

July 21, 2023

Chairman Roger Williams
House Committee on Small Business
2361 Rayburn House Office Building
Washington, D.C., 20515

Ranking Member Nydia Velázquez
House Committee on Small Business
2069 Rayburn House Office Building
Washington, D.C., 20515

Dear Chairman Rogers, Ranking Member Velázquez, and members of the House Committee on Small Business,

Thank you for your commitment to exploring the challenges faced by entrepreneurs and identifying policy solutions to enable small businesses and startups to thrive. I am the founder and CEO of AcreTrader, a Fayetteville, Arkansas-based platform that enables clients to invest in farmland, providing investors with strong returns and farmers with the capital they need to expand their farms. I am grateful for the opportunity to provide feedback in advance of the committee's upcoming hearing on rural entrepreneurship and the challenges faced by rural small businesses.

As a startup founder located in a predominantly rural state that works to support farmers across the country, I understand the barriers rural and rural adjacent startups face. In many respects, rural startups are similar to those located in large cities and in tech hubs—we all need access to capital to fuel our growth, access to talent to develop our product and build out our teams, and access to a strong support network for mentorship and guidance within the startup ecosystem. While we share these common needs, raising capital, building teams and finding support are significantly more challenging for rural founders. Without support from policymakers, the ability of rural entrepreneurs to expand their businesses and serve as job creators is significantly slowed.

According to the Center on Rural Innovation, less than 1 percent of venture capital is directed to rural startups.¹ And research has shown that institutional investors, like angel investors, are more likely to direct funds to businesses in communities located in areas where they have social ties, furthering the concentration of startups in large metropolitan areas.² While many rural founders may rely on personal capital to initially build their companies, this is often out of obligation. And the decline in community banks, on which many rural entrepreneurs rely, only further exacerbates capital access issues.³ Rural founders need better access to capital, particularly to early stage investment opportunities, so that we can continue to drive our local and regional economies.

Improving the ability of rural founders to access angel investment is critical for rural entrepreneurial growth, because rural startups simply do not have access to the same angel

¹ *The Power of Capital in Rural Entrepreneurship*, Center on Rural Innovation (Sept. 22, 2020), <https://ruralinnovation.us/blog/access-to-capital/>.

² Tim Sablik, *Growing Rural America Through Startups*, Federal Reserve Bank of Richmond (2022), https://www.richmondfed.org/publications/research/econ_focus/2022/q1_feature_2.

³ Chad Brooks, *Rural Small Businesses Hurt by Decline of Local Banks* (March 23, 2016), <https://www.foxbusiness.com/features/rural-small-businesses-hurt-by-decline-of-local-banks>.

networks as many of our urban counterparts. And roadblocks stand in the way—the current definition of an accredited investor is too restrictive, with needlessly high financial thresholds that don't account for cost of living and limit the ability of many Americans, including rural Americans, to become investors and build generational wealth.

Policymakers also do not take enough steps to incentivize angel investment. In Arkansas we have a program through the Arkansas Economic Development Commission called equity investment tax credits to incentivize angel investment in early stage businesses. This program has without a doubt led to AcreTrader raising more funds than we otherwise would have and has helped our growth trajectory and boosted our hiring. We've benefited, our investors have benefitted, and the state of Arkansas has benefitted, because we now have more people on staff paying state income taxes. But there are few incentives for angel investors at the federal level. Policymakers should examine successful state programs and work to implement incentives at the federal level so that more people choose to become angel investors.

Accessing talent is also more challenging as a rural founder. While the cost of living in rural areas is lower, the talent pool is also smaller. But building out a strong tech workforce is transformational for regional economies.⁴ Studies show that each tech job leads to the creation of three to five additional jobs.⁵ But software engineering talent is in short supply across the U.S. startup ecosystem. This is especially true in rural areas with smaller populations. Our local universities are also not able to produce enough STEM talent to meet the demand. Policymakers should explore all avenues for boosting the availability of STEM talent and examine how to direct more talent to rural communities. According to the Center on Rural Innovation, the most significant barriers to training tech talent are cost and the time commitment.⁶ Looking at providing more resources for training to ease these burdens, including more support for STEM education programs in universities that serve rural areas as well as non-degree training programs is one option.

Finally, all entrepreneurs benefit from robust networks of support, including access to incubator and accelerator programs that provide guidance, networking, educational opportunities, and at times financial support to growing startups. Many of these support organizations have a smaller presence in rural communities. While Northwest Arkansas has seen some development with respect to entrepreneurial support organizations like Startup Junkie and Techstars, continued federal support for innovation ecosystems, including incentivizing the establishment of more ESOs, would help to build out rural startup ecosystems and help startups thrive and remain in their rural communities. As a founder who previously lived in San Francisco and returned home to Arkansas to launch a company, more support within our community to connect entrepreneurs with resources, funding opportunities, and talent is instrumental in bringing entrepreneurs home.

Thank you again for your attention to identifying and surmounting the barriers faced by rural entrepreneurs. Investing in rural entrepreneurship helps to create jobs, boosts local and

⁴ Rebekah Collinworth, *Rural Communities Unlocking Millions to Support Tech Innovation and Entrepreneurship through Federal Grant Program* (Oct. 14, 2022), <https://www.prnewswire.com/news-releases/rural-communities-unlocking-millions-to-support-tech-innovation-and-entrepreneurship-through-federal-grant-program-301649295.html>.

⁵ *Id.*

⁶ *Rural America's Tech Employment Landscape*, Center on Rural Innovation (May 9, 2022), <https://ruralinnovation.us/resources/reports/report-rural-americas-tech-employment-landscape/>.

regional economies, supports our communities, and increases innovation. I look forward to hearing from policymakers about how the federal government can support rural startup ecosystems and small businesses.

Sincerely,

Carter Malloy
Founder & CEO
AcreTrader