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## Federal Assistance for State and Local Entrepreneurship Development Policies and Recent Legislation

Entrepreneurship is often considered an engine of economic growth. Congress has authorized over 10 federal agencies to administer a number of programs to address common challenges faced by entrepreneurs. This In Focus summarizes how select federal policies may help entrepreneurship development at the state and local levels and provides examples of recent federal programs and legislation. This In Focus also includes considerations regarding a targeted or general approach to entrepreneurship development policies. In light of concerns about declining rates of entrepreneurship (see CRS In Focus IF12792, *Is U.S. Entrepreneurship Declining?*), Congress may review federal policies for state and local startup assistance programs. See CRS Report R48254, *Entrepreneurship in Regional Economic Development*, for additional information about entrepreneurship and regional economic development.

### How Federal Assistance Programs May Support Entrepreneurship Development

Federal policies designed to support entrepreneurs generally focus on developing amenities, infrastructure, networks, technical support, and financial and human capital, among other resources, to help new firms form and grow. These policies may be designed to address individual-, firm-, or community-level challenges. Federal programs generally do not provide direct financial support to for-profit businesses. Instead, federal agencies and their partners assist businesses with technical assistance and help entrepreneurs access credit markets for startup needs, operations, and expansion.

### Select Federal Programs and Recent Legislation

The following examples highlight select types of organizations, communities, and business owners that have received federal support for entrepreneurial development activities in recent years. This section also provides examples of legislation proposed to expand such activities in the 117<sup>th</sup> and 118<sup>th</sup> Congresses.

#### Entrepreneur Support Organizations

The term *entrepreneur support organization (ESO)* describes entities that help catalyze entrepreneurship and help startups launch, grow, and become self-sufficient. ESOs offer support to startups through venues and activities such as incubators, accelerators, business centers, and coaching. ESOs may be established by nonprofit organizations, financial entities (e.g., banks, venture capital funds), universities, or state and local governments.

Certain grant programs administered by the U.S. Small Business Administration (SBA) and the U.S. Economic Development Administration (EDA) provide funding for ESO activities. For example, SBA resource partners such as

Small Business Development Centers provide technical assistance including business coaching, education about funding options, and guidance with startup planning.

In the 118<sup>th</sup> Congress, S. 609 proposed providing grants to ESOs for entrepreneurship assistance for formerly incarcerated individuals. Separately, H.R. 699 would authorize the Department of Labor to study specific outcomes of entrepreneurial skills development programs. Also, in the 118<sup>th</sup> Congress, P.L. 118-272 established “innovation and entrepreneurship” as one of the EDA’s five core investment priorities and required the EDA to use the new investment priorities when awarding grants.

#### Underserved Communities and Disadvantaged Entrepreneurs

Congress has authorized various federal agencies to administer programs to address unique circumstances faced by socially and economically disadvantaged communities and entrepreneurs. For example, the Minority Business Development Agency (MBDA) aims to foster, promote, and develop businesses and entrepreneurs through programs such as its Minority Business Centers and Capital Readiness Program. SBA’s 8(a) Business Development Program provides business support services and federal contracting preferences, such as contract set-asides and sole-source contracts, to socially and economically disadvantaged business owners.

In the 117<sup>th</sup> Congress, the Minority Business Development Act of 2021 (P.L. 117-58, Division K) authorized new entrepreneurship education development activities, including providing grants to eligible institutions (e.g., historically black colleges and universities, minority serving institutions, and tribal colleges or universities). In the 118<sup>th</sup> Congress, H.R. 4499 would have established an MBDA-led grant program for business accelerators for minority businesses.

#### Startups in Rural Communities

Federal economic development assistance programs are generally available to both rural and urban communities. However, certain agencies focus on challenges and opportunities unique to entrepreneurship and economic development in rural areas. For instance, the U.S. Department of Agriculture (USDA) administers grant and loan programs to support business formation in rural areas, including the Rural Microentrepreneur Assistance Program.

Additionally, Congress authorized eight federal regional commissions and authorities (regional commissions) to address economic distress in certain defined socioeconomic regions. The regional commissions prioritize funding for areas experiencing economic distress—many of which are

rural areas. Most regional commissions support entrepreneurial development and local business conditions. For instance, the Appalachian Regional Commission supported the formation of Appalachian Community Capital, a lending intermediary, to help entrepreneurs access capital. Its Appalachian Entrepreneurship Academy provides students with entrepreneurial skills and mentors.

In the 117<sup>th</sup> Congress, P.L. 117-58 authorized a new MBDA program for rural minority business centers. In the 118<sup>th</sup> Congress, H.R. 9166 would have required the SBA to expand partnerships for rural entrepreneurship.

### Science and Technology Startups

Federal science and technology policies may be designed to support multiple objectives, including entrepreneurship and/or innovation. These policies often involve research and development (R&D) tax credits and assistance for science parks, incubators, STEM workforce training, immigrant worker visas, regional innovation strategies, and university partnerships. These policies may be designed to help entrepreneurs with technology transfer and commercialization, among other activities. In recent years, federal policies have provided assistance to existing firms developing new scientific or technology ventures and to scientists and engineers to become entrepreneurs. The SBA's Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs provide small businesses with seed money to help minimize risks associated with technology commercialization and innovation. EDA's Build to Scale program supports ESOs that assist technology entrepreneurs.

Legislation enacted in the 117<sup>th</sup> Congress, such as P.L. 117-167 (commonly referred to as the CHIPS and Science Act) and P.L. 117-169 (commonly referred to as the Inflation Reduction Act or IRA), provided financial assistance for domestic semiconductor manufacturers, which could include innovative new firms. The CHIPS and Science Act also authorized the Regional Technology and Innovation Hubs Program at the EDA, the Regional Innovation Engines Program at the National Science Foundation, and the Regional Clean Energy Innovation Program at the Department of Energy. While not specific to science and technology firms, the IRA included provisions for R&D tax credits for small businesses as well as health insurance tax credits for individuals and families—policies that some analysts consider supportive of entrepreneurial activity.

### Policy Considerations

Perhaps in light of findings that young firms have higher net job creation rates than mature ones, some economic development experts and practitioners suggest that entrepreneurship development warrants continued or expanded federal support. Others propose that states and the private sector, rather than the federal government, should lead entrepreneurship development efforts. According to some economists, declining entrepreneurship rates are concerning because business dynamics (i.e., the entry, growth, decline, and exit of businesses) are associated with productivity (and economic) growth.

A 2020 report by the Congressional Budget Office highlighted the long-term decline in entrepreneurship rates. The report analyzed potential policy approaches to increase

entrepreneurship in three spheres: financial (such as further increasing access to credit), demographic (such as allowing for increased immigration of skilled workers) and regulatory (such as restricting the use of noncompete contracts). Other measures may be of interest to policymakers. For instance, some researchers also analyze the type, survival rate, and productivity of young firms and quality of new jobs created for insight on how to structure entrepreneurial development and other policies.

If Congress seeks to support new or existing strategies for entrepreneurship, it may consider structuring the assistance based on the type of startup, industry sector, or other defining factor or policy objective, since startups encompass a diverse set of businesses and vary in terms of their potential aggregate economic impacts. Some researchers note that a subset of entrepreneurial firms—high-growth firms—create jobs at higher rates and suggest those firms should be the focus of entrepreneurship policies, particularly if employment growth is a core objective. On the other hand, instead of targeting startup assistance by industry sector or other criteria (e.g., likely employers, rural startups), policymakers could continue to provide assistance to entrepreneurs of varying sizes, sectors, and growth trajectories, including “lifestyle” firms (i.e., firms that hire few or no employees and do not identify and exploit new products, processes, or markets) *as well as* high-growth firms. Lifestyle firms (e.g., a house cleaning business) may provide different types of economic, social, community, and other economic development benefits to local and regional economies. Additionally, some suggest that increasing rates of educational attainment enhances human capital, skills, and knowledge, which in turn supports entrepreneurship.

As Congress considers ways to further develop innovation-focused businesses and commercialize technologies, Members may also seek to review recommendations provided by a federal working group, the National Advisory Council on Innovation and Entrepreneurship (NACIE). A 2024 NACIE report outlines 10 recommendations, including activities to address barriers to financial and human capital. For instance, the report recommended the establishment of a National Innovation Accelerator Network to connect partners and to facilitate access to innovation, commercialization, and capital resources. The report also suggested a national council to develop public-private partnerships and coordinate federal efforts.

Researchers have observed that data on outcomes of certain entrepreneurial development programs is limited and mixed. A 2012 report by the Government Accountability Office (GAO) on federal entrepreneurship development programs also found limited data, yet opportunities for enhanced coordination. GAO recommended program evaluations and enhanced collaboration between and within agencies. Given this, Congress may consider reviewing how existing programs coordinate and to what degree services may be overlapping—if at all.

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