jobs in his 20s. At the time, as one of few bilingual individuals in the area, Garcia recalled how he could have had any career he wanted with the right support. When the 2000 U.S. Census came, positions were available, and Garcia was hired to assist with collecting data. During the three years he worked for the 2000 Census, Garcia had the opportunity to meet several government officials, like Governor Huckabee and Presidents Bill Clinton and George Bush.

Garcia tells how one night, while still working for the 2000 Census, someone told him in a dream, "You are going to make a paper called Amigo." At the age of 31, Garcia left his job and started Amigo Newspaper. In order to start the newspaper, Garcia used his own savings from working at the Census. The paper was an immediate success. Businesses were purchasing advertising space, which generated instant revenue for the paper. As the demand for advertisement grew, it eventually influenced a price increase that generated more revenue, which led to growth in Amigo Newspaper staff. Many local Hispanic-owned businesses trusted Amigo Newspaper and wanted to work with Garcia. The paper provided a channel of communication between the business community and the Hispanic community. Garcia was able to use that channel to inform the Hispanic community, where English was not their native language.

Challenges

As Garcia would learn, owning a business is more than just having clients and making money. According to Garcia, owning a business requires a level of knowledge and mental maturity to be successful. Challenges came when he realized he did not know all he needed to know about running a business. For example, Garcia didn't know to consider the human resources aspects of adding staff, like the hiring process and payroll. As a new business owner, he was unaware of the taxes and other accounting factors that matters when owning a business, nor did he have anyone to assist him. Garcia stated that, although he had to go through the learning and molding process of owning a business, there are many things he learned along the way. In hindsight, Garcia admits that, in the beginning, he did not know how to balance his business and personal life. He recalls working so much in the business that he burned out, while not spending much time on other aspects of his personal, emotional and spiritual well-being.

Early on, the business also lacked operating capital. Garcia's philosophy for the newspaper has been: "If it doesn't work, we don't do it. We're not trying to get into debt." Although Garcia has not gone through a traditional financial institution to fund his business, he has tried to get money from the U.S. Army. He completed applications because he wanted to get a contract, but nothing happened with those attempts. Garcia has grown the Amigo Newspaper little by little, using revenue from the business to fund the business. Based on Garcia, this practice of operations is common among Hispanic business owners because they prefer to not take on debt.

Garcia has close connections with many Hispanic businesses in his area. He mentioned that many of them are not interested in funding from banks. He doesn't know of anyone in his community who has gone to the bank for money to start their business. Many of them continue to have other employment while building their businesses. Garcia believes that, realistically, businesses need access to funding and something

tangible without political gain and political lies. He feels that good things can happen when businesses not only receive money but also have someone invest in them in other ways to help the business mature and grow. “We don’t come from families that have been in business before, we have to have support in that area. We don’t know how to handle success.”

Amigo Newspaper had certifications for many years but did not find it to be beneficial. Garcia shared that in the Hispanic community, there are restaurants, grocery stores, car dealerships, and yard and janitorial services. He says that none of them have minority-owned or similar certifications, that they do not care to obtain certification, or do business with the government.

Achievements

Aside from financial gain, one of Garcia’s greatest accomplishments has come through educating others about business. In many instances, unless a person comes from a family of entrepreneurs, most small business owners need guidance and mentorship. There are people with good ideas who do not know how to do business because they’ve never been in business before. People with the knowledge to help should assist aspiring entrepreneurs. New entrepreneurs must be coached, taught, and guided on ways to grow and manage the business.

“Failure is very real. Even a good business you had going on can fail.”

Garcia suggests the concept of mentoring is not just for Latinos, but for all people. He recommends more programs like the one for farmers at Tyson Foods. “They get to know you and when they have found that you are good candidate, they coach you to the bank to get a loan.” Garcia says that “Tyson keeps up with you and stays on you all the time to make sure you can handle the stress and that you do have to follow their guidelines, but after 10 years when you pay off the bank and you don’t owe anything and then they relax on you.”

Garcia recalled that when Governor Huckabee was in office, there were a lot of activities for minority-owned businesses, but not much initiative is present anymore. Garcia’s current goal is to find more programs and people willing to help local small businesses succeed.





Case Study #3

Zavier Muhammad

Xpert Communications, Inc.
North Little Rock
African American, Male

Introduction

Having the fortunate opportunity of growing up around many African American professionals, Zavier Muhammad dreamed of being a pilot or sports journalist, but life had other plans for him. From childhood, he learned how to be an entrepreneur; his first mentee job was at an apartment complex, and he created business cards in print shop for his mom and her friends. While Muhammad was living in Texas, studying at DeVry Institute and working in technology, he yearned to have his own business. With his experience, he started a business repairing small electronics (e.g., computers, VCRs, TVs, etc.). Later, while living in Arkansas, Muhammad became exposed to telecommunication and pivoted, opening his own telecommunications and engineering business known as Xpert Communications, Inc.

Xpert Communications started from an opportunity Muhammad had as a subcontractor. While serving as a subcontractor, Muhammad was given the chance to oversee the project's completion. Through this opportunity, his knowledge base expanded from technical skills to operating the business. Muhammad built a positive reputation during this phase, which resulted in more opportunities for the business.

Barriers

In the beginning, Muhammad would accept jobs knowing he did not have adequate funding or the capital he needed. He affirms

not even knowing the process of obtaining capital, but he knew how to make money. His strategy was to take subcontracts that paid weekly and then use that to finance the bigger contracts. For the most part, that strategy usually worked, unless something went wrong in a project, preventing him from receiving a profit, or situations where it took longer than expected to get paid.

As more opportunities arrived, the business expanded its skill set and the brand became known. However, Xpert Communications still met with obstacles. The highway projects they received were very profitable, but the business needed capital to pay their employees and to purchase material and equipment. For many years, Muhammad's approach to his lack of capital issues was "we'll figure it out" when the time comes. For example, when Xpert communications needed equipment, Muhammad would bid on used equipment from companies that were no longer in business. But this approach often resulted in the increased maintenance cost of repairs and servicing.

Lack of adequate capital on-hand also prompted Xpert Communications to primarily serve as a subcontractor, because they didn't have the resources to sustain larger projects. Some contracts require that companies have a performance and surety bond that guarantees the contractor will be able to complete the scope of work and not be a liability to the project. These bonds assure that a business meets certain requirements. But, according to Muhammad, "You don't have to have the bond when you have the capital. We may have had expertise, but we didn't have the capital or the bonding." Muhammad believed that having adequate capital would decrease stress, increase creativity, and open doors for more opportunities. In his experience, he recalls that, "There is access to capital, but it costs so much. There are people out here that will loan you \$10,000 but you have to pay them back \$15,000 once interest is applied. Or they want such a large percent from any profit gained."

Muhammad also recalls how sometimes it is difficult it to get things done in Arkansas. For instance: "In Arkansas, for a resellers license, there's a process that takes a few weeks. A

number of things can come up and Arkansas will say no. In Texas, you have it in 10 minutes. What takes a signature in Texas it's a process here. That is something that can really discourage someone with a really great idea. Things like that impedes the process. Texas doesn't have state income tax."

Achievements

Muhammad has found his own alternative approaches to accessing capital. He now leverages relationships with other businesses to help expand his business. By leveraging his relationships, he learned that he could build business credit by establishing accounts or recurring expenses (like a business cell phone) in the business name. He also learned about programs such as Arkansas Disadvantaged Business Enterprise Contractor's Association (ADBECA). Through programs like ADBECA, Muhammad learned strategies on what to do to help his business grow. Although he resisted the Disadvantage Business Enterprise (DBE) certification for years, because he felt like it was the business version of welfare, he learned it was beneficial for doing business with the government.

By utilizing programs like ADBECA and the Arkansas Small Business Administration (SBA), Muhammad realized the critical role capital plays in gaining contracts and growing the

business. Recently through ADBECA, Muhammad was introduced to Forge, Inc. and successfully secured a loan through them. He reminisced that the process was quick and easy for him. In the past, Muhammad felt he wouldn't meet the requirements for a loan, and therefore, never approached a bank to apply. He mentioned that obtaining capital may not be as hard for those who know how to go about it, but from his perspective, the application process is a barrier for many people. Although getting capital from Forge will allow Xpert Communications to move forward, Muhammad knows he will eventually have to seek lending from a bank.

Today, Muhammad has learned more about how to build business credit, navigate the money game, and position the business to achieve more. Muhammad stated that "having the knowledge I needed would have helped me in the beginning stages of running my business." Obtaining adequate capital has opened new doors of opportunities for Xpert Communications. Currently, Muhammad is working to acquire the certifications that will help him get bonded and receive the commercial business license that he needs.



Case Study #4

Bridgette Perkins

Elite Trucking, LLC
Bryant
African American, Female

Introduction

Elite Trucking, LLC is an Arkansas-based dump truck company, known around Little Rock as having the 'cleanest dump trucks around'. The owner, Bridgette Perkins, is a native of Little Rock, Arkansas and has been in business for 4 years. Perkins, a young African American woman, says she always knew she wanted to own her business ever since her early exposure to the Baker Bucks program while attending Baker Elementary. From that point on, she developed an interest in entrepreneurship and finances. Her outlook was different from her peers; she wanted to be in charge. Growing up in her teens and early 20s, Perkins did a lot of different jobs, trying to figure out what she wanted to do and what was right for her. In her search to discover what kind of business she wanted to own, Perkins recognized that accounting is an operational function that's required in every organization. So, she decided to pursue an accounting degree.

During college, although she worked for a reputable law firm, she remained determined to work for herself one day. But, after finding herself abruptly laid off and unemployed for three months, she made the decision: "Bridgette you have to work for yourself" one day. It didn't happen overnight for Perkins. In fact, it wasn't until two years later, while working as an assistant in an accounting department with the state, that Perkins came across a sizable check for a construction job recently completed. This inspired Perkins to do her research to figure out what it would take to have a company that would transport materials for

construction projects. Six months later, on November 12, 2015, she started her company. For two more years, Perkins continued working full-time to fund and grow her business.

Challenges

In the beginning, Perkins had to overcome many obstacles, including her dismay with local financial institutions. Perkins tried numerous times to obtain a business loan to lease a dump truck but was turned down each time, even though she had the personal finances and income to repay the loan. After much despair, Perkins decided to look for other resources outside of Arkansas. She was successful in finding a company out-of-state that was willing to lease a truck to her, using her W2 income as sufficient revenue for repayment.

In Perkins' experience, she felt the local banks simply told her 'no' rather than having a conversation with her about how she could improve her application or business plan in order to qualify. She recalls her experience as the "lenders were cut and dry, and they played the ignorance game pretending not to know how they could help me and gave me the runaround." Unlike many of the trucking companies and lending institutions in Arkansas, the out-of-state company was willing to take a chance and finance a loan; they were willing to take the risk. Perkins says, "The lenders in Arkansas, they are so cut and dry. There is no in-between, no gray. Whereas, the lenders out of state see the potential and are willing to take that risk."

A second barrier that Perkins had to overcome related to the certifications that are often recommended when doing business with the government. A year into her business, Perkins started the process to become certified through the Arkansas Department of Transportation (ADOT) as a Disadvantaged Business Enterprise (DBE). The benefits of being DBE certified is that the federal government has a mandatory percentage of contracts that must be awarded to disadvantage-owned businesses. The Arkansas Disadvantaged Business Enterprise Contractor's Association (ADBECA) is the branch of the ADOT charged with assisting minority business owners in receiving their

DBE certification. The program is also designed to assist DBEs in collaborating to compete for large contracts. As Perkins states, “The DBE is supposed to build you from a one man show to working with others.” The certification is to help give DBEs a fair playing field when it comes to bidding on ADOT contracts. The ADBECA should provide business analysis, procurement assistance, general management and technical assistance, business counseling, capital access and bonding insurance assistance to participating members. However, Perkins expressed that during her time in the program, she did not receive the appropriate assistance and care for her business as she expected. To the contrary, Perkins explained that initially the association was not supportive or helpful in assisting her and others with receiving awards, which has since changed under new administration.

Achievements

Perkins was able to overcome her lending obstacles through her relationship with Diana Jordan-Burks, Small Business Contracting Specialist with Arkansas Small Business Administration (SBA). She credits Diana for assisting her in receiving all the tools she needed. Just recently, Perkins was able to obtain a loan with an in-state microlender, Forge, Inc. “Other financial institutions didn’t show much interest. With Forge, I could at least call or email and not get the runaround. I also was able to get feedback from them,” Perkins recalls. In her experience, the process with Forge was much easier. “Larger financial institutions require you to complete long applications, just to say ‘no’, whereas, Forge’s application was two pages, plus financials.”

Although she may not have received the support and assistance she expected in the beginning from ADBECA, she was able to develop a good business partnership with another business owner, with whom she can now collaborate on bids for large contracts. To date, Elite Trucking has had success in gaining contracts and partnerships to grow the business. One of Perkins’ first contracts came when she received a call from Mary with the Arkansas Procurement Assistant System Center; they wanted to send her contact information and capabilities statement to Arkansas Air Force Department. Over time, Perkins and her business partner

have learned that submitting bids is a numbers game. As revenue increases and the businesses are awarded contracts, they can continue to grow and expand.

Perkins expressed how she loves being an entrepreneur, even with the rough days. She describes herself as a self-motivator. “As an entrepreneur, you don’t work, you don’t eat. Even when I don’t want to, I push through.” Being an entrepreneur gives her the opportunity to be there for her son, set her own schedule, and leave a legacy. In the future, Perkins says she “want[s] to get more involved politically, because we need to make sure that minorities have representatives and legislators lobbying for us. It is important to get involved. I want it my way and I want to be able to set my rules. Of course, you still have rules, but as for Elite Trucking, I am the face. I can provide a work environment that people enjoy coming to. I want to hear what problems that you have and what we can do to make it better. I want to be able to provide that and I love that I am in a position now that I can.” It has been a journey for Perkins, but she enjoys what she does.



Case Study #5 Tabatha Reeves

Twisted Lane Candles, LLC
Pine Bluff
White, Female

Introduction

Twisted Lane Candles, LLC is a handmade candle manufacturing company located in Pine Bluff, Arkansas. They specialize in masculine and hyper-realistic scented woodwick candles. A unique company in the market, Twisted Lane Candles was started by Tabatha Reeves, a white woman business owner, in 2009.

Reeves' journey as a business owner started while living and stationed in Germany on her husband's military assignment. Reeves needed a hobby to occupy her time. She was in a foreign country with two children and did not know anyone. Her mother bought her a candle making kit to give her something to do. Along with working her job, Reeves started making a nice profit selling her candles on the military installation.

What started as a hobby for Reeves in Germany evolved into a business when she returned to the United States. After moving to Arkansas and months of unsuccessful job searches, Reeves decided to showcase her candles at an art show in Dardanelle. Initially, her plan was to continue selling candles as a hobby until she could gain employment. However, she soon started gaining brand recognition and the demand for her candles grew.

The turning point for Twisted Candles came when someone from the Arkansas State Parks approached Reeves about carrying her candles in their gift shop. Two weeks later, they sent her a

contract. Reeves began to realize that what she considered a hobby could be categorized as a manufacturing business, as she recalled in stating, "I was making candles, I was enjoying myself, but I never thought it could be a business."

Challenges

When Reeves received her first contract, she had approximately \$300 worth of product in stock. She quickly realized she had to find a way to fulfill the order. Under the advice of her husband, Reeves went to a local bank for financial assistance. It was a disheartening experience for her, because the bank told her 'no'. She felt like she was dismissed by the bank when she went to get funding. Reeves says, "I wish he had taken my information and done a thorough read over it and then denied me the loan. I wish he would have taken everything, made me feel like he read it and then denied me the next day, instead of right then and there." She felt as though her application didn't go through a formal process, but that she was just told "this [the application] isn't going to go through."

Reeves admits that she understood why she was denied the first time: she wasn't generating enough revenue to justify a \$3,000 loan. However, six months later she had generated \$15,000 in profit, so it was frustrating to still be denied. According to Reeves, she did everything the banker advised her to do to improve her application. After completing all the necessary steps, she went back to the bank with everything fixed, and was still told she needed a cosigner. "I shouldn't have to have a cosigner for a business loan. If he would have sat on my application for couple of days then denied it, I would have felt like the decision was given some merit as opposed to not giving us a try." To fulfill the contract, Reeves borrowed money from her parents, combined with proceeds from the couple's tax refund and revenue from the business.

Lack of capital has been the biggest challenge for Twisted Lane Candles. "Always worrying if there is going to be enough since there isn't a built-in cushion," say Reeves. The arts and craft industry is very volatile, which means there's some months

in which little to no product is sold. During slow months, Reeves' family is forced to rely solely on her husband's paycheck, which creates a financial burden. They decided that the business is either going to sustain itself or dissolve. So, to keep the business afloat, when there is an order, Reeves retains a portion of the profits to help keep the company in the black.

Reeves has encountered a challenge with classifying Twisted Lanes Candles as a Women Business Enterprise. According to Reeves, Arkansas state law requires that you hold a state ID or driver's license for two years to be certified as a woman- or minority-owned business. Reeves cannot become an Arkansas resident while her husband is serving in the military, thus preventing her from certifying her business in the state. Reeves currently owns 51% of the business, but is considering transferring majority ownership to her husband since he is a veteran.

Being recognized as a manufacturing company instead of as an arts and craft hobby has been another obstacle for Reeves. "I would love to see there be some rules on manufacturing. What is considered miscellaneous manufacturing? The rules for miscellaneous manufacturing are different. I can't be tax exempt because I am not the 'right' manufacturer," says Reeves, concerning her inability to receive the same tax breaks as the large candle companies. Her company is getting hit with taxes on the front end (purchasing inventory) and back end (selling products), which impacts her bottom line. It doesn't matter that she paid taxes on the materials and turned them into one product. Big candle companies get tax breaks because they have automated equipment in their factories. "We won't be reclassified because I won't have automated machines. I don't ever want to become that company that is not hand-made."

In Texas, the company fell under cottage laws; so long as they were not making products for consumption on a larger scale, they didn't have to have a commercial license. The company had to stay under a certain revenue amount to avoid the need for a commercial license. There are city taxes in Texas, but no state taxes, so she didn't have to worry about that cost until she moved to

Arkansas.

Reeve's father-in-law operates two multi-million-dollar manufacturing companies: one in Arkansas and one in Louisiana. She leveraged her connection with him to learn about manufacturing. "It was great because I was able to use his knowledge and expertise when I was first getting started. I honestly couldn't have done it without his help. I would not have even known where to begin. I wish I would have known that the small business association at the University of Arkansas was an entity I could have gone to for help. I didn't have a clue. I did everything on my own. I wish I would have had known that these places existed."

Achievements

Growing her business has been a learning experience for Reeves. Her biggest success for Twisted Lane Candles has been gaining brand recognition. "People are starting to recognize us as the brand with the green trees." Twisted Lane Candles has several wholesale partners, aside from Arkansas State Parks, that keep enough income coming in, along with online revenue. Recently, Reeves received a phone call from a drugstore that recognized her company and inquired about carrying her product.

A group of women influencers in Arkansas has been instrumental in helping her find resources, make connections, and move in the right direction to help grow her business. Last year, Twisted Lane Candles generated enough revenue that Reeves made the decision to restructure as a Limited Liability Company. The business is completely self-funded, although she is currently not drawing a paycheck.

If she could have the capital she wanted and needed, Reeves says she would buy more melting pots and melters which would help produce more candles in less time. She could increase the volume of how much she produces per day from 175 candles to possibly 250 per day. The capital would give her access to a larger space to set up a small manufacturing facility and create a small brick and mortar retail space. With a larger space, she could have a designated area for clients to host parties rather than hosting

in their home. “I have days where I don’t feel like I am a business owner, and this is a business. This isn’t a job, probably because I enjoy doing this.”

Summary: Case Studies

For Phase III of this study, 5 entrepreneurs (3 women and 2 men; 4 people of minoritized groups and 1 white person) were selected to participate in a case study. The case studies were designed to examine the individual challenges and achievements of small business owners with first-hand experience building a business with little to no capital.

The Precise Data team met with the case study individuals one-on-one for a 90 to 120-minute interview where they were asked to share their story. The conversations were not planned or guided by any scripted questions. Each of the participants provided details about their journey to entrepreneurship, obstacles they overcame, and accomplishments.

Review of the case studies showed there were commonalities that existed in each of their stories. In most cases, if not all, these entrepreneurs:

- Started their entrepreneurial journey with little to no business or industry knowledge and background;
- Tend to avoid financing through a bank as much as possible, out of fear of rejection, acquiring debt, and/or high interest rates;

- Have an overall mistrust for doing business with the banks;
- Lacked assistance, guidance and direction on owning and growing a business;
- Were unaware and struggled finding business and entrepreneurship programs and resources that are available in Arkansas (e.g., SBA, Arkansas Small Business and Technology Development Center, etc.);
- Overall perspective regarding business certifications greatly depended on their industry demands or their involvement with doing business with the government;
- Have successfully acquired out-of-state contracts and in most cases found it easier to do business outside of Arkansas; and
- Persevered with little to no external financial resources except their personal savings and income and have grown their businesses organically.



Phase IV: Secondary Data Analysis

The final phase of this study examined secondary data to further explore the impact that lack of access to capital has on business growth for minority- and women-owned businesses in the state. According to the Arkansas Small Business Profile Report by the U.S. Small Business Administration (SBA) Office of Advocacy, 99% of the state’s businesses are categorized as a small business. There are approximately 250,000 small businesses in Arkansas. Of those, twenty percent (20%) have 1 to 499 employees, and as few as 2% have more than 19 employees. Minority-owned businesses account for approximately 16% of all small businesses in Arkansas, and women-owned businesses account for 34%, as shown in Exhibit 38.

The SBA offers a variety of loan programs to small businesses through their partnering lending institutions. The agency sets the guidelines for the loans to reduce the risk for lenders and makes it easier for small businesses to access capital. Loans ranging from \$500 to \$5.5 million are guaranteed by the SBA for small business use, such as for long-term fixed assets and operating capital. Three primary loan programs are available: 7(a), CDC/504, and Microloan.

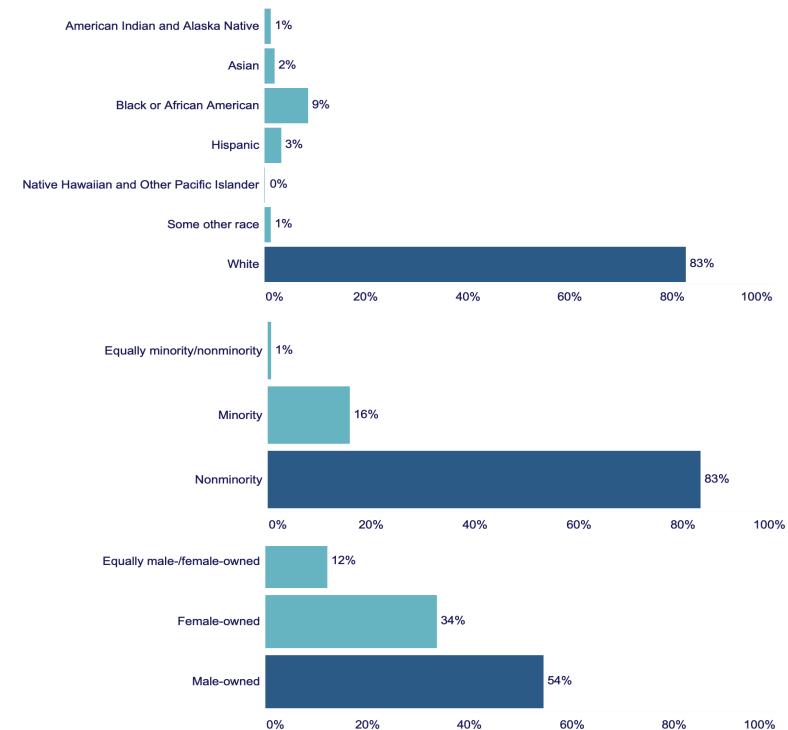
7a Loan Program

The 7(a) Loan Program provides financial assistance to small businesses via banks, savings and loans, credit unions, and other specialized lenders.

CDC/504 Loan Program

A Certified Development Company (CDC) is a certified non-profit corporation that is regulated by the SBA to work with private-sector lenders to provide growing businesses with long-term, fixed-rate financing for major fixed assets, such as land, buildings, machinery, and equipment.

Exhibit 39. Arkansas Businesses Characteristics by Race/Ethnicity and Gender



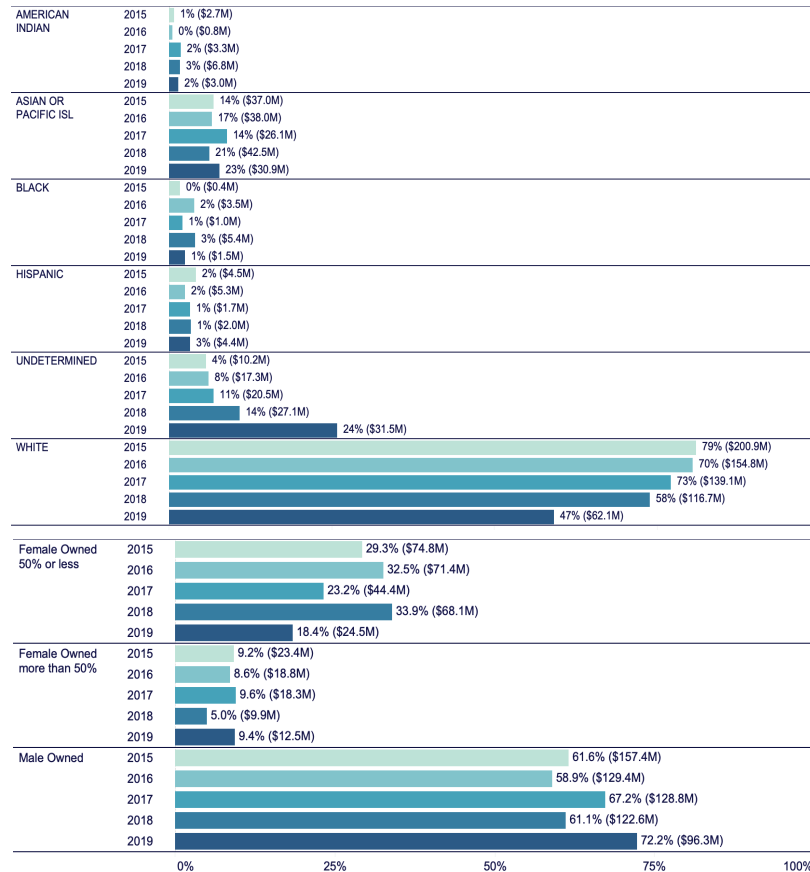
Microloan Loan Program

The Microloan Loan Program provides small businesses with small, short-term loans (up to \$50,000) for working capital or to buy inventory, supplies, furniture, fixtures, machinery and equipment.

The Arkansas District Office SBA provided 5-years of trend data by race/ethnicity and gender for the 7(a), 504 and Microloan programs. The data revealed a disproportionate amount of Arkansas 7(a) loan dollars were awarded to minority business owners compared to funds awarded to white business owners. For example, 9% of small businesses are Black-owned; however, on average, only 1% of loan dollars were awarded to Black-owned businesses.

Likewise, women-owned businesses account for 43% of small

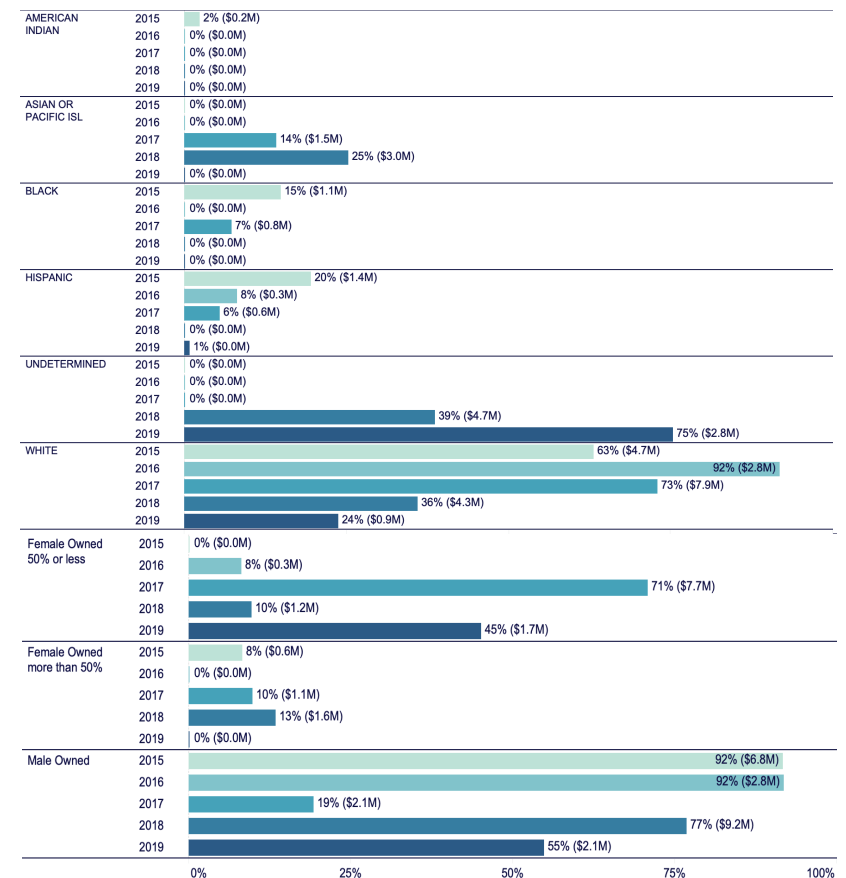
Exhibit 40. Arkansas SBA 7(a) Loan Amounts by Race/Ethnicity and Gender Over 5-Year Span



businesses, but as little as 5%-9% of the total loan amounts were awarded to women-owned businesses.

Similar to the 7(a) program, 504 program data for Arkansas showed that, between 2015 to 2017, more loan dollars were granted to white-owned businesses than other racial group. Women-owned businesses received less than 15% of the 504 loan funds.

Exhibit 41. Arkansas SBA 504 Loan Amounts by Race/Ethnicity and Gender Over 5-Year Span



Arkansas has three microlenders in the state who provide small, short-term loans to entrepreneurs and business owners. Overall, there were fewer microloans granted compared to the 7(a) and 504 programs; however, the percentage of funds provided

to minority business owners was higher. During a 5-year span, Forge, Inc. supplied the highest amount of loan dollars among the microlenders, approximately \$4.5 million in total. Black business owners received 24% of those loan dollars.

Exhibit 42. Arkansas SBA Microloan Loan Amounts by Race/Ethnicity and Gender Over 5-Year Span

Oct. 1, 2015 to Aug. 23, 2019				CommunitiesUnlimited, Inc.			Forge, Inc.			LiftFund, Inc.		
	Total	Percent	Amount	Total	Percent	Amount	Total	Percent	Amount			
Microloans Made:	27			166			3					
Startups:	15	55.6%	\$234,162.50	78	47.0%	\$2,312,800.00	2	66.7%	\$18,131.41			
Existing Businesses:	12	44.4%	\$274,970.00	88	53.0%	\$2,230,248.00	1	33.3%	\$8,723.00			
100% Woman Owned:	17	63.0%	\$230,705.00	35	21.1%	\$828,000.00	0	0.0%	\$0.00			
51% Woman Owned:	0	0.0%	\$0.00	13	7.8%	\$426,500.00	0	0.0%	\$0.00			
50% or less Woman Owned:	10	37.0%	\$278,427.50	118	71.1%	\$3,288,548.00	3	100.0%	\$26,854.41			
Unknown/Not Stated:	0	0.0%	\$0.00	0	0.0%	\$0.00	0	0.0%	\$0.00			
Non-Veteran:	22	81.5%	\$418,582.50	139	83.7%	\$3,759,848.00	2	66.7%	\$18,131.41			
Veteran:	0	0.0%	\$0.00	20	12.1%	\$587,200.00	1	33.3%	\$8,723.00			
Service Disabled Veteran:	0	0.0%	\$0.00	2	1.2%	\$50,000.00	0	0.0%	\$0.00			
Unknown/Not Stated:	5	18.5%	\$90,550.00	5	3.0%	\$146,000.00	0	0.0%	\$0.00			
Ethnicity												
Hispanic:	1	3.7%	\$5,150.00	8	4.8%	\$232,500.00	0	0.0%	\$0.00			
NonHispanic:	24	88.9%	\$498,060.00	157	94.6%	\$4,305,548.00	3	100.0%	\$26,854.41			
UnstatedEthnic:	2	7.4%	\$5,922.50	1	0.6%	\$5,000.00	0	0.0%	\$0.00			
Race												
Am. Indian/Alaska Native:	0	0.0%	\$0.00	1	0.6%	\$50,000.00	0	0.0%	\$0.00			
Asian:	0	0.0%	\$0.00	0	0.0%	\$0.00	0	0.0%	\$0.00			
Black/African-American:	17	63.0%	\$263,657.50	39	23.5%	\$1,036,455.00	2	66.7%	\$21,572.04			
Hawaiian:	0	0.0%	\$0.00	0	0.0%	\$0.00	0	0.0%	\$0.00			
White:	10	37.0%	\$245,475.00	119	71.7%	\$3,169,693.00	1	33.3%	\$5,282.37			
Multi Group:	0	0.0%	\$0.00	1	0.6%	\$50,000.00	0	0.0%	\$0.00			
Unanswered:	0	0.0%	\$0.00	6	3.6%	\$236,900.00	0	0.0%	\$0.00			
Total Dollars Loaned:	\$509,132.50			\$4,543,048.00			\$26,854.41					
Average Loan Amount:	\$18,856.76			\$27,367.76			\$8,951.47					

Summary: Secondary Data Analysis

During Phase IV of the Access to Capital Study, secondary data from the Arkansas SBA was reviewed to further examine the disparities of funding access for minority business owners in the state. Minority-owned businesses make up sixteen percent (16%) of Arkansas businesses; however, the results revealed a sizable imbalance of 7(a) loan dollars granted to white-owned businesses. For example, Black-owned and Hispanic-owned businesses received less than 2% of the \$1 billion loan dollars awarded between 2015 to 2019. Microlenders, to a greater degree, appeared to service women and minority business owners at a higher percentage rate than 7(a) and 504 programs.

Considerations

Based on the analyses of the survey, focus group, and case study data, Precise Data offers the following considerations:

1. Grant fiscal support to programs devoted to developing and implementing a turnkey approach to offering technical assistance for small business owners.
2. Implement higher levels of accountability standards to not-for-profit organizations who finance loans and other lending products to entrepreneurs and small business owners.
3. Support large-scale campaigns and initiatives that focus on generating awareness and marketing (especially in under-served communities) the available state-based programs and resources accessible to entrepreneurs.
4. Grant fiscal support to startup lending programs that encompass education and assistance that focuses on lender readiness, financial literacy, and business basics to help business owners access capital and develop a viable, sustainable business.
5. Consider developing an advisory group comprised of entrepreneurs/small business owners from around the state to assist the foundation with addressing Economic Equity priorities.
6. Advocate for policy change and regulations that promote the growth of startups and small businesses through fewer taxes and penalties, equitable regulations, and low-interest financing.
7. Establish programs to provide direct funds to support ideas and innovations that will support increased economic equity.
8. Support conferences and summits geared towards educating lenders on the intricacies of various business segments.
9. Conduct further studies to examine the perspective of banking and lending services and practices from the financial institution standpoint.
10. Conduct further studies to examine Arkansas procurement practices at the state level and business certification processes.
11. Use the findings of this study as a baseline to conduct future studies to track changes in results post implementation of initiatives designed to address economic equity.
12. Continue to collect and focus efforts on participatory data as a principal strategy for developing plans of actions that impact entrepreneurs.



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Appendix: List of Counties by Focus Group Region

Central	Northwest	Northeast	Southwest	Southeast
<ul style="list-style-type: none"> • Faulkner • Garland • Grant • Hot Spring • Jefferson • Lonoke • Prairie • Pulaski • Saline • White • Yell 	<ul style="list-style-type: none"> • Baxter • Benton • Boone • Carroll • Conway • Crawford • Franklin • Logan • Madison • Marion • Newton • Perry • Pope • Scott • Searcy • Sebastian • Van Buren • Washington 	<ul style="list-style-type: none"> • Clay • Cleburne • Craighead • Crittenden • Cross • Fulton • Greene • Independence • Izard • Jackson • Johnson • Lawrence • Mississippi • Poinsett • Randolph • Sharp • St. Francis • Stone • Woodruff 	<ul style="list-style-type: none"> • Clark • Columbia • Dallas • Hempstead • Howard • Lafayette • Lee • Little River • Miller • Monroe • Montgomery • Nevada • Ouachita • Pike • Polk • Sevier 	<ul style="list-style-type: none"> • Arkansas • Ashley • Bradley • Calhoun • Chicot • Cleveland • Desha • Drew • Lincoln • Phillips • Union





P.O. Box 30556, Little Rock, AR 72260
precisedataconsulting.com | 501.420.4917

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