

## **Group 4: Access to Capital / Entrepreneurship / Growth Prospect - Findings and Recommendations**

While Hawaii has long sought to diversify its economy, often exploring models like Silicon Valley, perhaps the key lies in addressing the underlying business environment. We recognize the inherent potential for innovation within the state, evidenced by the presence of global investors and a talented workforce. The following findings and recommendations aim to contribute to this ongoing effort. We believe that a comprehensive and refined policy strategy, prioritizing the development of a robust business ecosystem with attention to startup growth, human capital enhancement, and strong infrastructure, will be key to achieving lasting economic revitalization.

### **Executive Summary:**

Group 4 was tasked with investigating access to capital, entrepreneurship, and growth prospects in Hawaii. The Group has identified challenges facing our small businesses, including limited access to capital due to risk aversion by local banks and complex federal loan processes, and a challenging entrepreneurial climate marked by regulatory burdens and high operating costs, among other things. To address these issues, we propose a multi-faceted approach focusing on:

- Diversifying capital access: Expanding funding options beyond traditional loans, simplifying application processes, and enhancing financial literacy.
- Strengthening the startup ecosystem: Investing in incubators, accelerators, mentorship programs, and improving infrastructure and connectivity.
- Promoting R&D commercialization: Leveraging University of Hawaii resources, supporting DBEDT/HTDC initiatives, and fostering collaboration between research and industry.
- Improving the business climate: Streamlining regulations, reducing tax burdens, and creating a more welcoming environment for entrepreneurs.

However, as noted above, comprehensive policies (beyond the scope of this working group) to create a favorable and supportive business environment are needed.

## Detailed Findings:

### 1. Access to Capital

- Limited local large financial institutions are willing to give out business loans or credit.
  - Tied to increased regulatory pressure from Feds and lower risk tolerance
  - “Business banking” was eliminated from many regional Hawaii banks due to loans being made on character rather than capacity and cashflow
- Federal loans to businesses are limited and administered through partnership with the Small Business Administration
  - SBA 504, 8(a) and other products are good vehicles for businesses to utilize
  - SBA loans are processed through regional banks or credit unions
    - There has been some pushback at banks on this product due to the SBA loan pay back mechanism being the last resort. If the loan goes bad, the banks have to do their best effort to recoup and collect first before SBA will come in to make the bank whole. Many times, SBA loans that default, remain in the financial institution’s collections department.
- To increase capital available to businesses, an assessment needs to be made on where they are at in their business lifecycle and size. The capital needs and capital stacks are different based on those 2 factors.
  - Need funding for:
    - Working capital
    - Investment in equipment or assets
    - Acquisition
    - R&D
    - Expansion of market into new areas
    - Expansion of services
- While some feel that capital exists in Hawaii, others feel that Hawaii has limited capital. Moreover, it may be that the capital that exists is not available to support entrepreneurship and small businesses, i.e. it is not accessible. So in addition to accessibility issues discussed above, Hawaii also needs to address lack of capital and lack of access to existing capital.
- There is no concrete solution to access to and availability of capital but it is important to have a diverse array of options available.
  - Venture Capital

- Angel investors
- Microgrant or microloan
- Traditional bank loans
- Federal loans
- Wealthy investors (the Hawaii billionaire funds)
- Attract more sources of accessible/available capital to Hawaii
  - Consider DBEDT satellite offices in investment-heavy areas (e.g. DC)
- Timeliness is an important factor for capital
  - Easy to apply and qualify for
  - Approval is fast (30 days or less)
  - Can be funded quickly (ACH or wire)
- Education
  - For smaller size businesses, they may not have the time to understand what is out there.
  - Government can play a role in continuing to educate businesses and connect them to resources
    - Continue to improve the relationship between the State and Counties in identifying program alignment and non-duplication of services, most especially since government entities mostly work with non-profit in the delivery of these services.
  - Training in financial literacy and essential bookkeeping
    - You can't get a loan if you don't know your books and answer the questions
  - Create programs to help business present their needs (think Sharktank)
    - Pitch decks
    - Updating business plans
    - Financial analysis of cashflows, working capital etc.

## 2. Climate for Entrepreneurship

- Challenges:
  - Complex regulatory processes.
  - Limited access to capital for startups.
  - Lack of mentorship and training programs.
  - Inadequate infrastructure and connectivity.
  - High tax burdens.
  - Availability of resources across all islands in the State.
- Proposed Solutions:

- Simplify regulatory processes through online platforms and one-stop shops (modeled after Arizona and Florida).
- Enhance access to capital through grants, loans, and tax incentives (modeled after California and Nevada).
- Foster a supportive business environment with mentorship, training, incubators, and accelerators (modeled after Texas and Massachusetts).
- Improve infrastructure and connectivity through high-speed internet (Hawaiian Telcom is working to provide reliable internet access to help businesses operate smoothly and reach broader markets) and innovation hubs (modeled after North Carolina).
- Reduce tax burdens and simplify the tax code (modeled after Wyoming).
- Promote business and entrepreneurial resources across all islands of the State.

### 3. R&D Commercialization

- *Opportunities to commercialize R&D with current/new companies*
  - University of Hawaii
    - UH receives more than \$500M annually in extramural funds, see article [here](#).
      - “Extramural funding is external investments from external agencies such as the federal government, industry and non-profit organizations that support research and training activities conducted by university faculty and staff.”
    - University affiliated entrepreneurship programs - encourage participation in tech commercialization opportunities, including I-Corps programs, SBIR/STTR programs, and accelerators/incubator programs.
      - Pacific Asian Center for Entrepreneurship ([PACE](#)) at the Shidler College - UH systemwide resource that offers 15+ programs (e.g. workshops, mentorship, networking, funding and facilities) to support students that want to bring their ideas to life.
      - Office of Innovation and Commercialization ([OIC](#)) - UH System office with a handful of programs to support the commercialization of research being done at UH.
  - DBEDT/[HTDC](#) - offers many programs that support R&D commercialization
    - [Hawaii SBIR program](#) (matching grants + SBIR company wraparound support projects)

- [Business support and accelerator cohort programs](#) (Quest Accelerator Hawaii, Pacific Impact Zone, PICHTR, Blue Startups).
  - [Pacific Tech conference](#)
  - [Hawaii TechBridge](#)
  - [HI-Cap](#) funds for small business loans and investment funds.
- Examples of companies commercializing R&D and/or benefitting from SBIR/STTR funds
  - [Oceanit](#), [Hnu Photonics](#), [Makai Ocean Engineering](#), [Nalu Scientific](#) and other awardees of HDTC matching funds (list [here](#))
- Organizations that support the innovation/entrepreneurship ecosystem
  - Incubators/accelerators: [Blue Startups](#) (digital/software), [Elemental Excelerator](#) (sustainability), [HATCH](#) (aquaculture), [HI Investment Ready](#) (social impact), [HI-TIDE](#) (UH tech), [Purple Mai'a](#) (social impact), [ManaUp](#) (CPG), and [TLFTIC Launchpad](#) (language). Collectively, they have hundreds of startups and small businesses in their portfolios.
  - Co-working spaces / Innovation hubs ([BoxJelly](#), [Entrepreneurs Sandbox](#), [Hub Coworking Hawaii](#), PACE@Walter Dods, Jr. [RISE](#) Center (for students))
  - Wrap-around support ([HTDC](#), [HI-SBDC](#), [OER](#))
  - Funding support: Hawaii Angels, Startup Capital Ventures, and a host of the accelerators starting their own funds (e.g Elemental Excelerator, Blue Startups, and ManaUp). HTDC's programs, including HISBIR and [HI-CAP](#), for the State Small Business Credit Initiative (SSBCI) – bringing millions in federal funding to expand access to capital for small businesses, startups, and entrepreneurs.
- *Best practices from other states*
  - Components for a vibrant IE ecosystem: startups, startup support organizations, pool of experienced innovators and entrepreneurs, investors, universities, industry engagement, local media support and government support.
    - Challenges for Hawaii: we are an isolated island state (not near any “hubs” of innovation), highly dependent on imports, with a high cost of doing business, a high cost of living, and with limited access to resources (among other things). Makes it difficult to attract and retain professionals and businesses.

- Look to [Iceland](#) as a model. Or, North Carolina's [Research Triangle Park](#).
- Also, the UHERO [report](#), funded by OER, includes a list of “comparable cities with successful programs supporting small business.” The list includes: San Diego, Miami, Virginia Beach, Charleston, Savannah, San Antonio, Anchorage, and Jacksonville.
- *Proposed solutions*
  - Develop policies that create a more welcoming and supportive business environment, including fundamental business support, human capital and hard and soft infrastructure.
  - Increase participation in tech commercialization programs (I-Corps, SBIR/STTR).
  - Support companies commercializing R&D and benefiting from federal funds.
  - Foster collaboration between universities, research institutions, and businesses.
  - Select particular sectors to focus on that align with Hawaii's strengths and obtain alignment from leadership in government, education, industry, etc. In other words, make Hawaii known for the specialty or specialities, and align resources behind it.
    - An example, UH [plan](#) with focus on Science and Technology (from 2020).

## Additional Information and Resources:

–Business Climate Rankings:

- Forbes: <https://www.forbes.com/advisor/business/best-states-to-start-a-business/>
- Chief Executive Magazine: <https://chiefexecutive.net/best-worst-states-business/>
- U.S. News and World Report: <https://www.usnews.com/news/best-states/rankings/economy/business-environment?region=HI>
- B2B Reviews: <https://www.b2breviews.com/best-states-to-start-a-business/>
- World Economic Forum: <https://www.weforum.org/stories/2022/08/marketsranked-america-s-best-states-to-do-business-in/>
- Area Development Magazine: <https://www.areadevelopment.com/Top-States-for-Doing-Business/>
- WalletHub: <https://wallethub.com/edu/best-states-to-start-a-business/36934>

- Business Facilities Magazine:  
<https://businessfacilities.com/20th-annual-rankings-report-2024-state-rankings/>
- Lendio: <https://www.lendio.com/blog/best-states-for-small-businesses/>
- CNBC:  
<https://www.cnbc.com/2024/07/11/americas-top-states-for-business-full-rankings.html>
- Tax Foundation:  
<https://taxfoundation.org/research/all/state/2025-state-tax-competitiveness-index/>

–Kauffman Indicators (Early-Stage Entrepreneurship):  
<https://indicators.kauffman.org/hawaii-snapshot-earlystage>

–Capital Readiness Program Hawaii by MBDA: <https://crp-hawaii.org/>

–UHERO Report (Small Business Success in Honolulu), funded by OER:  
<https://uhero.hawaii.edu/wp-content/uploads/2025/01/InvestigatingAndTacklingBarriersAndNeedsForSmallBusinessSuccessInHonolulu.pdf>

–2024 SBA Small Business Profile, Hawaii:  
<https://advocacy.sba.gov/wp-content/uploads/2024/11/Hawaii.pdf>

–OHA Report (Native Hawaiian Businesses):  
[https://www.oha.org/wp-content/uploads/NH-Businesses-and-COVID\\_final\\_May2020.pdf](https://www.oha.org/wp-content/uploads/NH-Businesses-and-COVID_final_May2020.pdf)

–Hawaii Capital Scan (HIREady):  
<https://hiready.net/wp-content/uploads/2022/10/Hawaii-Capital-Scan-Part1-Sept2022-V2.pdf>

–Hawaii Venture Capital Report (HSDC):  
<https://hsdc.hawaii.gov/wp-content/uploads/2018/10/Hawaii-Venture-Capital-Report.pdf>

–Thrive HI: <https://www.thrivehi.org/mission-and-vision>

– Sullivan and Brewbaker: [Hawaii - Losing the Future?](#)

– UHERO Report (partly funded by the Climate Resilient Aquaculture Innovation Megahub (CliRAIM) through the NSF Engines Development Award 2305455): [Potential opportunities to diversify the economy of Hawai'i](#)