S. HRG. 116–279

BARRIERS TO ENTRY IN THE TECH INDUSTRY FOR DIVERSE ENTREPRENEURS

FIELD HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP UNITED STATES SENATE

ONE HUNDRED SIXTEENTH CONGRESS

FIRST SESSION

OCTOBER 3, 2019

Printed for the use of the Committee on Small Business and Entrepreneurship

Available via the World Wide Web: http://www.govinfo.gov

U.S. GOVERNMENT PUBLISHING OFFICE
39–847 PDF WASHINGTON : 2020

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

ONE HUNDRED SIXTEENTH CONGRESS

MARCO RUBIO, Florida, *Chairman*
BENJAMIN L. CARDIN, Maryland, *Ranking Member*

JAMES E. RISCH, Idaho
RAND PAUL, Kentucky
TIM SCOTT, South Carolina
JONI ERNST, Iowa
JAMES M. INHOFE, Oklahoma
TODD YOUNG, Indiana
JOHN KENNEDY, Louisiana
MITT ROMNEY, Utah
JOSH HAWLEY, Missouri

MARIA CANTWELL, Washington
JEANNE SHAHEEN, New Hampshire
EDWARD J. MARKEY, Massachusetts
CORY A. BOOKER, New Jersey
CHRISTOPHER A. COONS, Delaware
MAZIE K. HIRONO, Hawaii
TAMMY DUCKWORTH, Illinois
JACKY ROSEN, Nevada

MICHAEL A. NEEDHAM, *Republican Staff Director*
SEAN MOORE, *Democratic Staff Director*

C O N T E N T S

OPENING STATEMENTS

WITNESSES

Panel 1

Panel 2

ALPHABETICAL LISTING

BARRIERS TO ENTRY IN THE TECH INDUSTRY FOR DIVERSE ENTREPRENEURS

THURSDAY, OCTOBER 3, 2019

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP,
Chicago, IL.

The Committee met, pursuant to notice, at 2:43 p.m., in Harold Washington Public Library, Hon. Tammy Duckworth, presiding.

Present: Senator Duckworth.

OPENING STATEMENT OF HON. TAMMY DUCKWORTH, A U.S. SENATOR FROM ILLINOIS

Senator DUCKWORTH. The hearing will come to order. Well, welcome everyone. I want to thank all the witnesses as well as those who are in attendance today. This is an official hearing of the Senate's Committee on Small Business and Entrepreneurship. With us today are Maggie Moore who is with the the Senate Chairman staff, Senator Rubio's staff. And then also Kevin Wheeler from Senator Cardin, Minority member's staff.

I am just going to make some quick remarks as well as introduce everyone and then we will turn it over to our witnesses to each give your prepared statements. Today's hearing is titled "Barriers to Entry in the Tech Industry for Diverse Entrepreneurs," and it will address the challenges that diverse tech entrepreneurs face when starting their businesses. It will come as no surprise to many in this room that there remains a lack of diversity in the lending space, some of which can be traced to a lack of diversity in venture capital investment firms themselves.

For instance, a study by The Information found that in 2018, only 1 percent of private venture capital investment firms have black decision makers and only 1.5 percent of those same firms have Hispanic decision makers. That amounts to a total of 7 in 11 individuals, respectively, out of over 700 firms surveyed. Think of that. That is absolutely unacceptable. It is no wonder then that according to a recent report examining nearly 10,000 startups, black founders represent only 1 percent of the venture capital black firm and Latin-x founders only 1.8 percent.

Women of all races, too, continue to be underrepresented in this space. While women now represent 15 percent of all partners, and accelerators, and corporate venture firms, up from only 8 percent in 2017, that representation is not keeping pace with women-owned businesses, which grew by 58 percent between 2007 and 2018, and women of color-owned businesses, which grew by an outstanding 163 percent during that same time period.

We must better invest in women and minority entrepreneurs, especially here in Illinois. That is why I have joined Senator Cardin in introducing legislation to establish an Office of Emerging Markets within the SBA's Office of Capital Access. This office would be responsible for ensuring SBA's access to capital initiatives and programs—from the Micro-loan program and the Small Business Investment Company program—and it would address the needs of diverse entrepreneurs in new and emerging markets.

We also need to make sure there is a strong pipeline for women and minorities to enter the tech industry before beginning their companies, starting at colleges and universities. Last week, I joined my colleague, Senator Hirono, in introducing two bills addressing this very issue. First, the Women and Minorities in STEM Booster Act 2019 would require the National Science Foundation to award competitive grants that support the recruitment and retention of women and minorities in STEM. The second is the STEM Opportunities Act of 2019, which would require Federal agencies to collect more comprehensive demographic data and develop guidance on identifying barriers to the participation advancement of women and minorities in STEM.

Investing in these pipelines will ensure a better representation in all tech fields, thereby increasing the likelihood of women starting their own tech companies. But I am here to listen to and learn from you. So I would like to now introduce the first panel of witnesses.

Our first witness joining us today is Emilia DiMenco, President and Chief Executive Officer of the Women Business Development Center. Under her direction, the WBDC has expanded its Women's Business Enterprise Certification program to a nine-state Midwest region, opening offices in its five major markets and three additional offices in the Chicago metro region. Since Ms. DiMenco's arrival, the WBDC has dramatically expanded its direct lending program to a pool of nearly $1.7 million. It has also expanded the Latina Business programs, offering bilingual business services, developed an e-learning library, and launched an entrepreneurship program to serve military veterans. Prior to her leadership at the WBDC, Ms. DiMenco spent 30 years at BMO Harris, being elevated to Executive Vice President in the corporate and commercial bank.

She also led BMO Harris' Women in Business initiative which under her leadership made BMO Harris the bank of choice for many women business owners. Emilia holds a B.S. and an M.B.A. degree in Finance from DePaul University. Welcome. Our next witness is Melissa Kaufman. Ms. Kaufman is a Founding Executive Director of The Garage at Northwestern. The Garage is a community and physical space for Northwestern students interested in entrepreneurship to learn, iterate, and grow.

She is a former Googler, startup executive, and entrepreneur with a decade of experience at consumer technology companies in Silicon Valley. Currently, she is a committee member of Chicago Next, a member of P33, and a venture partner at Chicago Ventures. She was named Chicago's Fierce 50 in 2016 and Crain Tech's

50 in 2018. She received her B.A. in Computer Science from Dartmouth College—a school I did not have the GPA to get into.

[Laughter.]

Finally, Geri Aglipay—I hope I said that correctly. Ms. Aglipay is the National Manager of Women's Entrepreneurship and Midwest Outreach Manager, overseeing small business majorities outreach education, policy, and advocacy efforts in greater Chicago. These efforts enhance financial capacity and economic security for small business owners, their employees, and their families.

She lectures on access to capital and financing small businesses with partners in Government, nonprofits, banks, community organizations, and more, to increase awareness of growth, responsible financing, and how to get funding to grow in certain small business ownership. She is a member of the steering committee for the Illinois Asset Building Coalition and was selected to the Cultivate Women of Color Leadership program. Thank you all so much for taking the time to be here today. And Ms. DiMenco, please get us started.

STATEMENT OF EMILIA DiMENCO, PRESIDENT AND CEO, WOMEN'S BUSINESS DEVELOPMENT CENTER

Ms. DIMENCO. Thank you, Senator Duckworth, for inviting me here today to represent the Women Business Development Center. Founded in 1986, the WBDC launched one of the first Women Business Centers in the country and, as you know, there are over 100 today. In Fiscal Year 2019 to set the stage, the WBDC provided counseling services to over 2,400 business owners and certified over 2,000 women's business enterprises. The certified businesses alone generated more than $21 billion in revenues and employed over 87,000 individuals. And with our assistance, I am proud to share with you that these women were awarded over $400 million in public- and private-sector contracts.

For emerging businesses, we also helped our clients source and we directly lent over $3 million in capital. I would like to thank you for taking the time today to learn more about the barriers to entry in the technology industry for diverse entrepreneurs. As you know, it takes immense courage and passion to be an entrepreneur, no matter what demographic boxes you might check, but for women and minority entrepreneurs, it is even more difficult. I am going to share a well-known success story with you and that is a tech business called LuminAid. It was started by Andrea Sreshta and Anna Stork. They were students when they invented the first solar light product to address the disaster relief efforts in Haiti post-earthquake in 2010. So they had $10,000 and in 2011 they launched LuminAid. Today, this Chicago-based company has about 125 employees and it has expanded its product line from disaster relief to everyday living.

We have all heard stories of entrepreneurs selling a house or cashing in their 401k to fund their business idea and we have heard of people losing everything in pursuit of their dreams. Entrepreneurs should not have to jeopardize critical, irreplaceable assets to explore innovative ideas that improve the quality of all of our lives and create jobs for people in our communities as the founders of LuminAid did. For certain businesses with high growth potential and sought-after industries, angel investors and venture capitalists are abundant.

For most companies, however, innovation and growth, in addition to their personal resources if they had any, are fueled by alternative providers of capital, such as community development and financial institutions, CDFIs, micro lenders, and SBA-supported products offered through traditional avenues. Access to capital is particularly hard for women and minority-owned businesses, both debt and equity capital. And it is essential for them also to start growing and expand their businesses. And as you have already pointed out, with the statistics that you cited in your opening comments, only 2.2 percent of all venture capital funding went to female-founded teams.

Black and Latino entrepreneurs received even less, just 1 percent of all startup financing. The only thing that makes these numbers worse is that this is where the innovation is coming. It is coming from women, and particularly women of color, higher than the general market overall. However, it is not just about having access to capital. It is about the right mix of capital. And in the finance world, it is referred to as capitalization. I mentioned the founders of LuminAid. Their company grew capital from a variety of sources, from crowdfunding to their first outside equity investor in 2015. And while LuminAid is a success story, there are many more entrepreneurs struggling to find the right capital.

We see this routinely at the WBDC with thousands of hours of the advisory services we provide. To truly address the barriers to entry, we must ensure that the right type and mix of capital is available throughout our communities and, just as important, the right mix of technical assistance to support the entrepreneurs to pursue the funding that they need to grow and sustain their dreams so that their dream doesn't become a nightmare. Business acceleration assistance is needed, and it is more than office space and investors looking for hockey stick opportunities. It is about providing owners with the support they need to grow their business in their best interests so that they earn living wages, create wealth, and they create new jobs for others.

There are ample examples for our Government agencies to support innovation and entrepreneurship to accelerate economic growth, and I would like to talk very briefly about two programs. First, the ScaleUp program, which started in 2015. The WBDC was one of eight organizations across the country selected to run a ScaleUp pilot, and we did it in Aurora, Illinois. It was to help companies get to the million dollar mark. And the reason we were looking to accelerate them to the million dollar mark is because that is where the most jobs are created and that is where there is sustainability of the business. This program was so successful that we brought it to low- to moderate-income communities within the city of Chicago.

The owners that we served through the ScaleUp program to date have created and retained over 700 jobs and have access equity and debt capital close to $1 million. They identify as 87 percent female, 13 percent male, 47 percent black, and 27 percent Hispanic. The public funding for the ScaleUp program was discontinued in 2017. We have been lucky, and we have been able, with the data we collected in the success of the pilot, we were able to obtain private funding. Expanding programs for ScaleUp-like programs is one way to address the issues of barrier.

The second example is for earlier stage companies, the Federal and State technology grants provided by the SBA which provide commercialization support to access Federal grants for entrepreneurs. Through this program, grantees like the WBDC increase access to early stage funding for entrepreneurs and researchers who are traditionally underrepresented in the $2.5 billion annual U.S. Small Business Innovation Research program. In 2017, the WBDC was awarded a FAST grant to reach out and enable diverse communities to pursue similar grants.

During the course of the WBDC's two-year program, we helped 60 companies receive technical assistance; 37 of them were women, 9 were African American, 3 were Hispanics, and 3 were veteran-owned businesses, but the most impressive thing is that they realized $4.5 million in capital raised for contracts awarded. This is non-dilutive equity which builds wealth for the business owner and keeps the wealth within the community.

Unfortunately, FAST grants, as you know, are not awarded in every State to support equitable opportunity to pursue similar grants. In fact, less than half the States have this program. When we received this grant two years ago, it was the first time in 3 years that it was awarded to the State of Illinois. And since it expired, our State once again is at a disadvantage. Expanding funding for the SBA's FAST program so that every State has access to this program to support its entrepreneurs in pursuing similar grants is another way to address the issues with barriers for innovative tech entrepreneurs.

I can give you more examples, but I am not going to do that because I know I am running out of time. I will be finished shortly. We can address barriers to entry by supporting such programs that work but also we can make the programs that we support more effective, and we can do that by cost-effectively expanding geographic reach using a hub and spoke model so that infrastructure, administration, and fundraising for those programs can be done centrally while people that are serving their clients are locally rooted. We can increase operational effectiveness by removing the redundancy in the systems that are the programs that are offered out, and we can make sure that between programs they can communicate with each other.

We can address success for programs—we can address that the success of these programs, that the measurement is more impact based versus effort based. And we can embrace and leverage technology to offer virtual services and support. We understand that balancing a budget requires choices, but it is alarming that proving programs designed to help underserved communities have been eliminated or underfunded or operated inefficiently. While the WBDC and many other organizations, some of which are represented here, scramble to continue to support proven programs impacted by budget cuts, we simply cannot do it alone. And that is why forums such as this are so important. By coming out to the community and hearing firsthand what is working and what is not, we can work together to find solutions that are not just wise investments but also effective investments.

Despite considerable progress over the years, there is still work to be done to achieve economic parity. Without access to capital, it can be difficult for entrepreneurs to get their business off the ground, let alone grow their business enough to start creating jobs and benefiting their community. At the WBDC, we know that with the right tools and assistance our clients are more successful in securing funding for their businesses, and we also know that there are proven Federal programs that also support diverse entrepreneurs.

Today, we ask that you continue to invest in expanding and improving these programs. And again, I thank you for this opportunity, and I am happy to answer any questions.

[The prepared statement of Ms. DiMenco follows:]

WOMEN'S BUSINESS DEVELOPMENT CENTER

Senate Committee on Small Business and Entrepreneurship Field Hearing
'Barriers to Entry in the Tech Industry for Diverse Entrepreneurs'
Testimony of Emilia DiMenco, President and CEO, Women's Business Development Center
October 3, 2019

Thank you, Senator Duckworth, for inviting me here today. My name is Emilia DiMenco, I am President and CEO of the Women's Business Development Center, the WBDC. The WBDC serves women, minority and veteran business owners in Illinois, Wisconsin, Minnesota, Iowa, Missouri, Kansas, Nebraska, North and South Dakota.

Founded in 1986, the WBDC launched one of the first women's business centers. Today, there are over 100 centers throughout the United States. In fiscal year 2019, the WBDC provided counseling services to 2,423 business owners and certified almost 2,000 businesses. The certified businesses alone generated more than $21 billion in revenues, employed 87,993 individuals, and with our assistance, were awarded $409,542,604 in public and private sector contracts. For emerging businesses, we also helped our clients source or directly lent $3,342,400 in capital.

I'd like to thank you for taking the time today to learn more about the barriers to entry in the technology industry for diverse entrepreneurs. It takes immense courage and passion to be an entrepreneur, no matter what demographic boxes you might check, but for women and minority entrepreneurs, unfortunately, it is even more difficult.

It is a fact that access to capital, even in small amounts, is essential to start, grow, and sustain a business.

A well-known example is the story of LuminAid. Andrea Sreshta and Anna Stork were students when they invented their first solar light product to address the disaster relief efforts in Haiti post-earthquake in 2010. With only $10,000 in 2011, LuminAid was launched. Today the Chicago-based company, with about 125 employees, has expanded its product line from disaster relief to everyday living.

We've all heard stories of entrepreneurs selling a house or cashing in their 401(k) to fund their business idea. And, we've heard of people losing everything in pursuit of their dreams. Entrepreneurs should not have to jeopardize critical, irreplaceable assets to explore innovative ideas that improve the quality of our lives and create jobs, as the founders of LuminAid did.

Access to capital is particularly hard for women and minority-owned businesses - both debt and equity capital. In 2017, according to Pitchbook, only 2.2% of all venture capital funding went to female-founded teams. Black and Latino entrepreneurs received even less, just 1% of all startup financing, according to the Kauffman Foundation.

The only thing that makes these numbers worse is the scale of innovation and business creation being fueled by women and minorities. Women and women of color are starting businesses at a higher rate than the general market. Yet, these women have greater challenges obtaining the funding they need to build and sustain their companies.

However, it is not just about having access to capital, it is about the right mix of capital. Earlier I mentioned the founders of LuminAid. Their company grew with capital from a variety of sources – in its infancy, its funding came from crowdfunding. As the company became more established, it received development grants, and in 2015, it received its first outside equity investment. Even today, after almost a decade in business, the company continues to grow based on capital from a variety of sources.

But for every LuminAid success story, there are many more entrepreneurs struggling to find the right capital. We see this routinely with the thousands of hours of advisory services we provide at the WBDC – sometimes they put their family's financial assets at risk, sometimes they give up too much equity, or sometimes it is as simple as getting a line of credit instead of a more appropriate term loan to meet their medium term needs.

To truly address the barriers to entry, we must ensure that the right type and mix of capital is available throughout our communities, and just as importantly, the right mix of technical assistance to support the entrepreneurs is available to fund, grow and sustain their dreams so it doesn't become a nightmare. Too often, the assumption is that budding tech entrepreneurs need the support of an incubator. And for some, incubators are exactly what they need.

Based on our experience, there is a greater need and benefit for entrepreneurs when they have access to business acceleration assistance.

What does that mean? A business accelerator is a program that gives developing companies access to core learning, appropriate capital, information, mentors, peers and other support that help them become stable, self-sufficient businesses.

Companies that use business accelerators are typically start-ups that have moved beyond the earliest stages of getting established. They have basically entered their "adolescence," meaning they can stand on their own two feet but need guidance and peer support to gain momentum. It's at this stage that the entrepreneur begins to earn living wages and create new jobs for others.

An accelerator is more than office space and investors looking for hockey stick opportunities, it is about providing business owners with the support they need to grow their business in their best interest.

And, incubators, unless they are specifically targeted for women or minorities, are not reaching diverse audiences. A survey conducted by the Initiative for Competitive Inner City of high-tech incubators found that just 20 percent of the businesses supported were owned by women and only 23 percent were owned by minorities, and the survey showed that those owners were not fully utilizing the resources in these facilities. These numbers do not reflect the reality of who it is that are starting businesses, and as concerning, it indicates that, for an unknown reason, the women and minority owners who are utilizing incubators are not realizing the full value of the facility.

There are ample opportunities for our government agencies to support innovation and entrepreneurship to accelerate economic growth.

Let me share three examples:

First, ScaleUp. In 2015, the WBDC was one of eight organizations across the country selected to pilot a ScaleUp America Program sponsored by the U. S. Small Business Administration. The program proposed by the WBDC was an intensive 12-week program targeting high-potential entrepreneurs, with revenues up to $500,000 to help them take their business to the next level. Research conducted by the S.B.A. showed that businesses reaching $1 million in revenues created more sustainable jobs with living wages.

I want to share with you that since the WBDC launched the ScaleUp Program in the greater Aurora area, the program has graduated a total of 277 businesses. Based on the success of the Aurora pilot supported by the S.B.A., the WBDC brought the model to several City of Chicago low-to-moderate income neighborhoods. This year alone, we expect to serve 229 business owners through 11 cohorts across 5 Chicago neighborhoods on the South and West sides, as well as Aurora. The owners we have served through the ScaleUp Program to date have created and retained over 700 jobs and have accessed equity and debt capital close to $1 million dollars. These entrepreneurs contribute to their community's well-being through job creation, stronger tax base, and the purchases that the businesses make from other local businesses. Those that we have served identify as 87% female, 13% male; 47% are Black, and 27% are Hispanic.

While the public funding for the ScaleUp Program was discontinued by the Small Business Administration in 2017, the WBDC has been able to sustain this program due to our ability to raise funds from private donors because of the success of the pilot and the data we had to support it. Expanding funding for ScaleUp-like programs is one way to address the issues of barriers.

The second example is for earlier stage companies, the Federal and State Technology (FAST) grants provided by the S.B.A. provide commercialization support to access federal grants for entrepreneurs; early-stage equity capital is not typically available through traditional sources. Through this program, grantees like the WBDC, increase access to early-stage funding for entrepreneurs and researchers, who are traditionally underrepresented in the $2.5 billion annual U.S. Small Business Innovation Research (SBIR) Program – currently women, minority, and veteran entrepreneurs account for less than 20% of the federal dollars granted.

In 2017, the WBDC was awarded a FAST grant. With this grant, we established the InventIllinois Program, a program that provided the commercialization support to access federal grants for entrepreneurs not typically available through traditional incubators because these grants are non-dilutive equity and very early stage innovations.

During the course of the WBDC's 2-year, grant period, 60 companies received technical assistance, and of those:

- 37 were Women-Owned businesses
- 9 were owned by African Americans

- 3 were owned by Hispanics
- And, 3 were veteran-owned businesses

But, the most impressive thing is that these businesses realized $4.5 million in either capital raised, or contracts awarded. This non-dilutive equity builds wealth for the business owner, and also keeps the wealth within the community.

Unfortunately, FAST grants are not awarded in every state to support equitable opportunity to pursue SBIR grants, in fact less than half of the states have this program. When we received this grant over two years ago, it was the first time in 3 years that it was awarded to the State of Illinois, and since it expired, our State once again is at a disadvantage. Much like what we've done with ScaleUp, the WBDC is working to raise private sector funding to sustain this Program in Illinois. Expanding funding for the S.B.A.'s FAST Program so that every state has access to this Program to support its entrepreneurs in pursuing SBIR grants is another way to address the issues of barriers innovative tech entrepreneurs face.

And, the last example is the Department of Labor's funding of the Self-Employment Training Program or SET through a consulting firm called Mathematica, as an example of entrepreneurship as an alternative for economic self-sufficiency. This pilot program ended in 2017, but had been very successful in helping people who had been unemployed for extended periods of time move to economic self-sufficiency through entrepreneurship. Through the technical assistance we provide, we routinely see people successfully transition from unemployment to business ownership. Even during periods of low unemployment, programs such as SET help individuals pursue innovative and creative entrepreneurial ideas to achieve economic independence.

These programs are examples that we can use to learn from and begin to address the barriers to entry for women and minority business owners. However, there are ways to take these programs that work and make them even more effective.

Let's start with **geographic reach and operational efficiencies**. Entrepreneurs are in every city, every state, small towns and big cities. Geography does not need to be an additional barrier to success; we should make sure that every state has access for every program. However, along those same lines, there are opportunities to make each taxpayer dollar that is invested in these programs go further. Using a 'hub and spoke' model is one option to increase efficiencies of many of the current programs being funded such as SBDCs, WBCs and PTACs. There is no reason to have multiple infrastructures for each community-based program.

For example, earlier I mentioned ScaleUp, which started with federal funding in Aurora. We've been able to successfully expand this program into other geographies while keeping the overhead/infrastructure costs to a minimum because it is centrally managed while locally delivered. Furthermore, there are also opportunities to streamline operations across various federally funded programs by removing redundant systems and investing in systems that can communicate with each other across various programs.

Next to increase effectiveness, we need to address measurement – how do we know if the supported programs by our federal dollars have impact? The various programs supported by the SBA – SBDC, VBOC, and WBCs—not only collect information from different systems that do not talk to each other, but measure the success and impact of these programs differently. All these programs should be more focused on outcome-based measures, using consistent and shared metrics and tools, so that we can make decisions based on data and invest money in programs that we know achieve the outcomes we hope.

And, finally as my last suggestion to increase effectiveness, it would not be appropriate if I did not raise the issue of increasing digital offerings and applying the same innovative rigor and processes that we stress to those we serve to ourselves. We should not be wedded to a 'real estate' model of service delivery; rather, we should fully embrace and leverage technology to offer virtual services and support.

For 33 years, the Women's Business Development Center has delivered programs and services to women and other diverse entrepreneurs to strengthen their participation in, and impact on, the economy. For businesses to thrive, it's critical that the state and federal administrations introduce policies that are supportive of the needs of all businesses, whether they have two employees or 2,000 employees.

We understand that balancing a budget requires choices, but it is alarming that proven programs designed to help underserved communities have been consistently eliminated or underfunded. We must invest in our communities by investing in the businesses in those communities. While the WBDC and many other organizations scramble to continue to support proven programs impacted by budget cuts, we simply cannot do it alone.

And, that is why forums such as this are so important. By coming out to the community and hearing firsthand what is working and what it is not, we can work together to find solutions that are not just wise investments but also effective investments.

The biggest concern for any business is generating revenues. Hand-in-hand with that concern is having the resources to fuel the business opportunity. Most of the funding for emerging businesses comes from the business owner's personal resources, such as, mortgage, savings, earnings, or family and friends. For certain businesses with high growth potential in sought after industries, angel investors and venture capitalist are abundant. For most companies, however, innovation and growth (in addition to personal resources and contacts) is fueled by alternative providers of capital, such as, CDFIs, micro lenders, SBA-supported products offered through traditional banks, etc.

Despite considerable progress over the years, there is still work to be done to achieve economic parity. Without access to capital, it can be difficult for entrepreneurs to get their business off the ground, let alone grow their business enough to start creating jobs and benefiting their community.

The WBDC provides entrepreneurs a place to turn for assistance before they reach out to appropriate providers of capital. We provide financial assessment and counseling, capital preparation assistance, and direct lending when the loan can be service and other providers of capital are not available. We know that, with the right tools and assistance, our clients are more successful in securing funding for their businesses. And, we also know there are proven federal programs that also support diverse entrepreneurs. Today, we ask that you continue to invest in expanding and improving these programs. Again, thank you for this opportunity, I am happy to answer any questions.

Senator DUCKWORTH. Thank you. I look forward to your participation in the discussion.

Ms. Kaufman, welcome.

STATEMENT OF MELISSA KAUFMAN, FOUNDING EXECUTIVE DIRECTOR, THE GARAGE AT NORTHWESTERN UNIVERSITY

Ms. KAUFMAN. Thank you for the opportunity to share The Garage at Northwestern's perspective on barriers to entry in the tech industry for diverse entrepreneurs. I joined Northwestern in 2015 to build, develop, and grow the University's first student center hub for entrepreneurship and innovation called The Garage. The Garage is one of the most unique and modern spaces on our Evanston campus. It is carved out of the second level of a parking structure, and the space is a technology playground with a nod to Silicon Valley and is open to all Northwestern students from any school and any level of study.

Most of the early adopters of the space were male students, many of whom were studying engineering. As a former Googler and startup executive in San Francisco, I am no stranger to being the only woman in the room. While I would have hoped I was setting an example as a leader of innovation at Northwestern, I realize that breaking down the barriers to entry to entrepreneurship takes more than opening a new space. From programming to networking opportunities, we have developed ways for empowering female student entrepreneurs to do more than stay on the sidelines in the tech industry, and many of the lessons we have learned from our own operations are applicable to other underrepresented groups.

Last year, The Garage launched the Propel program. The program's goals are to promote diversity and inclusion and entrepreneurship by providing networking, mentorship, and financial resources to women. We are aware of how Northwestern's population continues to change. Today, Northwestern student population is 20 percent Pell Grant recipients, 61 percent are funded through financial aid, and over 10 percent are first-generation students, and we hope to expand the Propel program to include other underrepresented groups at Northwestern in the future. First, we believe that it is important for students to see entrepreneurs and leaders that look like them. Whether that is women, people of color, or first-generation students, we have witnessed the impact that a one-on-one in-person conversation can have.

We discovered this last year when we took a group of students from the program called Propellers to New York City—they are on their second trip today. The most transformative moments came from a roundtable at Northwestern's New York office. The result was an open and enlightening dialogue and one student shared the comfort she felt being in a room with other supporting women. This transparent access to more senior women gives students the extra nudge they need to become the future leaders and founders we need. Second, we have learned the impact that individualized encouragement has had for female students. We have found that offering thoughtful communication and paths to funding gives women student founders explicit permission to pursue their entrepreneurial projects.

As an example of this, I would like to share the story of Samantha Letscher one of our students. Sam applied to The Garage's full-time summer program for promising student startups with her idea for BOSSY. She shared that a mentor to her, an adjunct male faculty member at Northwestern, told her to apply to the summer program. She was accepted and worked on her idea and went on to win prize money at the end of the summer. She graduated from Northwestern in 2018, and now, BOSSY, her Chicago-based startup, features an online directory listing hundreds of women-owned businesses that consumers can shop from.

Sam tells us that she never would have applied to The Garage's program without that push from her professor. She may have never seen the impact that her idea could have had. Sam is still working on BOSSY and currently serves as a mentor for the Propel program, allowing her work to come back full circle. An entrepreneurial mindset is a critical skill set for the future. It teaches students to be adaptable and resilient problem solvers.

At The Garage, we are aiming to ensure that all students, regardless of their background, gender, or race are offered the same opportunities to develop this skill set. We are committed to doing this through meaningful networking, equal and fair access to funding opportunities, and individualized encouragement from mentors.

Thank you.

[The prepared statement of Ms. Kaufman follows:]

Northwestern
The Garage

Barriers to Entry in the Tech Industry for Diverse Entrepreneurs

Melissa Kaufman
Executive Director
The Garage at Northwestern

Thank you for the opportunity to share The Garage at Northwestern's perspective on barriers to entry in the tech industry for diverse entrepreneurs. I look forward to sharing with Senator Duckworth how we have built our innovative programs and crafted an inclusive environment where underrepresented students can thrive in tech (or any field) after graduation.

Background

At Northwestern, new discoveries are found, new connections are forged, and ideas are moving closer to reality. Students across all schools of Northwestern are fearlessly challenging the status quo, redefining what it means to be innovative in every discipline. From cold brew coffee sold on a bicycle to automated drones developed for vertical warehouses, the ideas that we see each year at The Garage at Northwestern are an extraordinary testament to the new and exciting ways students are approaching their college experience. They are building a brighter future for tomorrow, and the startup buzz around campus is undeniable. The entrepreneurial ecosystem and commitment to innovation at Northwestern stretches across all campuses, all schools, and *all* students.

My name is Melissa Kaufman, and I joined Northwestern in 2015 to build, develop, and grow the university's first student-centered hub for innovation and entrepreneurship, The Garage. The Garage is one of the most unique and modern spaces on Northwestern's Evanston campus. Carved out of the second level of a parking structure, the 11,000 sq. ft. space is a tech playground with a nod to Silicon Valley that is open to all Northwestern students from any school and at any level of study. Outfitted with the resources students have told us they need like dedicated workspaces, fun and collaborative meeting rooms, and of course, free coffee, The

Garage is not only a place to meet with other students interested in entrepreneurship - it's a place to transform their mindset. Our ultimate goal is to instill students with the entrepreneurial toolkit and innovative mindset they'll need to be successful: from pitching to leading effective teams to learning how to get to "yes," the subset of Northwestern students The Garage serves are forging new and exciting paths every day.

Most of the early adopters of our co-working space and programs were male students, many of whom were studying engineering. As a former Googler and startup executive formerly based in San Francisco, I'm no stranger to being one of only a few women in the room. While I'd hoped I was setting an example for female students as a leader of innovation at Northwestern, I realized over the last four years that breaking down the barriers of entry to entrepreneurship takes more than opening a new space on campus.

From thoughtful programming to personalized networking opportunities, we've developed new ways of empowering female student entrepreneurs at Northwestern to do more than stay on the sidelines of the tech industry. Many of the lessons we've learned from our own operations are applicable to other underrepresented populations. We know diverse teams - especially in tech - are better equipped to solve problems and ultimately, give startups a competitive advantage. Through our programming, our female student entrepreneurs experience personal growth, amassing the foundational tools to create and run impactful organizations and gain access to a network of like-minded people.

Propel

In 2018, The Garage at Northwestern launched the Propel Program. The program's goals are simple: to promote diversity and inclusion in entrepreneurship by providing networking, mentorship, and financial resources to women. We're keenly aware how Northwestern's population continues to change. Today, Northwestern's student population is 20% Pell Grant recipients, 61% are funded through financial aid, and over 10% are first generation students, and we hope to expand The Propel Program to include other underrepresented groups at Northwestern in the future.

We believe that it is important for students to see entrepreneurs and leaders that look like them. Whether women, people of color, or first generation students, we've witnessed first hand the impact a one on one conversation can have. Last year, we took the first cohort of "Propellers" to New York City for a field trip. We saw the opening bell of the New York Stock Exchange - an organization with its first female president in 226 years. The most transformative moment on that trip came from an intimate round table held at Northwestern's NYC-based office. We invited recent alumnae of Northwestern to sit across from our female students and share their experiences as women leaders. The result was an open and enlightening dialogue, and one student shared the comfort she felt being in a room of other supportive women. This transparent access to more senior women gives students the extra nudge they need to become future leaders and founders.

This experience, however, doesn't break down all of the barriers women face. Even though women represent about 50% of the Northwestern undergraduate student bodies, we still receive fewer applications for our programs from women than men. According to a KPMG leadership study, 79% of women reported not feeling confident enough to ask for a mentor. So it's up to people like me, along with my team, to facilitate these authentic connections. And it's my belief that if young founders saw and met more women and people of color pursuing entrepreneurship and tech, they'd be more inclined to follow suit.

Through several experiments and iterations of the Propel Program, we've learned the impact that individualized encouragement has for female students. This comes from meaningful, transparent mentorship relationships. But it's a two way street. Mentors must commit to offering tangible opportunities for growth to their mentees, whether that's writing a letter of recommendation, handing over a book that teaches a valuable lesson, or pointing students to funding opportunities to level the playing field. We've found that offering this type of thoughtful communication and paths to funding essentially gives female student founders explicit "permission" to pursue their entrepreneurial projects.

As a prime example of this, I'd like to share the story of Samantha (Sam) Letscher. Sam applied to The Garage's full time summer program for promising student founded startups with her idea for BOSSY in 2017. She shared with us that a mentor to her, an adjunct faculty member at Northwestern, told her, very explicitly, to apply to the summer program. She was accepted and worked to develop her idea, carefully spending her earned stipends and going on to win prize money at the end of the summer. Sam graduated from Northwestern in 2018 and today, BOSSY, her Chicago-based startup, features an online directory listing hundreds of women-owned businesses that consumers can shop from.

Sam tells us she never would've applied to The Garage's summer program without that push from her professor. She may have never seen the impact her idea could have. Sam is still working on BOSSY and currently serves as a mentor for the Propel Program, allowing her work to come full circle.

Conclusion

An entrepreneurial mindset, which students develop from working on a startup idea in school, is a critical skill set for the future. It teaches students to be adaptable and resilient problem-solvers. At The Garage at Northwestern, we are doing everything we can to ensure that all students, regardless of background, gender, or race, are offered the same opportunity to develop this skill set. We are committed to doing this through meaningful networking, equal and fair access to funding opportunities, and individualized encouragement from mentors.

Senator DUCKWORTH. Ms. Aglipay.

STATEMENT OF GERI AGLIPAY, MIDWEST OUTREACH MANAGER AND NATIONAL WOMEN'S ENTREPRENEUR MANAGER, SMALL BUSINESS MAJORITY

Ms. AGLIPAY. Congresswoman Duckworth, thank you again for inviting me to speak with you today about barriers facing diverse entrepreneurs and solutions to address inequities in accessing capital. As a Midwest Outreach Manager and National Women's Entrepreneurship Manager for Small Business Majority, I have seen firsthand how entrepreneurship can create lasting impact for both an individual and their community. At Small Business Majority, our mission is to empower America's entrepreneurs to build up driving and inclusive economy.

As part of our work, small business majority promotes a policy agenda that can stimulate our economy and increase prosperity for all, but today I want to focus on two key areas of our agenda to support diverse entrepreneurs. One, expanding access to traditional responsible lending, and two tackling predatory lending practices, understanding that these issues disproportionately impact women and people of color.

Despite the importance of small businesses to our economy, small business owners face hurdles accessing capital which you have heard from my previous colleagues as well and in your opening statements but what is more significant is for entrepreneurs of color and borrowers in the community, and women and veterans have trouble more especially accessing that capital. For example, women- and minority-owned businesses receive approximately 45 percent of conventional small business loans.

And according to the U.S. minority business development agencies, businesses owned by people of color were three times more likely to be denied a loan than non-minority firms, and when they do access alone, their average loan amount is actually less than half the amount of white-owned businesses. And while women-owned businesses are the fastest growing segment of our economy in the United States, research shows women in general start off with fewer assets and receive inequitable access to both loans and venture capital, and women receive nearly 50 percent less funding than their male counterparts. It is this credit gap that hurts the profitability of these small business owners and inhibits their ability to grow.

The small business credit gap will not be overcome without increasing traditional, flexible, and safe financing options. I will cover a few of our key recommendations, but more of them can be found on our website. But first we must expand the SBA loan programs like the 7A loan guarantee program, the 504 loan guarantee program, and the Microloan program. For example, Congress should pass legislation such as the Microloan Expansion Act of 2019, which will increase capital for entrepreneurs.

Second, we should make permanent the SBA 7A Community Advantage program, which is a pilot actually set to expire in 2022. This program is a vital resource for mission-based lenders and provides both loans and assistance to underserved markets. We also need to ensure that women and entrepreneurs of color get equitable access to capital by increasing funding for the counseling capital and contracting services provided by Women Business Centers like the WBDC, small business development agencies and centers, and the Minority Business Development Agency. This includes for instance increasing the cap on matching grants for Women Business Centers.

Additionally, we must address predatory lending practices in small business lending. There is innovation in small business financing, and it is making it faster and easier for people to borrow, but this innovation must be built on transparency and fairness. This is needed because alternative financing and brokers operate in an almost unregulated space, which leaves small business institutes vulnerable to predatory practices. While there are some funding institutions that are fair disclosing their terms and rates, many lenders are exploiting and offering desperate entrepreneurs predatory loan products.

Loan terms are often unclear and not disclosed and borrowers later discover they are locked into hidden fees, higher interest rates than anticipated, and other unfavorable loan terms, which leaves them on the hook for much more than they expected, and the result is many lose their personal assets and business as well.

While the Federal Truth in Lending Act does offer some protection to consumers from this exploitation, the law itself actually does not apply to small business owners. This is why we would like to see Congress enact legislation extending the Federal Truth in Lending Act disclosure requirements to small business loans and credit products as was done in the State of California last year. Our research shows small businesses strongly support this type of regulation. Second, any policy should promote small business lending practices that are responsible by lenders and brokers as outlined in the small business borrowers bill of rights, specifically by requiring transparency around rates and terms, including annual percentage rate, and curbing the practices of rates such as double-dipping among other issues.

We would like to see Congress pass the Small Business Lending Fairness Act, a bipartisan legislation that was introduced but this legislation would prohibit confessions of judgment. Confessions of judgments are clauses where borrowers agree in advance to waive their right to contest any dispute with the lender, which often costs them their entire savings. In closing, we know that small businesses inject economic vitality into their communities.

However, they need the proper resources and public policies to support them, with attention to entrepreneurs who struggle to access resources and economic security most, namely women and entrepreneurs of color. Thank you for the opportunity to comment on these important issues for small businesses here in Illinois and across the country, and I am happy to answer any questions.

[The prepared statement of Ms. Aglipay follows:]

SMALL BUSINESS MAJORITY

WRITTEN STATEMENT

BEFORE THE U.S. SENATE COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSIHP

FIELD HEARING ON

"BARRIERS TO ENTRY IN THE TECH INDUSTRY FOR DIVERSE ENTREPRENEURS"

October 3, 2019

Geri Aglipay

Small Business Majority

Congresswoman Duckworth,

Thank you for inviting me to speak with you today about barriers facing diverse entrepreneurs and solutions that can address inequities in accessing capital.

As you know, small businesses are the foundation of our economy—one that that ensures opportunity and prosperity for everyone. Small business ownership is a potent force that can help address the economic inequality that is holding our economy back from achieving its full potential—from providing sustainable high quality jobs to helping revitalize distressed neighborhoods and rural communities. A healthy entrepreneurial ecosystem provides an innovative and singular pathway for women, people of color, young adults, veterans, disabled people, immigrants and rural residents to enter the mainstream American economy and build income and independence.

As the Midwest Outreach Manager and National Women's Entrepreneurship Manager for Small Business Majority, I've seen first-hand how entrepreneurship can create lasting impact for both an individual and their community. At Small Business Majority, our mission is to empower America's entrepreneurs to build a thriving and inclusive economy. We actively engage small business owners and policymakers in support of public policy solutions, and deliver information and resources to entrepreneurs that promote small business growth and drive a strong, job-creating economy. Our extensive scientific opinion polling, focus groups and economic research help us educate and inform policymakers, the media and other stakeholders about key issues impacting small businesses and freelancers, including access to capital, taxes, healthcare, retirement and critical workforce issues.

Small Business Majority has a network of 58,000 small business owners across the country, with six regional offices, including an office here in Chicago. We work closely with our network and with more than 1,000 local business groups to create a strong small business voice in Washington and state capitals, and deliver critical education and resources to America's job-creating entrepreneurs. Through our Entrepreneurship Program, we offer free education, tools and events to small business owners and aspiring entrepreneurs about access to responsible lending options, retirement, healthcare, wealth building tactics and more.

As part of our work supporting entrepreneurs, Small Business Majority has created a policy agenda that can promote a thriving economy and increase prosperity for all. Our agenda includes short and long-term recommendations that can be enacted at the national, state and local levels. Today, I will primarily focus on two key areas of our policy agenda that can be addressed to support diverse entrepreneurs: expanding access to traditional lending, and tackling predatory lending practices that are targeting underserved communities, understanding that these issues disproportionately impact women and people of color who historically have fewer assets to start and grow a business.

The small business credit gap for women and entrepreneurs of color

Despite the importance of small businesses to our economy, small business owners face significant hurdles accessing capital. Harvard Business School's 2016 report "The State of Small Business Lending" found that the small business share of total bank loans fell from 31% in 2010 to 21% in 2016.[1] Small Business Majority's scientific opinion polling has found that 9 in 10 small business owners believe the availability of small business loans is a problem.

This small business credit gap is even more significant for historically underrepresented entrepreneurs, including people of color, borrowers in rural communities, and for women and veterans. For example, women and minority-owned businesses receive just 4.4% and 5.5% of conventional small business loans respectively.[2] Indeed, Latino- and black-owned businesses were less than half as likely to use a bank loan to finance their startups as non-minority firms, instead relying more heavily on personal credit cards to start their businesses.[3] According to the U.S. Minority Business Development Agency, businesses owned by people of color were three times more likely to be denied a loan than non-minority firms.[4] Even more striking, the average loan amount for minority-owned firms was less than half the average for white-owned firms.[5] And, in their 2016 State of Latino Entrepreneurship report, Stanford University researchers found a scant 6.1% of Latino entrepreneurs obtained a loan through a traditional bank, and less than 3% obtained financing through government loans.[6] More than three quarters also were unaware of available U.S. Small Business Administration (SBA) loans and grants.

And while women-owned firms are the fastest-growing segment of businesses, studies find that women do not get sufficient access to loans and venture investment. According to Biz2Credit's 2017 State of Women-Owned Small Business Finance Study, women business owners get nearly 50% less in funding than their male counterparts.[7] Similarly, a SBA study found that African-American and Hispanic business owners were most likely to report unmet credit needs.[8]

The Federal Reserve also found in 2016 that while women entrepreneurs apply for loans at similar rates to men, only 47% of their applications were funded, compared to 61% of applications from male-owned firms.[9] Among the women business owners who didn't apply for financing, the survey indicated they didn't apply because they were more likely to believe they wouldn't receive funding.

[1] Harvard Business School, "The State of Small Business Lending: Innovation and Technology and the Implications for Regulation," November, 2016, http://www.hbs.edu/faculty/Publication%20Files/17-042_30393d52-3c61-41cb-a78a-ebbe3e040e55.pdf

[2] Urban Institute, "Competitive and Special Competitive Opportunity Gap Analysis of the 7(a) and 504 Programs," January 2008, https://www.urban.org/research/publication/competitive-and-special-competitive-opportunity-gap-analysis-7a-and-504-programs/view/full_report

[3] U.S. Small Business Administration, "Small Business Finance: Frequently Asked Questions," July 2016, https://www.sba.gov/sites/default/files/Finance-FAQ-2016_WEB.pdf

[4] Minority Business Development Agency, "The MBDC: Vital to Making America Great," 2017, https://www.mbda.gov/sites/mbda.gov/files/migrated/files-attachments/MBDAVitaltoMakingAmericaGreat_170330.pdf

[5] Minority Business Development Agency, "Disparities in Capital Access between Minority and Non-minority Businesses," January 2010, https://www.mbda.gov/page/executive-summary-disparities-capital-access-between-minority-and-non-minority-businesses

[6] Stanford Graduate School of Business Latino Entrepreneurship Initiative, "State of Latino Entrepreneurship 2016," https://www.gsb.stanford.edu/sites/gsb/files/publication-pdf/report-slei-state-latino-entrepreneurship-2016.pdf

[7] Biz2Credit, "Credit Scores of Women-Owned Businesses Rose, Revenue Dropped in 2017; Digital Boom Leaves Women Behind," February 2018, https://www.biz2credit.com/research-reports/women-owned-business-study-2017

[8] U.S. Small Business Administration, "Financing Patterns and Credit Market Experiences: A Comparison by Race and Ethnicity for U.S. Employer Firms," February 2018, https://www.sba.gov/sites/default/files/rs440_financing_patterns_report_1.pdf

[9] Federal Reserve, "2016 Small Business Credit Survey: Report on Women-Owned Firms," November 2017, https://www.newyorkfed.org/medialibrary/media/smallbusiness/2016/sbcs-report-womenownedfirms-2016.pdf

This credit gap hurts the bottom line of these small business owners and inhibits their ability to grow and create shared prosperity for their communities. Roughly 16% of Latino-owned businesses say their profits were negatively impacted due to a lack of access to capital.[10] Similarly, black entrepreneurs are almost three times as likely as white business owners to report that a lack of access to capital negatively affects the profitability of their business.[11]

This is why we urge policymakers to pursue policies that will address the lending gap for women, people of color and other underserved communities by: 1) Increasing entrepreneurs' access to traditional sources of capital, 2) Promoting innovation in small business lending while ensuring responsible lending practices.

Increase entrepreneurs' access to traditional sources of capital, particularly in underserved communities

Business lending as a whole may be on the rise post-recession, but as the statistics cited previously make clear, small businesses are still not getting enough capital to launch or grow their businesses. Indeed, since the recession ended, small business loans trail big business loans by trillions of dollars, there are far fewer community banks and most banks are making far fewer low dollar loans. This problem especially impacts underserved entrepreneurs, including those living in rural communities and among women and small business owners of color. And while innovations in alternative lending show some promise if offered responsibly, the small business credit gap will not be overcome without increasing traditional financing to small businesses.

Key recommendations include, but are not limited to, the following:

- Strengthen responsible sources of capital by expanding SBA loan programs such as the 7(a) Loan Guaranty Program, the 504 Loan Guaranty Program and the Microloan Program. For example, Congress should pass the Microloan Expansion Act of 2019, which will help improve the SBA's Microloan Program to serve more small business owners who are struggling to access capital by increasing the total amount of loans that lenders may keep on their books. This legislation would eliminate an outdated rule that prevents SBA from distributing more than $1/55^{th}$ of its funding in any given state during the first half of the year, and it would require SBA to report to Congress and the public on the success of the program and how the loans help small businesses remain in business. Since the majority of small businesses are seeking small-dollar loans (those under $100,000) that are difficult to secure from a traditional lender, the Microloan Program is a vital resource for small and emerging businesses.
- Make the SBA's 7(a) Community Advantage Pilot Program permanent. This program, which is set to expire in 2022, must make a majority of its loans to underserved markets, such as small firms owned by women, entrepreneurs of color and veterans. Making the program permanent would support entrepreneurs that face greater barriers to accessing business loans, ensuring more small businesses have the opportunity to start and grow.
- Ensure women and entrepreneurs of color get fair access to capital by increasing funding for the counseling, capital and contracting services provided by Women's Business Centers, Small Business Development Centers and the Minority Business Development Agency. This includes increasing the cap on matching grants for Women's Business Centers and funding bilingual counseling services for immigrant entrepreneurs.

---

[10] Stanford Graduate School of Business Latino Entrepreneurship Initiative, "The U.S. Entrepreneurship Gap: A comparative measure of Latino Entrepreneurship Activity," 2018, https://www.gsb.stanford.edu/sites/gsb/files/publication-pdf/report-slei-2018-latino-entrepreneurship-gap.pdf

[11] Kauffman Foundation, "Startup Financing Trends by Race: How Access to Capital Impact Profitability," October 2016, https://www.kauffman.org/what-we-do/research/2016/startup-financing-trends-by-race-how-access-to-capital-impacts-profitability

- Maintain and expand lending programs for rural entrepreneurs funded through the U.S. Department of Agriculture, including the Rural Microentrepreneur Assistance Program, Rural Business Development Grants and the Intermediary Relending Program.
- Dramatically expand the annual budget of the Community Development Financial Institutions (CDFI) Fund from $250 million to $1 billion.
- Reaffirm the Community Reinvestment Act's (CRA) mission of stimulating lending in low- and moderate-income areas to ensure business owners in these areas maintain access to capital.
- Quadruple SBA lending guarantees—for example, by raising the maximum guaranteed annual loan amount from $25 billion to $100 billion—and thereby increasing the volume of small business loans guaranteed by the SBA to $1 trillion over the next decade.
- Reduce the risk of small business lending for banks by increasing the loan guarantee percentages from 85% to 90% for loans up to $150,000, and from 75% to 85% for loans between $150,000 and $700,000. This will make it less risky for banks to lend to startups, particularly those looking for smaller lines of credit.
- Reduce SBA loan fees to 0% for the guaranteed portion of loans under $150,000 and 1% for loans between $150,000 and $700,000. The current fee structure unnecessarily adds extra costs for small business owners and dampens their ability to get credit.
- Make permanent the New Markets Tax Credit (NMTC), which has helped to attract more than $60 billion in private sector funding to community development financing intermediaries that create opportunities for small business development in economically-distressed communities across the United States.
- Enact policies to strengthen and expand community bank lending, which provides more than half of all small business lending. Smart initiatives include encouraging state and local governments to shift public funds into community banks and increasing community bank lending in rural areas.

Small businesses need protection from predatory lending practices

New alternative and online lending opportunities have sprung up to fill the gap in small business lending need, which is a potentially positive development for small businesses. Innovators are providing faster and easier ways to borrow and increasing access to credit in communities that have historically been underserved. Indeed, research data confirms small business owners are increasingly turning to online lenders to fulfill their credit needs. The 2019 Federal Reserve Small Business Credit Survey found applications to online lenders continue to rise, with 32% of applicants seeking financing from an online lender in 2018, compared to 24% in 2017 and 19% in 2016.[12]

It's clear that the way small businesses borrow money is undergoing historic transformation, but this transformation will achieve its potential only if it is built on transparency and fairness and by putting the rights of borrowers at the center of the lending process. This is necessary because alternative sources of financing operate in an almost entirely unregulated market—making many small business owners vulnerable to predatory practices. While some financing institutions are doing their part to disclose their terms and rates, not all lenders are playing by these rules and are offering desperate entrepreneurs loans with predatory terms. Often loan characteristics are not disclosed at the time a loan offer is made and borrowers learn only after the loan was disbursed that there are hidden fees or unfavorable loan terms, leaving them on the hook for much more than expected.

[12] The Federal Reserve Banks of the United States, "Report on Employer Firms 2019: Small Business Credit Survey," April 2019, https://www.fedsmallbusiness.org/medialibrary/fedsmallbusiness/files/2019/sbcs-employer-firms-report.pdf

It's clear that small business borrowers face risks from this lack of regulation. Indeed, a May 2016 report from the U.S. Department of the Treasury found an uneven regulatory and supervisory regime creates risks for small business borrowers and that more robust small business borrower protections are needed.[13] These findings are supported by Small Business Majority polling, which revealed 78% of small business owners agree that high interest, high-fee products offered to small businesses are a problem.[14] Additionally, 3 in 4 small business owners felt that while online small business lending opened up new sources of capital and credit for small business owners, it should be regulated to ensure small business borrowers are protected from predatory practices. What's more, an overwhelming majority of 8 in 10 small business owners reported they were in favor of regulating online lenders to ensure interest rates and fees are clearly disclosed to borrowers.

While the federal Truth in Lending Act offers some protection to consumers from such exploitation, this law does not apply to small business borrowers. It's important that policy solutions not unduly restrict access to credit or reduce innovation, but it's equally essential that small business owners are protected from predatory practices. Solutions include the following:

- Pass legislation extending Truth in Lending Act disclosure requirements to small business loans or credit products, such as California's small business truth in lending legislation enacted in 2018.
- Promote responsible lending practices by lenders and brokers as set forth in the Small Business Borrowers' Bill of Rights. Specifically, promote laws and industry practices governing business lending to require: (1) transparency around rates and terms, including APR, (2) non-abusive products, including curbs against the practice of "double dipping," in which borrowers are double-charged fees when they refinance, (3) responsible underwriting, (4) fair treatment from brokers, (5) nondiscrimination, (6) fair debt collection practices and (7) accurate credit reporting.
- Prohibit "confession of judgment" clauses in small business lending agreements whereby borrowers agree in advance to waive their right to contest any dispute with a lender, often costing them their entire savings. This prohibition has been proposed in the bipartisan Small Business Lending Fairness Act.
- Enforce the existing legal requirement that the Consumer Financial Protection Bureau (CFPB) collect small business lending data as mandated under section 1071 of the Dodd-Frank consumer protection law.

Conclusion

Small business owners are poised to inject life and vitality into their communities, provide quality jobs and boost prosperity for all, but they need the proper resources and public policies to support them in unleashing their potential. What's more, federal policy must emphasize solutions that lift up those entrepreneurs who have traditionally struggled to access resources and economic security most, including women, entrepreneurs of color and rural small business owners. Pursuing this such an agenda will create a thriving small business ecosystem that will in turn create a dynamic and inclusive American economy for all.

Thank you for the opportunity to comment on this important issues for small business here in Illinois and across the country. I am happy to answer any questions.

---

[13] U.S. Department of the Treasury, "Opportunities and Challenges in Online Marketplace Lending," May 10, 2016, https://www.treasury.gov/connect/blog/Documents/Opportunities_and_Challenges_in_Online_Marketplace_Lending_white_paper.pdf

[14] Small Business Majority, "Opinion Poll: Small Business Owners Concerned with Predatory Lending, Support More Regulation of Alternative Lenders," December 12, 2017, https://smallbusinessmajority.org/sites/default/files/research-reports/121217-Small-Business-Access-To-Capital-Poll.pdf

Senator DUCKWORTH. Thank you. Thank you all for being here. Let us begin with my first question on—this is for all the witnesses. Each of you has spoken about the work you do supporting entrepreneurs at all levels, from enhancing access to capital for diverse business owners to helping students and entrepreneurs develop their tech startups and make their businesses successful. Based on your experiences, could each of you starting with.

Ms. DiMenco speak about what you believe to be the most critical investment the Federal Government can make to help women and minorities enter the tech industry and gain better access to capital and support. If you just choose one or two things, what would be like the most immediate thing that you think we should be able to do at the Federal Government, and then what do you think would be the most impactful?

Ms. DIMENCO. There are two things that inhibit all entrepreneurs including tech entrepreneurs because you do not have collateral to secure the loan. Fifty percent of the problem is there isn't sufficient quality technical assistance. So an innovator as creative as they are might not have the business and financial acumen to understand capitalization and understand how you talk to a senior lender, how you talk to a venture capitalist, how you talk to a mezzanine player of some type.

So that is half the battle has to do with technical assistance. We work long hours with the financial institutions in Chicago as they send us entrepreneurs that are not prepared to talk to them. Sometimes it is nothing more than helping them pull the package together that the bank requires. So half the problem is technical assistance. The other half of the problem is there aren't sufficient alternative providers of capital that address the issues that startup entrepreneurs who do not have connections and who do not have resources need.

So, for example, in the Chicagoland area, there are a lot of community development financial institutions, but there are few that I can count on one hand that are CDFIs that serve small business. So helping to fuel more CDFIs and provide alternative types of products to address the issues and it is not high-interest loans is the other half of the problem.

So problem one has to do with the entrepreneurs not provided. Problem two is there aren't enough products to fuel the innovation that we need to revitalize communities.

Senator DUCKWORTH. Thank you.

Ms. Kaufman.

Ms. KAUFMAN. So I think the top two things, the first is really around how you can support diverse entrepreneurs. Both of my co-witnesses have talked a lot about some of the funding opportunities, but for me, it breaks down to two things. You need funding and you also need connections to other people through a network.

Both of my co-witnesses speak to the funding piece and/or any opportunities around grants, but I think that there may be opportunities to elevate some of these diverse entrepreneurs. I truly do believe that more younger founders need to see people who look like them in leadership roles so anything that the Government can do to invite them to DC or elevate them or give them a platform so that they can be seen by others would be very important.

The second thing is that there are a number of great things going on in the private sector that I think the Government can put some backing behind. For example, Melinda Gates has pledged $1 billion to gender equality and I think that that is a wonderful initiative that could use more support.

Senator DUCKWORTH. So when you talk about networks, are you—Ms. DiMenco certainly when you think about, where do the other tech startups that are run by men, where are they getting their access capital? Some of it is, and you sort of touched on this, personal relationships, networks, and the kind of things that you are talking about. Beyond just seeing a role model, but you know, if you don't know somebody who doesn't know somebody, then you don't have someone to invest in your startup the ways of other more traditional, you know males get that investment. Am I touching on that correctly?

Ms. KAUFMAN. So, yes, you don't know what you don't know, right, and in certain communities and in certain networks that you might grow up in or live in you have access to people that can help you. But there is another issue and it addresses, for people like you. If we admit it or not, we have an affinity for people that look like us. There is a comfort level. There is a trust. There is a belief, and we need to ensure that those that are making decisions look more like our communities.

In corporate America, it starts at the board level. You don't advance women and minorities when the board doesn't reflect that. The same is true of venture capitalists, right? They all look a certain way and there are not bad people. They just—we all have that affinity. So it is really, really important that we encourage diversity as we monitor, guide more of these venture capitalists that are coming together. We just need to encourage more of that, and I think it will naturally happen.

Senator DUCKWORTH. Ms. Aglipay.

Ms. AGLIPAY. You know to add to that I think that the other challenge is why you see more men accessing the capital, venture capital is that simply women start off with less assets. You know, they start off with less assets, so it is difficult for them to find the capital to begin with when men have a little bit more in their wealth to start a business.

And Emilia is right. You don't know what you don't know. Hence for us one of the points that we are advocating for is for increased appropriations for women business centers and Small Business Development Centers. If you go to many of the SBDCs and WBCs, you begin to see and you get the training and technical assistance by people who look like them because I believe these centers actually aim to have a diverse and inclusive staffing so that they can provide the assistance people need to navigate how to start the business, how to talk to different sorts of capitalization regarding loans, venture capital, or even a broker, how to navigate what type of funding you need, when do you need to use a line of credit versus when you need to take a term loan out.

So that definitely is one of it. It is the value in it, funding the technical assistance centers and the resources through the SBA is incredibly important and significant. And so we advocate for more of that funding to go towards Women Business Centers and Small

Business Development Centers. Not only that, I think one thing that people tend to forget is they are quality assistance with certified trained staff, and it is free for people. I could jump on a flight to San Francisco, Silicon Valley, go to the SBDC there and it would be fine, and people don't know enough about those assistance that they can get through the technical assistance through the SBA. Second part, the capital startup.

As I said, women do start off with less than men. You know, they are not connected to the technical assistance that they need. Part of it is because we do need to fund WBCs and SBDCs more. But also they are turning to these alternative ways that—we need more flexible capital like for the CDFIs but unfortunately we are competing in a space in the financial world where there is a ton and a plethora of online funders.

And some of them may be great but some are not, and because it is not regulated right now by the Federal Government, many times entrepreneurs, especially women and owners of color are turning to the quick online sources for funding for capital and that sets them a step back into developing their businesses. Many of them are turning to merchant cash advances or they see a company that is on the New York Stock Exchange and assume that because the company is on the New York Stock Exchange, it must be regulated. It is not.

Or they will see a celebrity person from a show who is a businessman promoting a small business lending product, which in fact is not regulated. One of the things here in Chicago when we work with our partners like WBDC and others is we often hear business owners of color and women are falling prey to these quick cash capital products as well which are unregulated. Fees can go as high as 400 percent and they oftentimes want access to your bank accounts and cash statements for immediate payment even if you have no sales for that day.

Senator DUCKWORTH. Thank you.

Ms. DIMENCO. I would like to respectfully clarify something Geri said who I admire very much. We do not provide free services. They are paid for by our tax dollars. We just do not charge for them.

[Laughter.]

Senator DUCKWORTH. Well, this gets to my next question, Ms. DiMenco. You mentioned that the WBDC has had to raise private dollars to continue programs such as ScaleUp, which is now discontinued, and FAST grants, for example. And then those are not always awarded in every State. How successful have you been raising these private dollars to continue these programs even after they were discontinued or did you not receive those dollars for—having received them for 2020, for example.

Ms. DIMENCO. So as it relates to SCALA, the pilot that was funded by the Small Business Administration gave us the data and gave us the—because it was targeted to businesses that were already established, but it was for growth, we were able to attract corporate dollars for that. But if not for the pilot and not for the data, the group, the success, and the growth from that program, we would not have been able to raise that money.

Corps were delighted to have funding for 2020. Corporate funding is not always sustainable with changes in CEO levels. The average life of a CEO used to be 7 to 10 years now it is 3 to 5 years and that results in priorities changing. So what is great about public funding is it helps us at an earlier level, and it is more sustainable. Regarding the FAST funding, it ended on the 30th of September and we are in pursuit of private funding, but we have not achieved—we have not gotten private funding for 2020 yet.

Senator DUCKWORTH. Thank you. Ms. Kaufman, giving your experiences as a successful entrepreneur business woman working in Silicon Valley and on Chicago, what key differences do you see between here and the Bay Area, and are there things that can be done differently or better either here or there to promote greater diversity in tech?

Ms. KAUFMAN. So my observations of over the past four years of being here is that culturally we are much more risk-averse in Chicago than in the Bay Area. And I mean that at a societal level meaning if an individual wants to pursue an entrepreneurial path, that may mean me raising an eyebrow and not ending frowned upon in some circles. Similarly with my students at Northwestern who have been I would say kind of programmed up to achieve, they think that there are certain jobs with titles that lead to success and they are kind of looking for the next stepping stone.

So kind of breaking that down for some of our top-achieving students and helping them understand that there are other paths in life. And I also see it when it comes to the funding standpoint, which is that startups in Chicago tend to have to prove themselves in their revenue model much more so to receive venture capital funding versus in the Bay Area you can get an idea in a napkin funded.

Senator DUCKWORTH. So do you think there is a difference though? I mean, we are talking about between minority- and women-owned businesses. I mean the statistics also said that the growth in Black owned entrepreneur firms rose 168 percent over the last several years. So I think that there is a desire, the ability, and the passion to take a shot at it among the minority community and I think sometimes it might even be—this is just me speaking—I always feel like there is a sense of no one else is going to give you a job, I might as well try and start something myself. Is that not carrying over into tech? Is that what is happening where you see entrepreneurs——

Ms. KAUFMAN. I think so. I think those stats most likely apply to—when you look at all new businesses, probably the vast majority of them are small businesses. We are not thinking of the big technology companies that you hear of. I think we have seen more women taking companies and taking them public over the last maybe five years. I cannot think of a woman of color who has taken a company public in the same period of time.

Senator DUCKWORTH. Thank you. Ms. Aglipay, do you want to say anything about entrepreneurship among women of color in terms of whether tech or general entrepreneurs with the small businesses?

Ms. AGLIPAY. Yes. I mean, I think for women of color what it is, is it speaks to what Melissa was saying regarding the lack of networks as well for providing the assistance that you need not only from mentors but also peer mentors, too. When I speak with a lot of women of color who are entrepreneurs, I find that they can't find it in the mainstream so they are informally creating their own networks, you know, with one another so that they could feel more supported simply because the added fact that they happen to be a person of color and are facing barriers that most other—if you are not a person, you are not sympathetic to the challenges that you have wondering if you didn't get that loan or you didn't get that funding from your pitch because you are also a woman and on top of that woman of color.

So it is also dealing with the gender, cultural norms there within accessing capital and getting that network that you need. I believe there needs to be more funding to support women of color mentorship networks which would be fantastic if we accorded that to Women Business Centers to help foster more formal networks across the country for women in the tech field to bring that there and to find ways to leverage their assets and navigate capital, too. So there is a, trying to say, you know, a colorism factor for women entrepreneurs who are of color that impacts the way that they view how they start their businesses and the fact also many of them, women and women of color, start with less assets, too.

Senator DUCKWORTH. Thank you. Well, I want to thank each of the witnesses from the first panel. We have a limited amount of time. I could keep on going, but this is not the last time we are going to discuss these issues. And so I want to thank the first panel for being here and for your participation, and we are going to take a couple minutes and switch to panel number two. Thank you.

We will move on to our next panel. As you are settling in, I will start introductions in the interest of time. We have Ms. Kimberly Meek, Ms. Katie Kollhoff, and Ms. Patrice Darby. Ms. Meek is Founder and CEO of Hacha Products Corporation, and its subsidiary, SolvePFAS Group.

Hacha Products is an industrial product distributer specializing in products and services used in facilities maintenance, repair by operations, and is a certified woman-owned business enterprise—minority business enterprise, an economically disadvantaged, woman-owned small business. SolvePFAS is a vertically integrated laboratory and data company dedicated to testing and tracking PFAS in the Nation's water supply.

Ms. Meek has 30 years of experience as a business owner and has been able to use a portion of her business profits to fund local before and after school meal programs. Next we have Ms. Katie Kollhoff. Ms. Kolhoff is a Co-Founder and CEO of NUMiX Materials, an ion exchange materials company specializing in the removal of heavy metals from complex liquid streams complemented by the recycling of valuable metals within the domestic supply chain. She leads a team at NUMiX, manages customer and stakeholder engagement, as well as develops and executes business strategy. She is a chemical engineer with 15 years of experience in chemical process performance analysis, risk management, and hazardous chemical operations.

Finally, Ms. Patrice Darby. Ms. Darby is the Founder and CEO of GoNanny, a child care management and logistics platform that provides child care solutions for families, child center programs, and institutions. Through her digital platform, she has paired families with over 200 childcare professionals who are vetted through the proprietary system she and her team created. Ms. Darby has over a decade of childcare experience and is committed to helping families develop more balanced lives by merging childcare with technology. Welcome to each of you and we will begin with Ms. Meek.

STATEMENT OF KIMBERLY MEEK, FOUNDER AND CEO, HACHA PRODUCTS

Ms. MEEK. Thank you. Well, good afternoon, Senator Duckworth. I am honored to share my testimony with you today. Technology startup success rate data are commonly accepted but they never tell the whole story. Minority and women participation rates are far lower to begin with and failure rates are far higher. Thus for diverse technology entrepreneurs, a large percentage of an already small sample size fail.

Mere survival is considered a success but to truly succeed, to thrive and grow, access to tech talent and financial capital are critical. For any startup to survive requires sound business planning, access to market, and a well-developed solution. With a toehold in the market, the entrepreneur's own efforts can sustain the business indefinitely with cash flow. Diverse entrepreneurs in Illinois are fortunate to have several resources available, including the Women Business Development Center and the Chicago Minority Supplier Development Council.

These organizations have proven invaluable to diverse entrepreneurs and established businesses including mine. But for a tech startup to grow and thrive beyond the first years requires multidiscipline strategic and tactical planning, a unique or superior solution, access to broader markets, and especially talent and financial capital. Again, diverse entrepreneurs benefit from resources like the WBDC and the CMSDC for planning and market access, but the war for talent in a robust economy and private capital in a bidding war for retiring Baby Boomers businesses leave diverse tech entrepreneurs with few options.

Allow me to illustrate with my own company, Hacha Products Corporation, founded in 2015 with my own personal funds and with help from the WBDC and the CMSDC. In early 2019, we launched a subsidiary, SolvePFAS, funded with internal retained earnings. We had an extraordinary opportunity and a business model to capture it. SolvePFAS is a vertically integrated laboratory and data company dedicated to testing and tracking per- and polyfluorinated alkyl substances in the Nation's water supply. PFAS are a large group of manmade chemicals that are fire resistant, and repel oil, stains, grease, and water. Introduced in 1945, they were used for decades in fire-fighting foams, fabric and carpet stain repellants, nonstick cookware, waterproof clothing and shoes, fast food wrappers, personal care products, and many other consumer goods.

And though they have been gradually, voluntarily phased out of U.S. manufacturing processes, imported products are likely to still contain them. These chemicals are very persistent, meaning they do not break down easily and they are found at low levels throughout the environment in air, water, and soil. The Federal and State Departments of Human Health Services have found them in a significant number of drinking water supplies across the United States and fully expect to find more. PFAS exposure poses a significant harm to human health.

Unfortunately, they bioaccumulate in human tissue over many years and remain forever. The CDC reports that PFOA, the toxic chemical compound used to make Teflon, is now in the blood of 99 percent of Americans. The SolvePFAS market is quantifiable and growing rapidly. Our solution is unique and compelling, developed in collaboration with five world class research institutions, the University of Chicago's Pritzker School of Molecular Engineering, The Center for Data and Computing, and Searle Chemistry Laboratory, as well as Argonne National Laboratory, and The University of Illinois at Chicago Mass Spectrometry Laboratory, and with best in class industry leader Agilent Technologies.

We have built a dedicated product laboratory in Chicago as a means to an end to generate PFAS data. This issue is fast becoming a reoccurring topic in C-suite and boardroom discussions. Ultimately, we enable risk management through data for every manufacturer that uses water-based operations. With a promising market and a unique solution, SolvePFAS is primed for stellar growth. And yet, two systemic risk factors threaten access to talent and affordable financial capital.

Historically, minority and women entrepreneurs have struggled for even proportional access. Without it, chances for profitable, sustainable growth are greatly reduced at the onset. My recommendation, an endowed, proven boots on the ground organization with discretionary funds and the authority to deploy it to finance growth. No one is closer to diverse entrepreneurs than the WBDC and the CMSDC. No one understands the strategies and hacks better than they do.

Senator Duckworth, I sincerely appreciate your interest in tech entrepreneurs like me. Thank you for inviting me here today, and for your time and consideration.

[The prepared statement of Ms. Meek follows:]

Written Testimony for the U.S. Senate Committee on Small Business and Entrepreneurship
"Barriers to Entry in the Tech Industry for Diverse Entrepreneurs."
Kimberly A Meek, Founder & CEO Hacha Products Corp.
October 3, 2019

Technology startup success rate data are commonly accepted and deceptively simple, but they never tell the whole story. Absolute rates of minority and/or women participation are far lower to begin with in the Tech industry, and of those, proportional failure rates are far higher. Thus, for diverse tech entrepreneurs, a large percentage of an already small sample size fail. Yet still there is more to the story. Mere survival is considered a 'success'; but for true success, to thrive and grow, access to talent and financial capital are critical - especially in the tech landscape.

For any startup to survive requires sound business planning, access to a market, and a well-developed solution. With a toehold in the market, the entrepreneur's own efforts can sustain the business indefinitely with cash flow. Diverse entrepreneurs in Illinois are fortunate to have several resources available, including the Women's Business Development Center and the Chicago Minority Supplier Development Council. These organizations have proven invaluable to diverse entrepreneurs and established businesses, including mine.

But for a tech startup to grow and thrive beyond the first years requires multi-discipline strategic and tactical planning, a unique or superior solution, access to broader markets, and ESPECIALLY talent and financial capital. Again, diverse entrepreneurs benefit from resources like the WBDC and CMSDC for planning and market access. However, the war for talent in a robust economy and the seller's market resulting from private equity and venture capital funds vying for retiring Baby Boomers' businesses leave diverse tech entrepreneurs with few options.

Allow me to illustrate with my own company, Hacha Products Corporation, founded in 2015 with my own personal funds and with help from the WBDC and the CMSDC. In early 2019 we launched a subsidiary, the SolvePFAS Group, funded with internal retained earnings. Exhaustive technical research and detailed market, operations, human resource and financial planning produced an extraordinary business model.

SolvePFAS is a vertically integrated laboratory and data company dedicated to testing and tracking per- and polyfluorinated alkyl substances (PFAS) in the nation's water supply. PFAS are a large group of manmade chemicals that are fire resistant, and repel oil, stains, grease, and water. Introduced in 1945, they were used for decades in fire-fighting foams, fabric and carpet stain repellants, nonstick cookware, waterproof clothing and shoes, fast food wrappers, personal care products, and many other consumer goods. And though they have been gradually, voluntarily phased out of U.S. manufacturing processes, imported products are likely to still contain them. These chemicals are very persistent, meaning they do not break down easily in the environment. According to the Agency for Toxic Substances and Disease Registry (ATDSR), PFAS are found at low levels throughout the environment in air, water, and soil. Because these substances are so widely used and because they move in groundwater and surface water, the federal and state Departments of Health and Human Services (HHS) have found PFAS in a significant number of drinking water supplies across the United States and fully expect to find more.

Recent studies indicate that PFAS exposure in humans can affect the immune system, increase the risk of prostate, kidney, and testicular cancers, as well as affect birth weight, growth, learning, and behavior of infants and older children, lower a woman's chance of getting pregnant, and disrupt the body's thyroid hormones. Unfortunately, PFAS chemicals are extremely persistent so they will 'bioaccumulate' in human tissue over many years and remain forever. For example, the U.S. Centers for Disease Control and Prevention reports that PFOA, the toxic PFAS chemical used to make Teflon, is now in the blood of 99% of Americans. The SolvePFAS market is quantifiable and growing rapidly.

Our solution is unique and compelling, developed in collaboration with five world class research institutions, including The University of Chicago's Pritzker School of Molecular Engineering, The Center for Data and Computing, and Searle Chemistry Laboratory, Argonne National Laboratory, and The University of Illinois at Chicago Mass Spectrometry Laboratory, and with best in class industry leader Agilent Technologies to help manufacturers determine PFAS toxicity in their influent and effluent water. We have a dedicated private laboratory in Chicago, IL where we prepare, test, and analyze samples our field technicians collect, all in full compliance with US EPA Method 537.1. Meticulous control enables us to accurately capture trace levels of PFAS in the parts per trillion range, and vertical integration provides for a short chain of custody and dramatic reduction in testing turnaround time from weeks to days.

We deliver a comprehensive suite of services from in situ sample collection through data tracking and predictive analysis, which facilitates the most efficient, effective and prioritized treatment resource planning. The result? Risk Management through Data. On the surface we resemble a commercial lab, but we're different: we built our own private, dedicated lab as a means to an end - to generate PFAS data. Risk management for exposing the public to PFAS is fast becoming a recurring topic in C-suite and boardroom discussions. Over time, we build Confidential Risk Management Profiles for individual companies and we aggregate metadata for entire sub industries. Ultimately, we enable Risk Management through Data.

With a well-defined and rapidly emerging market, and a unique, proven solution, SolvePFAS is primed for stellar growth. And yet, two systemic risk factors threaten: access to talent and affordable financial capital, whether it be debt, convertible debt, equity or any combination thereof. Historically, minority and women entrepreneurs have struggled for even proportional access. Without it, chances for profitable, sustained growth are greatly reduced at the outset.

My recommendations: first, endow proven 'boots on the ground' diversity advocate organizations like the WBDC and CMSDC with discretionary funds and the authority to deploy financial capital to fuel growth. No one is closer to diverse entrepreneurs than they are, no one understands the business models' strengths and weaknesses better than they do. Second, design and implement tech-oriented, on-demand, interim talent pools as a flexible resource for the dynamic human capital needs of growing companies. Such pools do not necessarily need to be an integral part of the WBDC and CMSDC, but collaboration between financial and human capital pools is essential. I realize my recommendations may never come to fruition, or if they do it may be far in the future. Even so, I assure you that I will overcome any and all obstacles, somehow, some way.

Senator Duckworth, I sincerely appreciate your interest in tech entrepreneurs like me. Thank you for inviting me here today, and for your time and consideration.

Respectfully submitted,
Kimberly A Meek, Founder and CEO
Hacha Products Corporation/The SolvePFAS Group

Senator DUCKWORTH. Thank you.
Ms. Kollhoff.

STATEMENT OF KATIE KOLLHOFF, CEO, NUMIX MATERIALS, INC.

Ms. KOLLHOFF. Good afternoon and thank you for the opportunity to testify today. Thank you, Senator Duckworth, for your time and your interest in entrepreneurship, and hard work on behalf of the people of Illinois and the United States alike. We really appreciate that, and we appreciate your representation. My name is Katie Kollhoff. I am a Co-Founder and the CEO of an early stage, deep technology company, NUMiX Materials.

My co-founders and I are developing more efficient ways to remove dissolved heavy metal contamination from water to enable better water treatment complemented by concentration and recycling of valuable metals within the domestic supply chain of those same metals. Using the power of chemistry, we extract those offending metals using less time, less material, and creating less waste than conventional processes. The problem we are tackling affects every industry and every individual and solving it in the face of a changing climate becomes increasingly important as we necessarily move toward climate resilience.

In our company, we approach our technical issues scale-up and testing with optimism, though we have faced a number of challenges in our short life—we are about a year and a half old at this point. While our path is unique, many entrepreneurs face similar struggles. Starting a new business in the United States is difficult by any measure. Starting a technology-based business increases the complexity, and since technology is commonly understood as software, the uphill battle for physical science companies like ours is yet again steeper. We recognize three major barriers as we work toward meeting our business and technical goals, and the first of those we have heard a lot about so far today, access to capital.

The second representation, mentorship, and education. And the third is affordable healthcare. First, access to capital is widely recognized as a challenge. I have a lot of the same statistics that have already been mentioned here today so I am glad to see that that work checks out. Most adventure-backed firms are software firms. In the private investment space, outsized returns are expected within the life of the fund, which is typically 10 years. Compared to software companies, which can scale exponentially given the virtual nature of their delivered product, private investment is scarcer to come by for transformational deep science-based businesses.

Of that private investment, we see only patient capital from philanthropic funds and wealthy individuals willing to invest in step changes that will promote resilience in the face of climate change and allow humans to sustain life on earth. By way of an example, as China will no longer take our recycling, what do we do with our waste at the end of its life when we can no longer land apply the biosolids from our water treatment processes because of PFAS contamination or lead content? What do we do with it? Where do the physical materials to manufacture the next generation of mobile phones and computers, internet of things, sensors, batteries, electrical systems, solar panels, where do those materials come from? How do we make food last longer?

The goal of waste reduction and resource preservation is frequently squarely at odds with the revenue generation model for VC-backed high-growth companies, as the sustainability field is seeking to decrease the overall materials consumed, not increase it by attractive multipliers year-over-year as VC requires. These step changes must come from paradigm shifts in the way we source, create, use, and dispose of physical materials, with chemistry at the very heart of our problems and our solutions. Second, I would like to address representation. As an example of barrier to entry in venture capital for diverse investors is also quite high. Around 8 percent of partners at the largest VC firms are women, and African-American and Latino individuals comprise less than 1 percent. So then it is not really surprising that the entrepreneur pool mirrors the VC pool as we heard from—heard earlier that investors tend to fund founders who look like them.

Meanwhile women comprise 47 percent of the workforce in the United States, yet they hold less than 25 percent of the jobs in the STEM industries, with the gap widening at the top where women make up just 2 percent of tech CEOs, and again generally in software technology. We need inclusive communities tackling the biggest problems and I believe this starts with early education focusing on real-world problem-solving.

Finally, access to affordable healthcare is perhaps the most immediate barrier facing entrepreneurs as they decide to take the leap into entrepreneurship. There is even a name for it—entrepreneurship block. For an early stage company, a medical emergency for an uninsured or underinsured co-founder would spell the end of the enterprise. Without private investment, without independent wealth, the healthcare system in the United States exists as a significant barrier to technical entrepreneurship.

I thank you again for the opportunity to share our story. I urge you to continue inviting experts to testify. I urge you to continue hosting focus groups with entrepreneurs to hear the issues that we face, and to continue listening to the people who are stubbornly focused on making dreams into reality and helping those around them along the way.

Thank you.

[The prepared statement of Ms. Kollhoff follows:]

NUMiX MATERIALS

Ms. Catherine Kollhoff
Co-founder and CEO
NUMiX Materials, Inc.
Chicago, Illinois

Barriers to Entry in the Tech Industry for Diverse Entrepreneurs

October 3, 2019

Dear Senate Committee Members,

Thank you for the opportunity to testify before the Committee. Thank you, Senator Duckworth, for the time, interest in entrepreneurship, and hard work on behalf of the people of Illinois and the United States alike.

Starting a new business in the United States is difficult by any measure. Starting a technology-based business increases complexity. The challenges come from all sides. The oft-cited failure rate of 90% is discouraging. Yet a future with economic growth and prosperity depends on American entrepreneurship, and we need creative energy to come from all who are willing to take the risk to start a new enterprise. Despite this need, the World Bank ranks the United States a disappointing 53rd in the world for countries where it is easy to start a new business.[1] In this testimony, I will address three major barriers to tech entrepreneurship from diverse populations, detail my team's experience starting a technology-based business within the last two years, and offer solutions to remove barriers thereby promoting entrepreneurship for inclusive communities.

I am a co-founder and the CEO of an early stage, deep technology company, NUMiX Materials, Inc. My co-founders and I are developing more efficient ways to remove dissolved heavy metal contamination from water to enable better water treatment complemented by concentration and recycling of valuable metals within the domestic supply chain. Using the power of chemistry, we extract offending metals using less time, less material, and less waste than conventional processes. This problem affects every industry and every individual, and solving it in the face of a changing climate becomes increasingly important as we necessarily move toward climate resilience. A technology of this sort also improves the resilience of the U.S. supply chain against foreign powers by providing greater autonomy of resource within technology industries dependent on the use of heavy metals, such as semiconductors and batteries, which are not naturally occurring in the U.S. We approach our technical issues with optimism, though we have faced a number of challenges in our short life. While our path is unique, many entrepreneurs face similar struggles.

Access to capital is frequently cited as a major barrier. Research indicates that 81% of funding for new enterprises comes through personal net worth, family wealth, or connections to networks.[2] For individuals without access to these sources of funding, the barriers to any new business creation are high, let alone for highly specialized, deep science-based enterprises. Bias dictates that the

[1] "Doing Business," The World Bank. https://www.doingbusiness.org/en/rankings
[2] "Start Us Up: America's New Business Plan," The Kauffman Foundation. https://www.kauffman.org/what-we-do/entrepreneurship/policy/americas-new-business-plan

latter group of individuals will be left out. The Kauffman Foundation reports three reasons why 83% of entrepreneurs do not have access to a bank loan or venture capital[3]:

First, as small- and medium-sized banks have been decimated or absorbed over the past decade, large banks dominate the lending landscape. There has been a 41% decrease in the number of small community banks totaling under $50 million in since the Great Recession of 2008, either through consolidation or closing. According to industry experts, the $30,000 in average funds[4] needed to start a firm does not hit the vast majority of banks' radars. Loans of around $100,000 or less are hard for banks to make profitably.[5]

Second, the nature of many new businesses has changed from an asset-based model to a service-based model. These businesses do not have significant assets or collateral for banks to lend against but instead, are based on cash flow. As a result, these businesses do not fit banks' traditional underwriting models. Traditional lending models no longer fit today's startups: only 18 percent of businesses ever access a bank loan.[6] For our company, access to sufficient capital in the first place is a challenge because we do not have sufficient company or personal assets to borrow against. Traditional bank loans are impractical at our stage of life.

Third, venture capital (VC) is a highly visible part of the growth of many well-known companies, yet the VC industry is focused on a small percentage of businesses with the potential for high growth: only 0.6% of businesses ever raise VC[6]. Furthermore, VC is highly concentrated geographically and demographically. In 2016, 78% of VC went to just three states (New York, Massachusetts, and California). Less than 1% of venture capital dollars went to rural areas.[7] Less than 2% of startup financing went to women founders. Only 1% went to African-American and Latino founders[8].

While venture capital may be a useful tool for a growth stage, the risks associated with game-changing business ideas in the physical sciences outside of the coasts in a predominantly women-owned company are not in line with risks typical VCs are willing to bear. For United States competitiveness, another huge problem is lurking: increasingly, large corporations are moving away from the model of in-house research and development budgets, selecting instead to outsource the risk to entrepreneurs and select only those technologies which have already seen some measure of success. The burden then falls to the early-stage company to cover the costs of scientific equipment, specialized scientist and engineer salaries, as well as business development. Tech entrepreneurs' access to the right capital at the right stage is paramount to United States competitiveness.

SOLUTION: We at NUMiX Materials have been fortunate to win support from the United States Department of Energy's competitions, such as the now-inactive CleanTech University Prize, and the

[3] "Three trends that prevent entrepreneurs from accessing capital," The Kauffman Foundation. https://www.kauffman.org/currents/2018/07/3-trends-that-prevent-entrepreneurs-from-accessing-capital

[4] "The Use of Credit Cards by New Firms," The Kauffman Foundation. https://www.kauffman.org/what-we-do/research/kauffman-firm-survey-series/the-use-of-credit-card-debt-by-new-firms

[5] "Making Small Business Loans Profitably," BAI. https://www.bai.org/banking-strategies/article-detail/making-small-business-loans-profitably

[6] "Startup Financing Trends by Race: How Access to Capital Impacts Profitability." The Kauffman Foundation. https://www.kauffman.org/what-we-do/research/2016/startup-financing-trends-by-race-how-access-to-capital-impacts-profitability

[7] "Venture Capital Goes Urban: Tracking Venture Capital Investment and Startup Activity Across Zip Codes." The Martin Prosperity Institute. http://martinprosperity.org/media/Startup-US-2016_Rise-of-the-Urban-Startup-Neighborhood.pdf

[8] "Why so few Latino-owned businesses get venture capital funding," Octavio Blanco, CNN Money. https://money.cnn.com/2016/04/12/smallbusiness/latino-venture-capital/index.html

Argonne National Lab-embedded entrepreneurship program, Chain Reaction Innovations, which provides funding and access to laboratory space and resources for companies developing physical technologies from the bench scale to market-ready. We have participated in the hallmark National Science Foundation Innovation Corps program, which trains scientists on developing commercial opportunities for deep technologies. We have also received very early-stage support from philanthropic-backed organizations such as VentureWell. None of these granting organizations have taken equity in our company, unlike many accelerator and incubator models, allowing us to maintain control of our own company at its earliest stage and preserve valuable equity for future fundraising and partnership events. These funding opportunities range from $2,000 to $220,000, providing the seed capital to de-risk the physical technology and further develop the commercial opportunity. These programs are necessary for early-stage development but not sufficient for long-term growth.

SOLUTION: Sustain or increase funding for mechanisms that allow money to flow directly to early-stage companies rather than filtering it through incubators and accelerators which take an equity stake in an early-stage company.

SOLUTION: Eliminate zip code- and race-based influences on lending rates.

SOLUTION: To encourage science and tech-based businesses to form and stay in Illinois, provide matching state funds for SBIR recipients. While we have not received Small Business Innovation Research (SBIR) funding, it is widely recognized as one of the most valuable programs for developing science-based businesses, and we continue to put forward applications. To encourage inclusiveness in these funding opportunities, allow for a percentage of SBIR funds for business or commercialization salaries for women and underrepresented people.

Representation, mentorship, and education together form a second major barrier to entry.

Women comprise 47% of the workforce in the U.S., yet they hold less than 25% of the jobs in STEM industries.[9] The gap widens at the top where women make up just 2% of tech CEOs, generally in software technology. In work compiled by Cynthia Macias for mHUB Chicago, it is shown that while the manufacturing workforce is comprised of 30% people of color and 20% women, only 15% of participation in entrepreneurial pipelines is comprised of minority groups.[10] According to the U.S. Small Business Administration, Black-owned manufacturing firms represent 7% of all U.S. businesses, Asian-owned firms represent 4.3%, Hispanic-owned firms represent 10.6%; and veterans own 9% of all businesses. Additionally, minorities are nearly 40% less likely to own STEM-related businesses, and only 8% of all senior leadership positions in those businesses are held by minorities.[11] The share of small businesses owned by women increased to 29%, but significant growth opportunities remain for women entrepreneurs in STEM.[12]

[9] "STEM Facts on Women and Girls," Million Women Mentors. https://www.millionwomenmentors.com/facts

[10] Minority STEM Entrepreneurs. Office of Economic Research. U.S. Small Business Administration. Accessed December 14, 2018. https://www.sba.gov/sites/default/files/FIN_STEM_4_2016_0.pdf

[11] Minority STEM Entrepreneurs. Office of Economic Research. U.S. Small Business Administration. Accessed December 14, 2018. https://www.sba.gov/sites/default/files/FIN_STEM_4_2016_0.pdf

[12] Kymn, Christine. *Help Wanted: Seeking Women Entrepreneurs in STEM*. Brookings. December 8, 2014. Accessed December 15, 2018. https://www.brookings.edu/blog/techtank/2014/12/08/help-wanted-seeking-women-entrepreneurs-in-stem/

When the fraction of the entrepreneurial pool (i.e., educational, training, and work-experience typical in this sector) for women, African Americans, and Hispanics is compared to the observed venture capital and founder participation of these groups, each group has meaningfully and persistently lower representation than would seem appropriate given their proportions of those with requisite backgrounds to enter the sectors.

Recently in venture capital, more women from finance backgrounds have recognized the issues of representation and bias in the entrepreneurial pipeline and have stepped up to contribute their skills on the investment side. Their ability and willingness to take risks is applauded, and it is recognized they face some of the same burdens that woman and underrepresented minority entrepreneurs face, as well, as they seek to raise money from limited partners and champion the companies they believe in. While anecdotally there appears to be an uptick in women participating in venture capital, only 8% of partners at the largest VC firms are women[13]. The same trend is not true for African Americans. As Gompers and Wang from Harvard Business School found, "African American labor market entry participation has increased from about 11% in 1990 to 12% in 2010-2015. The share of undergraduate degrees being granted to African Americans students increased by more than 50%, from 6% of BAs granted in 1990 to 9.2% in 2010-2015. The pattern of African American entry into the legal and medical professions has not changed dramatically over the past 25 years, remaining around 5% in each profession. The rate of African American participation in venture capital and entrepreneurial sectors has not grown either. Strikingly, however, the rate is substantially lower than their participation in law or medicine, always less than 1%."[14]

In my experience, even when minority-led funds exist, they are still managed by typical venture capital firms. In the private investment space, outsized returns are expected within the life of the fund, typically 10 years maximum. Compared to software companies, which can scale exponentially given the virtual nature of their delivered product, private investment is scarcer to come by for transformational deep science-based businesses. Of that private investment, we see only patient capital from philanthropic funds and wealthy individuals willing to invest in step changes that will promote resilience in the face of climate change and allow humans to sustain life on earth. By way of an example, as China will no longer take our "recycling," what do we do with our waste at the end of its life? When we can no longer land apply the biosolids from our waste treatment processes because of PFAS contamination or lead content, what do we do with it? Where do the physical materials to manufacture the next generation of mobile phones and computers, IoT sensors, batteries, electrical systems, solar panels come from? How do we make food last longer? The goal of waste reduction and resource preservation is frequently squarely at odds with the revenue generation model for VC-backed high growth companies, as the sustainability field is seeking to decrease the overall materials consumed, not increase it by attractive multipliers year-over-year as VC requires. These step changes must come from paradigm shifts in the way we source, create, use, and dispose of physical materials, with chemistry at the very heart of our problems and our solutions.

This hopeful message is not an easy one to convey. While many hear "tech" and associate it with a more convenient way to order a car or a pizza, a new form of entertainment or personal care

[13] "Why Women-Owned Startups Are a Better Bet," Boston Consulting Group. https://www.bcg.com/en-us/publications/2018/why-women-owned-startups-are-better-bet.aspx

[14] "Diversity in Innovation," Gompers and Wang. https://www.hbs.edu/faculty/Publication%20Files/17-067_b5578676-e44c-40aa-a9d8-9e72c287afe8.pdf

product, or home delivery meal services, in our space, we view technology as chemical capabilities that can fundamentally alleviate human-made problems by changing the physical characteristics of how we live. If it sounds scary, it may be because "chemistry" has a bad name. But chemistry has always been at the heart of American innovation, from power generation to turn the lights on to life-saving pharmaceuticals to change how long we can live to soil amendments that make it possible for all of us to eat. It isn't without challenges, as we've seen recently with Sterigenics and Purdue Pharma and other actors whose actions and subsequent inactions create a marketing problem for the chemistry world.

I chose chemical engineering as a career when I was eighteen, before I knew what it meant, because of effective marketing. On a college visit day, I had a chance to meet with the chair of the department, who asked my interests. I told him I wanted to save the world, full of the wonder and confidence that marks those years. I thought I would study environmental engineering. His response was, "You can solve problems in the environment once they're already out, or you can prevent them from happening in the first place." This effective marketing strategy de-mystified chemistry in my eyes, turning it into a tool to use, whose limits must be understood and respected, but whose energy is unparalleled in our world. He reached me, and I'm in this position today because of that interaction.

Women and underserved communities may be facing a similar marketing problem concerning technical entrepreneurship, especially in the physical sciences and engineering. The problems available to solve may seem huge. Who can solve them? The answer is "not everyone," but given the right measure of frustration with the status quo, technical understanding, and vision for a different reality, many more than are currently engaged could be addressing the weighty problems that face us all.

We are faced with challenges unique to the space in which we've chosen to operate. The difficulty is further compounded when looking at statistics for both funding and mentoring of women and others underserved today. I have been privileged to work with several mentors, each valuable in his own way. I would not be here with you today without that mentorship. But none of these can understand what it means to be called "hysterical" for having strong points of view, "crazy" for pursuing realistic goals and answers to societal needs, or "underqualified," though I am an expert in multiple fields. Rising opportunities for women in software fields do add encouragement, though the cross-pollination of advances made in those tech fields with physical sciences and engineering is difficult, and the chasm is wide.

As the same study from Harvard pointed out, these problems share a common root. The reason is this, according to the research: People with experience mentor and give money to people like themselves, while those starting out do what they see people like themselves doing.[14] In other words, we all live in bubbles — not just in our politics or our friendships, but also in our careers — and this shapes the ideas we form.

The pipeline issue starts in childhood education. Solutions for encouraging inclusive communities in technology-based businesses require better educational opportunities and systems. Starting with colleges and universities is not enough, building skills that profmote interest in business and technology must start in elementary school, continue through vocational and college education, and be fostered even in graduate and post-graduate arenas. In a recent study by the Kauffman Foundation, 60% of students leaving high school reported they felt the description "Prepared with the skills to start a business" described them not too well or not at all well. In the same work, students, parents, employers, and other adults reported that more of a focus on "real-world" skills is the one thing they would change about how high school is taught in the United States. Cultivating entrepreneurial thinking at young ages has the potential to future-proof our economy and to provide inclusion in entrepreneurship[15].

SOLUTION: Cultivate entrepreneurial thinking in education by including real-world problem-solving activities in U.S. primary school curricula, as well as financial planning, time management, and communication skills.

Finally, one of the bleakest barriers to entrepreneurship in the United State is **affordable health care.**

For our co-founding group, access to affordable health insurance has been a major issue. This phenomenon is referred to as "entrepreneurship lock."[16] A medical emergency for an uninsured- or underinsured co-founder would spell the end of the enterprise. Some solutions exist. COBRA can be used if an individual is leaving another job, though the costs may be the entire amount of a startup founder's modest salary if they can even draw one. Thanks to the Affordable Care Act, individuals under 26 have been able to continue coverage under their parents' insurance, but that's not a lasting solution. For entrepreneurs with dependents, the resource-constrained company can't initially bear the expense of insuring the entire family. These factors severely limit the type of person who can engage in endeavors like ours. My cofounders and I do not have independent wealth. We have worked full-time jobs to maintain health insurance, limiting our ability to develop business. Further, when the company has sufficient resources to provide coverage, insurance providers often will not provide group coverage for fewer than four people. This limit means there must be a baseline revenue of approximately four full-time employees, fully burdened. To be competitive with the market for deep science and physical engineering salaries, that baseline is around $750,000. Many deep tech companies will not see revenue on that order of magnitude for about five years. Without independent wealth, the healthcare system in the United States exists as a significant barrier to technical entrepreneurship.

SOLUTION: Provide health care coverage options for clusters of entrepreneurs, for SBIR or other federal funding recipients, or companies younger than five years old. Require accelerators and incubators receiving federal funding to offer insurance coverage to participants.

Among each of these topics, the research is published mainly by philanthropic organizations with some projects sponsored by the SBA. In many cases, the data are a decade old or more. To fully understand the issues and develop solutions, funding should be allocated to updating and coalescing research efforts across various groups of stakeholders.

In sum, I believe the major barriers to inclusivity in entrepreneurship are access to funding; representation, mentorship and education; and health care coverage. I ask to sustain or increase funding for mechanisms that allow money to flow directly to early-stage companies rather than

[15] "Visions of the Future: Ewing Marion Kauffman Foundation Research Findings." The Kauffman Foundation. https://www.kauffman.org/-/media/kauffman_org/currents-redesign/2019/09/kauffman-visions-of-the-future-research-results-9162019.pdf?la=en

[16] "Is employer-based health insurance a barrier to entrepreneurship?" Fairlie, Kapur, and Gates. https://doi.org/10.1016/j.jhealeco.2010.09.003

filtering it through incubators and accelerators which take an equity stake in an early-stage company by activating national science and engineering resources, such as national labs. I ask to eliminate zip code- and race-based influences on lending rates. I ask for matching state funds for SBIR recipients in Illinois. To encourage women and underserved populations to participate in these funding opportunities, I ask to allow for a percentage of SBIR funds to be used for business or commercialization salaries. To counteract biases in later life and business, I ask for specific policies to rethink the earliest stages of education to promote the real-world skills-based knowledge fundamental to entrepreneurship. Finally, to address entrepreneurship lock, I ask for coverage options for young companies, SBIR recipients, and clusters of entrepreneurs.

I thank you for this opportunity to share our story. I urge you to continue inviting experts to testify. I urge you to continue hosting focus groups with entrepreneurs to hear the issues we face. I urge you to continue listening to the people who are stubbornly focused on making dreams into reality and elevating those around them along the way.

Senator DUCKWORTH. Thank you.
Ms. Darby.

STATEMENT OF PATRICE DARBY, FOUNDER AND CEO, GONANNY

Ms. DARBY. Thank you so much, Ms. Duckworth, for giving me the opportunity to speak here today. I really appreciate it. As a second-generation childcare expert and entrepreneur, I was equipped early on with the capacity and willingness to develop, organize, and manage a business within the childcare industry. This grew as a lifestyle of solving massive problems and creating timeless impact. I remember studying the historical development of childcare and I was intrigued.

However, I was also faced with the realization, in order for childcare businesses to be sustainable over the next two to three decades, these businesses must merge with technology. This led me to building a high-growth tech startup. GoNanny is a childcare management and logistics platform providing childcare solutions for families, child-centered businesses, and institutions. We have built a proprietary vetting system that has validated the dependability, safety, and trustworthiness of over 200 childcare professionals. We have utilized technology to develop a safe infrastructure with a proven and tested methodology for executing short incremental child care and safe pick-ups and drop-offs seamlessly.

Now, we are equipping childcare institutions with this technology infrastructure as a tool for creating sustainability and economic growth for all small businesses within the child care sector. I share this background because there is no coincidence to the structure of our business model.

When I started this journey in tech, I realized the largest barrier to my success was access to the capital necessary for a high-growth tech startup—that is a different kind of capital. In 2016, I took my business plan to Chase Bank, the Small Business Administration, Accion Chicago, and the Women Business Development Center in search of getting capital to launch my business. I was turned down by all four. Why? Because I did not have collateral. I just came out of college. I also did not have credit. I never started building my credit and so I was rejected. That was very challenging, despite the fact that these institutions publicized funding for small businesses who could not get approved by traditional lenders.

I needed customers to validate my model but how do you get customers without the funding to build the platform? The only solution I had was to sell everything I owned, move out of my condo, and move into my sister's apartment. I slept on the floor for eight months. And I used that funding to start my company GoNanny. That was my startup capital. Through humility, grit, and determination I eventually created a demo. I took my product to downtown Chicago and I stood on the corner of Wells and North Avenue. Parents who walked by tried my demo and some signed up for the service. I gained valuable customer discovery and validation.

Quickly after, I had my first paying customers. GoNanny experienced year after year growth by 240 percent via word of mouth, and the influx was greater than our infrastructure could support. Once again, I found myself in need of capital in order to create the infrastructure necessary to scale my business. I reached out to various funds, and institutions in order to nourish my robust growth. This time with renewed confidence as my business concept had been proven with significant revenue induction and returning customers.

This is our second year of business and we have—over 80 percent of our customers have returned for the second year and 45 percent have increased their usage by 20 percent or more. Unfortunately, despite all that I had accomplished and regardless of projected growth, I still have yet to receive the necessary funding that a high-growth tech start-up requires.

Funds like Accion Chicago and even the Entrepreneurs of Color Fund are designed to create access to capital for minority companies but still adhere to a traditional lending structure, or the process is extremely challenging, creating an additional barrier to entry, thereby eliminating the majority that it was designed to help. My hope is that the information gathered here today creates a system that removes these barriers to entry based upon feedback from entrepreneurs like myself and others represented here today.

[The prepared statement of Ms. Darby follows:]

Statement for the Record
Before the Senate Committee
on Small Business and Entrepreneurship
Hearing Entitled: "Barriers to Entry in the
Tech Industry for Divers Entrepreneurs"
October 3rd, 2019 Patrice Darby Founder
and CEO, GoNanny
www.meetgonanny.com, patrice@gonanny.co

Dear Senate Committee Members,

Thank you for allowing me to share my perspective regarding, "Barriers to Entry in the Tech Industry for Diverse Entrepreneurs."

As a second generation childcare expert and entrepreneur, I was equipped early on with the capacity and willingness to develop, organize, and manage a business within the childcare industry. This grew into a lifestyle of solving massive problems and creating timeless impact. I remember studying the historical development of childcare and I was intrigued. However, I was also faced with the realization, in order for childcare businesses to be sustainable over the next two to three decades, these businesses must merge with technology. This led me to building a high-growth tech startup.

GoNanny is a childcare management and logistics platform providing childcare solutions for families, child-centered programs, and institutions. We've built a proprietary vetting system that has validated the dependability, safety, and trustworthiness of over 200 childcare professionals. We've utilized technology to develop a safe infrastructure with a proven and tested methodology for executing short incremental child care and safe pick ups and drop offs seamlessly. Now, we're equipping childcare institutions with this technology infrastructure as a tool for creating sustainability and economic growth for all small businesses within this sector.

I share this background because there is no coincidence to the construct of our business model. When I started this journey in tech, I realized the largest barrier to my success was access to the capital necessary for a high-growth tech startup.

In 2016, I took my business plan to Chase Bank, The Small Business Administration, Accion Chicago, and The Women's Business Development Center in search of getting capital to launch my business. I was turned down by all four; despite the fact that these institutions publicized funding for small businesses who couldn't get approved by traditional lenders. I needed customers to validate my model. How do I get customers without the funding to build the platform? The only solution I had was selling everything I owned, moving out of my condo, and using those funds as startup capital.

Through humility, grit, and determination I eventually created a demo. I took my product to downtown Chicago and stood on the corner of Wells and North Ave. Parents who walked by tried my demo and some signed up for the service. I gained valuable customer discovery and validation. Quickly after, I had my first paying customers. GoNanny experienced year over year growth by 240% via word of mouth and the influx was greater than our infrastructure could support.

Once again, I found myself in need of capital in order to create the infrastructure necessary to scale my business. I reached out to various firms, funds, and institutions in order to nourish my robust growth. This time with renewed confidence as my business concept had been proven with significant revenue induction and returning customers. Unfortunately, despite all I had accomplished and regardless of projected growth; I still have yet to receive the necessary funding that a high growth tech start- up requires.

.

Funds like Accion Chicago and Entrepreneurs of Color Fund that are designed to create access to capital for minority companies still adhere to a traditional lending structure, or the process is arduous creating an additional barrier to entry. Thereby eliminating the majority they're designed to help.

Statistics show female-led companies that receive venture funding outperform their male peers by 63%, but only 0.2% of women of color entrepreneurs receive venture capital funding. These statistics show there is an untapped pool of potential created by unintentional oversight or presuppositions.

My hope is that the information gathered here today creates a system that removes these barriers to entry based upon feedback from entrepreneurs like myself and others represented here today.

Thank you,

Patrice Darby

Senator DUCKWORTH. Thank you. Maybe some of the folks on the first panel can help you.

[Laughter.]

Well, thank you all for your opening statements. To begin this panel, I would like to hear from everyone. Each of you discussed your own unique challenges to beginning and growing your business, but one persistent hurdle that all of you have is finding access to capital. Can each of you, starting with Ms. Meek, discuss how you overcame or are working through that hurdle, and you just touched on some of this, and what steps the Federal Government can take to make sure that tech business owners in the future have an easier time finding the sources of funding that you need.

Ms. MEEK. Thank you, Senator Duckworth. I would say my first barrier is that it is not only capital, it is not only financial capital, it is human capital as well. I have been fortunate with the WBDC to introduce me in a network and actually always seem to open doors with me. I have been very fortunate that through the WBDC, I met the University of Chicago, then went to Argonne Labs, and I went to UIC, and that whole process is just to me as important as financial capital, and it exposed and really changed the direction of my company based on finding this problem and then seeking a solution.

So I would say the WBDC helped overcome the networking barrier that you speak of. As it relates to financial capital, the WBDC has given me opportunities to the various grants and various loans at times. But as a startup, it is difficult. I have been able, you know, to fund this myself. Do I see an opportunity? I think I am in a market where it is so important and I am so committed, and I know that it is water. If I don't get someone's attention about water, then I am doing something really wrong and that is how I look at it.

And PFAS, I feel like I am now the spokesperson for Teflon pans that, you know, tell them probably they do not want me working for them. But I know that what I am doing is relevant, so if it is relevant, all those barriers—I mean I am speaking to a person who can overcome the obstacles. What am I going to say? That is part of life and they can never stop us.

So it is just, to me, it is a step that I just have to keep going and that if the financial is not there, I am going to figure out how to make it there. Either that you know, we are picking up some business through opportunity. And it seems like everybody wants to give me money when I start making money. When you don't need it, I always can get money from a bank.

[Laughter.]

Senator DUCKWORTH. Ms. Kollhoff, how did you find access to capital? How did you get that access?

Ms. KOLLHOFF. Philanthropic grants and Government-supported grants have been key for us so far. We have been fortunate to earn support from the Department of Energy's competitions such as the now inactive Clean Tech University prize and the Argonne National Lab-embedded entrepreneurship program called Chain Reaction Innovations, which provides both funding and access to laboratory space and resources for companies developing physical technologies to take from the bench scale to market ready.

We have participated in the Hallmark National Science Foundation Innovation Corps program, which trained scientists on developing commercial opportunities for deep technologies. We have also received very early stage support from philanthropic-backed organizations such as VentureWell. None of these granting organizations has taken equity in our company unlike many accelerator and incubator models, allowing us to maintain control of our own company at its earliest stage and preserve valuable equity for future fundraising and partnership events.

These funding opportunities have ranged from $2,000 to $220,00, providing the seed capital to de-risk the physical technology and further develop their commercial opportunity. And though we have not yet—we have not received funding through the Small Business Innovation Research program yet—I hope. It also comprises a key part of the funding landscape for deep tech companies and note that the amount available through each of those varies by the agency, and when budgets are cut for certain agencies, the impact on associated entrepreneurship efforts is also deeply affected.

For instance, BPA's program is the smallest of all the agencies and that is where I think our solutions are the best so that is pretty disheartening but also an amazing set of programs that are vital to deep technology companies.

Senator DUCKWORTH. Thank you. So, Ms. Darby, what are you looking at now that you sold all your stuff the first year and have nothing else to sell?

[Laughter.]

Ms. DARBY. Yes, so we are, you know, speaking with investors. The challenge with that is for my background, I don't have any investors that are connected to me, you know, in my family's sector. So it is really, you know, about networking and getting more introductions. If people don't know you and you are not connected to their network, they don't trust you and you never get that meeting. It doesn't matter how much revenue you brought in that year.

And so that is a big challenge. I was also looking, you know, at funds that the State and the City of Chicago offer and one of them was the fact that Chase Bank partnered with Accion Chicago and introduced the Color Fund, the Color for Entrepreneur Fund. And so I actually reached out to that fund and was told that it is just that you go through the regular system, and that regular system already denied me. So that doesn't create access for people of color, even though they are using it, you know, as a tool that should.

And so I think for us we are looking at, you know, is there any funding out there for our company, our tech startup that is supposed to be bringing in $3 million next year because we closed a YWCA, Metropolitan Chicago contract and it is for the next four years. And so I think, you know, I am trying to be strategic about how do we, how do I find a mix of funding? Is there access to funding from the State that could subsidize, offset, you know, giving up some equity to investors.

Ms. KOLLHOFF. And can I add to that quickly? And so I think that there are investment vehicles with State funds, but they are often managed by typical VC firms who don't invest in people like us, generally speaking. And so that is pretty frustrating to note also that you know, even if there appears to be a mandate, it doesn't necessarily feel like that is actually getting through.

Senator DUCKWORTH. Ms. Darby, I am going to follow up with you after the hearing. We are running short on time. We could go on, I could go on for quite a while, but I have time I think just for one more question. And this will be for Ms. Kollhoff. We know that the Small Business Innovation program is one of the most valuable Federal programs for developing science-based companies. Its goal is to stimulate tech innovation to increase private sector commercialization and encourage participation and innovation by small businesses across the country.

In your testimony you put forth ideas on how to improve the SBIR program that go further than simply expanding it, which we can all agree would be beneficial to keeping the United States competitive in the global economy. Could you describe some of these improvements and how they would help companies like yours access that critical funding? What some of the improvements could be?

Ms. KOLLHOFF. Yes, I would be happy to. So some of those thoughts, I think deep matching funds here in the State of Illinois would be incredibly useful to keeping businesses here in Illinois. I know a number of other States have those and they are incredibly valuable since the SBIR program is already selecting the most competitive companies. It is a good filtering mechanism as well.

I think that it would be interesting to provide healthcare coverage for clusters of entrepreneurs including SBIR recipients, other Federal funding recipients, or companies younger than five years old. And then, I think it would be valuable to allow a portion of the SBIR total to be used for a commercialization or business person, if that person is a part of that inclusive community that we are hoping to build more of.

So right now there can be no allowance of a salary for non-research personnel but allowing a diverse entrepreneur to take a commercialization role as part of that SBIR funding would be incredibly useful.

Senator DUCKWORTH. Okay. Thank you. Do either, Ms. Darby, Ms. Meek, want to add anything to some of those recommendations?

Ms. MEEK. No. I agree.

Senator DUCKWORTH. We are out of time. I do apologize for the short nature of this, but this will not be the last one of these hearings. And I do want to thank both panels of witnesses for coming forward and sharing your stories with us. We will be following up with this when I go back, week after next.

I will get back to the Small Business committee and share my experiences with my colleagues, and hopefully we can get back to trying to fix some of the Federal programs and try to find ways to address access for women- and minority-owned business. Thank you again. And with that this hearing stands adjourned.

[Whereupon, at 3:57 p.m., the hearing was adjourned.]

APPENDIX MATERIAL SUBMITTED

WOMEN'S BUSINESS DEVELOPMENT CENTER
Your growth is our business.

October 22, 2019

Senator Marco Rubio, Chairman
Committee on Small Business and Entrepreneurship
United States Senate
Washington, DC 20510-6350

Dear Senator Rubio:

Re: Senate Committee on Small Business and Entrepreneurship Field Hearing October 3, 2019 Follow-Up Questions for the Record

We respectfully respond to the questions asked by Senator Duckworth as follows:

"In your testimony, you discuss the need for more geographic reach and operational efficiencies, noting that entrepreneurial spirit is not limited to geography."

QUESTION 1:

"Could you provide more information on the 'hub and spoke' model you used to expand the WBDC's ScaleUp program – which was originally started with Federal funding in Aurora – to other parts of Illinois while keeping overhead and infrastructure costs low?"

Smaller entrepreneurial centers, such as most WBCs, SBDCs, PTAC, FAST grantees, VBOCs, etc., are challenged with serving clients and other responsibilities and obligations necessary to run a small business and fulfill federal grants, such as, identifying and securing matching funds, program development, marketing and outreach, advocacy, and general administrative functions as grant reporting, payroll and benefits management, accounting and financial management.

Program funding usually allows for the hiring of 2 individuals plus other direct program expenses, such as, course materials, space rental, etc. It is critical that those providing direct services to clients are part of the community being served and exhibit a strong passion and understanding of the challenges facing the entrepreneurs.

8 S. Michigan Avenue, 4th Floor | Chicago, IL 60603 | ph 312.853.3477 | fx 312.853.0145 | www.WBDC.org

WOMEN'S BUSINESS DEVELOPMENT CENTER

Your growth is our business.

Senator Marco Rubio
Page 2
October 22, 2019

A 'hub and spoke' approach allows for services to be provided by individuals who have strong business and financial acumen to support the entrepreneur and have the passion and understanding of the community being served. Most of the investment made to serve a community goes to the direct service being provided to the client. The fundraising and marketing and outreach are a collaboration with the 'hub' office. And, financial management, employee payroll and benefits and all other administrative functions are handled by a 'hub' office. This also allows for focusing talent on the functions and responsibilities in which they excel. With a 'hub and spoke' model, the program can operate more efficiently.

The Women's Business Development Center utilizes this 'hub and spoke' model to provide programs and services in addition to ScaleUp, through three SBDC offices, two WBCs, a PTAC with services provided from two offices, and S.B.A. WOSB certification through five offices. When the WBDC was a VBOC and FAST grantee, our client reach was extensive with the community-based reach through our satellite offices as well as the digital reach created.

In addition to calling this model a 'hub and spoke' model, another description would be 'locally rooted and centrally leveraged.'

QUESTION 2:

"Are there other programs that you work with at SBA that could benefit from a similar organizational structure?"

Yes, as mentioned above, our goal is to provide services through individuals that advocate and understand the communities being serve, with the business and financial acumen to provide value to the entrepreneurs, and to provide the fundraising, administrative and operational talent and support needed. We utilize this model for our two WBCs, three SBDCs, a PTAC between two offices, five SBA WOSB certification offices, and previously leveraging all our offices and digital space for a VBOC, FAST grant, and ScaleUp grant.

QUESTION 3:

"If so, could you describe those and how those could realize the success that you have found with the hub and spoke model?"

The primary benefit to the communities in which these offices are located is that the individuals providing the technical assistance and programs spend 80-90% of their time on direct service to

WOMEN'S BUSINESS DEVELOPMENT CENTER
Your growth is our business

Senator Marco Rubio
Page 3
October 22, 2019

the clients and are supported for all the other necessary responsibilities tied to a federal grant. The number of clients reached and served is greater and the quality of the programs and technical assistance is higher because of the specialist that are hired. Lastly, because of the relationship and trust these individuals develop within the community, the digital reach also becomes more effective and is more likely to be utilized.

"Ms. DiMenco, you mentioned that you and your staff at the WBDC stress the importance of innovation and digital offerings. While SBA offers online programming and accessible webinars, more could be done to bring the Federal Government into the 21st Century."

Online, on-demand platforms should be developed on a stand-alone basis or integrated with live webinars or in-person sessions with testing. This will provide the entrepreneur with greater flexibility to run their business or maintain another job while their business is starting. Technology is not being utilized to more efficiently provide high quality learning and access. Additionally, increased use of technology can expand access to more rural areas or business owners that may have additional travel challenges, such as, lack of public transit or disabilities. Finally, for some entrepreneurs, in-person meetings or business labs can be intimidating, online offerings may be a good first step.

QUESTION 4:

"Beyond webinars and online guides, what other services and trainings could be offered virtually to small businesses, particularly tech businesses, through organizations such as yours without compromising the high quality in-person technical assistance?"

First, it is important to note that quality is not compromised by offering virtual services. There are several ways to offer higher level learning to entrepreneurs virtually through webinars and online, on-demand business labs supported by in-person and/or skype-type technical assistance.

Entrepreneurs including tech businesses know their 'art' very well. What they lack is business and financial acumen. You cannot teach capitalization, wealth creation, cost accounting, etc. in one session, one webinar, one online on-demand course. It requires a specialized curriculum, supported by on-going business labs, guided by in-person and online advising and mentoring. The probability that 2 person centers have the talent to deliver such expansive programs is not very likely. However, if they were centrally developed in an elevated fashion and then provided substantial training to help the technical assistance providers, we would be able to truly elevate the value we provide to entrepreneurs.

8 S. Michigan Avenue, 4th Floor | Chicago, IL 60603 | ph 312.853.3477 | fx 312.853.0145 | www.WBDC.org

WOMEN'S BUSINESS DEVELOPMENT CENTER
Your growth is our business.

Senator Marco Rubio
Page 4
October 22, 2019

We appreciate having the opportunity to respond to the questions and will make ourselves available to support this process in the best interest of those we serve.

With gratitude,

Emilia DiMenco

Emilia DiMenco
President and Chief Executive Officer

8 S. Michigan Avenue, 4th Floor | Chicago, IL 60603 | ph 312.853.3477 | fx 312.853.0145 | www.WBDC.org

November 4, 2019

United States Senate
Committee on Small Business & Entrepreneurship
Washington, DC 20510-6350

QUESTION 1:
Could you provide some best practices that you and Northwestern University have learned from the Propel Program, and address how the Federal Government could adopt these practices to implement similar initiatives throughout the country?

Given your successes at The Garage for the past four years, I believe that more colleges and universities should be looking to develop similar programs.

RESPONSE:
The Propel Program at The Garage at Northwestern has helped us to foster diversity and inclusion in entrepreneurship, starting with women, by creating transparent access to women in leadership positions for students and fostering individualized encouragement and mentorship. The lessons we've learned in developing Propel, however, are applicable to many minority groups and could also be replicated in any industry.

The "like me" concept has helped us to form an influential network of mentors that Northwestern students participating in the Propel Program can interact with one on one. We've seen firsthand the impact these conversations can have. For those entering a new and challenging discipline or job, seeing a leader that looks like them is very impactful. This means ensuring there are more minority populations placed in visible leadership positions across all industries, including government.

Pairing a less experienced individual with a more established one for a shadowing opportunity may encourage more interaction, freedom for open conversation, and suggestions from the bottom up. In addition to ensuring that leadership positions are held by a diverse group of people through public organizations and universities and supporting those leaders, it is imperative to foster *individualized* encouragement and mentorship. We have found this to be a crucial part of our programs. This could be applied by offering additional time outside of traditional work hours for one-on-one mentorship and networking.

These strategies can be implemented across the country in many ways and in any type of organization or company, from the public sector to private universities. It requires a strong network of dedicated individuals prepared to devote time to mentorship and a willingness to create paths to leadership positions for minority populations.

QUESTION 2:

Can you elaborate how the idea of The Garage came about and what barriers you faced in developing and implementing this program at Northwestern?

RESPONSE:

The Garage at Northwestern opened in June 2015 as a response to the entrepreneurial activity across campus. As stories of student founded startup successes became more common, it was clear that a physical space and community were necessary to validate this activity. The Garage was funded through our board and philanthropic donations, and continues to be funded through the Northwestern Provost's Office and philanthropic gifts.

The Propel Program is also funded through a philanthropic gift. In the development of the program, we faced the challenge of identifying a set of qualified candidates representing different schools and projects. We chose a small group of female students within our network at The Garage to serve as Propel "ambassadors" who participated in a kickoff field trip to New York City. This once in a lifetime experience, along with the opportunity to meet established female alumni based in New York City, empowered them to use their existing networks to recruit the first cohort.

Audrey Wu, a senior at Northwestern's McCormick School of Engineering, is an ambassador for Propel. After our recent field trip to New York City, she told us that "through Propel, I've been able to talk to a variety of successful women alumni who shared their struggles and success stories. I am deeply inspired to create my own story and have renewed enthusiasm to work on my startup. The biggest takeaway for me was finding a group of like-minded women entrepreneurs on campus."

This model elicited a high number of applications to the program. While we were excited about launching, we also faced low engagement from some participants due to the students' demanding schedules. To address this, we offered minimal funding to the "propellers" to host in person meetups (holding them accountable for planning the events) with one another or with guest speakers to foster community. Feedback on these events has been overwhelmingly positive.

Our next challenge came when recruiting a network of like-minded and passionate women to serve as mentors and guest speakers. This is vital to the program's ongoing success because it enhances the important mentorship opportunities offered through Propel. We still face this barrier, but continue to take advantage of opportunities to network across Northwestern and Chicago with the hope of widening our network and inspiring others to create initiatives to foster diversity in entrepreneurship.

SMALL BUSINESS MAJORITY

Senate Committee on Small Business and Entrepreneurship Field Hearing
October 3, 2019
Follow-Up Questions for the Record

Questions for Ms. Geri Aglipay:

Questions from:

Senator Duckworth

Your testimony discussed the need to expand both traditional and non-traditional banking services so that aspiring women-owned and minority-owned small businesses have greater access to capital necessary to start a company.

QUESTION 1:

Given your experience advocating for, and increasing awareness of, the needs of small business owners, can you detail the real world consequences for entrepreneurs, especially women and owners of color, who do not receive the capital they need from SBA or traditional lenders?

As you've noted, access to capital is a challenge for small businesses, and this gap is even more significant for historically underrepresented entrepreneurs, such as entrepreneurs of color, and for women and veterans. For example, women and minority-owned businesses receive just 4.4% and 5.5% of conventional small business loans respectively.[1] In fact, Latino- and black-owned businesses were less than half as likely to use a bank loan to finance their startups as non-minority firms, instead relying more heavily on personal credit cards to start their businesses.[2] And according to the U.S. Minority Business Development Agency, businesses owned by people of color were three times more likely to be denied a loan than non-minority firms.[3]

The Federal Reserve also found that while women entrepreneurs apply for loans at similar rates to men, only 47% of their applications were funded, compared to 61% of applications from male-owned firms.[4] Among the women business owners who

[1] Urban Institute, "Competitive and Special Competitive Opportunity Gap Analysis of the 7(a) and 504 Programs," January 2008, https://www.urban.org/research/publication/competitive-and-special-competitive-opportunity-gap-analysis-7a-and-504-programs/view/full_report

[2] U.S. Small Business Administration, "Small Business Finance: Frequently Asked Questions," July 2016, https://www.sba.gov/sites/default/files/Finance-FAQ-2016_WEB.pdf

[3] Minority Business Development Agency, "The MBDC: Vital to Making America Great," 2017, https://www.mbda.gov/sites/mbda.gov/files/migrated/files-attachments/MBDAVitaltoMakingAmericaGreat_170330.pdf

[4] Federal Reserve, "2016 Small Business Credit Survey: Report on Women-Owned Firms," November 2017, https://www.newyorkfed.org/medialibrary/media/smallbusiness/2016/sbcs-report-womenownedfirms-2016.pdf

didn't apply for financing, the survey indicated they didn't apply because they were more likely to believe they wouldn't receive funding.

This credit gap hurts the bottom line of these small business owners and inhibits their ability to grow and create shared prosperity for their communities by creating new jobs. A significant number of Latino-owned businesses say their profits were negatively impacted due to a lack of access to capital.[5] Similarly, black entrepreneurs are almost three times as likely as white business owners to report that a lack of access to capital negatively affects the profitability of their business.[6]

Additionally, some business owners may turn to online lending if they're turned down by a bank. While online lending and other newer types of financing are creating innovative funding options for cash-strapped small business owners, many of these new types of financing are unregulated and experiences with them are mixed. Some small businesses are falling prey to predatory lending practices, such as extremely high APRs (some in the triple digits) that are not being disclosed and unaffordable repayments, forcing some to close their businesses. In particular, this hurts women's ability to create income and build wealth from entrepreneurship to care for themselves and their families, which is especially important considering two-thirds of women in the U.S. are the breadwinner or co-breadwinner in their households.

QUESTION 2:

What kind of impact does this have on the surrounding community and its economy?

As noted above, a lack of access to capital can negatively impact a business owner's local economy by preventing them from creating new jobs and employing those in their own community. Supporting diverse entrepreneurship supports a local economy's success overall and can help promote financial security for more women and people of color. Indeed, research shows women-owned firms are more likely to have more women on their workforce and entrepreneurs of color are more likely to hire other people of color. One study found female founders had a workforce that was 66% female; among companies in the S&P 500 Index, about 44.7% of employees are female.

This is why it's also vital to support diverse entrepreneurship in the technology space. It's well known there is a lack of diversity in Silicon Valley and among large start-ups—one analysis of 23 large tech companies found that only about 36% of employees are female. Supporting more women and people of color by increasing

[5] Stanford Graduate School of Business Latino Entrepreneurship Initiative, "The U.S. Entrepreneurship Gap: A comparative measure of Latino Entrepreneurship Activity," 2018, https://www.gsb.stanford.edu/sites/gsb/files/publication-pdf/report-slei-2018-latino-entrepreneurship-gap.pdf

[6] Kauffman Foundation, "Startup Financing Trends by Race: How Access to Capital Impact Profitability," October 2016, https://www.kauffman.org/what-we-do/research/2016/startup-financing-trends-by-race-how-access-to-capital-impacts-profitability

opportunities to access capital helps create sustainable businesses and can promote more diversity in the workplace that is reflective of the overall U.S. population and local communities. What's more, having more leadership from women and owners of color in the tech industry can promote more conscious decision making for research, product design and marketing of how technological goods and services can also benefit diverse communities.

Earlier this year I introduced S. 996, the Microloan Program Enhancement Act of 2019.

QUESTION 3:

Could you discuss how expanding the SBA's Microloan Program is helpful to entrepreneurs writ large, but specifically how some entrepreneurs in the technology industry could utilize and benefit from SBA's Microloan Program?

SBA's loan programs, and the Microloan Program in particular, are vital to small businesses and start-ups that are struggling to gain capital needed to launch and grow. Since the majority of small businesses are seeking small-dollar loans (those under $100,000) that are difficult to secure from a traditional lender, the Microloan Program is a vital resource for small and emerging businesses. Expanding the program would help all small businesses, but could particularly benefit those start-ups in the technology industry that may not have a proven track record or the collateral or credit needed to secure a traditional loan. For many in the technology industry, that small loan or line of credit can open the door to obtaining resources needed to beta-test software, or obtain space to conduct research for larger-scale technology that may improve community health and safety systems or city and neighborhoods infrastructure and environments.

Questions/Answer from Kimberly Meek:

Questions from:

Senator Duckworth

During the hearing and in your testimony, you discussed the need to access capital and talent to thrive beyond the first year of opening. Specifically you mentioned a need to develop "talent pools" for job creators like yourself.

QUESTION 1:

Can you describe what those talent pools might look like and how they would function on a small scale in Chicago or on a National basis?

On a small scale, I believe the talent pool would resemble a traditional Temporary/Interim Staffing firm, specializing in the 5 disciplines most urgently needed on an entrepreneur's leadership team: Strategy, Finance, Operations, Marketing/Sales, and Human Resources. The 'talent pool' is vetted and maintained by an administrator within a trusted partner organization (for instance, the Women's Business Development Center), and entrepreneurs will contract with the WBDC on an as-needed basis for project work or as long as needed.

On a National scale, the model might resemble an on-line candidate/job matching platform like Indeed.com, Monster.com, or LinkedIn.com. Such a platform could be administered by a trusted partner organization such as the Women's Business Enterprise National Council (WBENC).

The intellectual capital and business model already exist in the private markets; it would be a straightforward process to emulate them and adapt them to Diverse Tech Entrepreneurs' needs. There are MANY subject matter experts available on a part-time or interim basis, and some number of them will be a good fit for permanent hire in early stage companies.

QUESTION 2:

Are there specific actions that the Federal Government could take to help develop this resource?

A nominal working capital grant written to the WBDC in Chicago would pay for a consultant to help set up the platform and fund a small staff to administer it. The National platform would require more capital to develop the online database and matchmaking capabilities, but the same funding model via WBENC applies. Neither the local nor national approach is capital-intensive, and both benefit from established best practices in the private market.

Senate Committee on Small Business and Entrepreneurship Field Hearing
October 3, 2019
Follow-Up Questions for the Record

Questions for Katie Kollhoff:

Questions from:

Senator Duckworth

In your testimony you explain three major barriers companies like yours generally face when starting up: the lack of mentorship and education, the need for access to capital and real access to affordable health care.

QUESTION 1:

Could you expand on the last barrier: access to health care?

RESPONSE TO QUESTION 1:

Access to health care has been a principal concern for all co-founders. Of the five people currently involved with the company, one is now funded by a federal fellowship which provides a healthcare allowance; one is without health care coverage; one is under the age of 26 and covered under by parents' insurance; one works full time to provide health care coverage for dependents; and one works full time at another job where health care coverage is provided.

QUESTION 2:

What barriers did you face in accessing healthcare for yourself and your employees, and how did you overcome or work around these barriers?

RESPONSE TO QUESTION 2:

Upon first exploring medical healthcare coverage as a company, we were learned that many insurance providers will not cover groups of less than four. Given our funding levels at the time, we couldn't bring four people on full time, so no one could be covered under a company plan. Three co-founders continued working full time to be eligible for health care coverage under other employers, significantly hampering our ability to make progress, in a phenomenon known as "entrepreneurship lock." One co-founder used COBRA after leaving a full-time job, though the costs were the entire amount of that startup founder's modest salary (approximately a quarter of market-rate salary). For the co-founder with dependents, the resource-constrained company can't initially bear the expense of insuring the entire family. As mentioned above, the co-founder under the age of 26 continued coverage under a parent's healthcare plan, thanks to the Affordable Care Act. These factors severely limit the type of person who can engage in endeavors like ours. My cofounders and I do not have independent wealth but we have strong educations, good ideas, and a shared passion for problem solving. We have worked full-time jobs to maintain health insurance, limiting our ability to develop business. Further, when the company has sufficient resources to provide coverage, insurance providers often will not provide group coverage for fewer than four people. This limit means there must be a baseline revenue of approximately four full-time employees, fully burdened. To be competitive with the market for deep science and physical engineering salaries, that baseline is around $750,000. Many deep tech companies will not see revenue on that order of magnitude for about five years. Without independent wealth, the healthcare system in the United States exists as a significant barrier to technical entrepreneurship.

QUESTION 3:

What actions can Congress take to reduce these barriers for future startups like yours?

RESPONSE TO QUESTION 3:

Congress can require accelerators and incubators receiving federal funding to offer insurance coverage to participants. Congress can provide for healthcare access to an aggregated pool of entrepreneurs, for instance, SBIR or other federal funding recipients, or companies younger than five years old.

QUESTION 4:

You mentioned that few companies ever have the chance to receive venture capital funding, that traditional lending models are unfriendly to start-ups operating in today's economy and that loans of $100,000 or less are hard to come by, especially in the post-recession lending landscape.

RESPONSE TO QUESTION 4:

Correct. Less than 1% of businesses in operation today receive venture capital funding. Deep technology entrepreneurship is incompatible with most venture capital fund timelines, as well as with traditional asset-based lending models.

QUESTION 5:

As deep technology companies like yours may not have access to an acceptable loan through traditional lenders, what financial support mechanisms are available?

RESPONSE TO QUESTION 5:

Our enterprise has been fortunate to receive financial support in the form of grants from philanthropic organizations, such as VentureWell, as well as challenge prizes and grants from governmental agencies, such as the Department of Energy. Many deep technology companies compete for SBIR funding, which is an essential source of early stage funds.

QUESTION 6:

Are these financing mechanisms adequate to scale tech enterprises like yours?

These financing mechanisms are necessary to de-risk early stage technologies but not sufficient to scale solutions. Additional project-based funding and larger SBIR grant pools would enable more of a foothold of homegrown innovations to develop and thrive in the United States.