

**A NEW START: OPPORTUNITIES AND BARRIERS
TO ENTREPRENEURSHIP FOR RETURNING CITI-
ZENS AND JUSTICE IMPACTED INDIVIDUALS**

HEARING
BEFORE THE
**COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP**
OF THE
UNITED STATES SENATE
ONE HUNDRED SEVENTEENTH CONGRESS
SECOND SESSION

JULY 27, 2022

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

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP
ONE HUNDRED SEVENTEENTH CONGRESS

BENJAMIN L. CARDIN, Maryland, *Chairman*
RAND PAUL, Kentucky, *Ranking Member*

MARIA CANTWELL, Washington	MARCO RUBIO, Florida
JEANNE SHAHEEN, New Hampshire	JAMES E. RISCH, Idaho
EDWARD J. MARKEY, Massachusetts	TIM SCOTT, South Carolina
CORY A. BOOKER, New Jersey	JONI ERNST, Iowa
CHRISTOPHER A. COONS, Delaware	JAMES M. INHOFE, Oklahoma
MAZIE HIRONO, Hawaii	TODD YOUNG, Indiana
TAMMY DUCKWORTH, Illinois	JOHN KENNEDY, Louisiana
JACKY ROSEN, Nevada	JOSH HAWLEY, Missouri
JOHN HICKENLOOPER, Colorado	ROGER MARSHALL, Kansas

SEAN MOORE, *Democratic Staff Director*
WILLIAM HENDERSON, *Republican Staff Director*

C O N T E N T S

WITNESS PREPARED STATEMENTS

Panel 1

Mr. Coss Marte, CEO & Founder, CONBODY, New York, NY	Page 4
Mr. Dan Caudill, Partner & Chief Operating Officer, Caudill Seed, Louisville, KY	10
Dr. Damon Phillips, Robert Steinberg Professor, Professor of Management, Wharton School of Business, University of Pennsylvania, Philadelphia, PA .	15
Mr. Rob Perez, Co-Owner, DV8 Kitchen, Lexington, KY	23

QUESTIONS FOR THE RECORD

Mr. Coss Marte, Responses to questions submitted by Senator Coons and Senator Hirono	42
Mr. Dan Caudill, Responses to questions submitted by Senator Hirono	44
Dr. Damon Phillips, Responses to questions submitted by Senator Coons and Senator Hirono	45
Mr. Rob Perez, Response to question submitted by Senator Coons	52

A NEW START: OPPORTUNITIES AND BARRIERS TO ENTREPRENEURSHIP FOR RETURNING CITIZENS AND JUSTICE IMPACTED INDIVIDUALS

WEDNESDAY, JULY 27, 2022

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP,
Washington, DC.

The Committee met, pursuant to notice, at 2:30 p.m., in Room 428A, Russell Senate Office Building, Hon. Ben Cardin, Chairman of the Committee, presiding.

Present: Senators Cardin, Shaheen, Booker, Rosen, Hickenlooper, Paul, Ernst, Young, Hawley, and Marshall.

OPENING STATEMENT OF CHAIRMAN CARDIN

Chairman CARDIN. Good afternoon. The Committee on Small Business and Entrepreneurship will come to order. Our hearing today will deal with new start opportunities and barriers to entrepreneurship for returning citizens and justice-impacted individuals.

I want to welcome all of our witnesses today. I think we have a very distinguished panel, many of whom have experienced firsthand the challenges of re-entry into society and economic opportunities, all of whom have worked in this area. So we have, I think, four excellent witnesses that can help us deal with today's subject, and we welcome each of you.

Today's hearing will give the Small Business Committee an opportunity to discuss the ways in which the Federal Government can harness the power of entrepreneurship to help returning citizens and justice-impacted individuals re-enter their community and build successful lives for themselves and their families. In recent years, Congress has taken steps to correct the over-policing and unfair sentencing that failed to meaningfully reduce crime and instead has separated families and communities.

I am very proud to cast my vote for the landmark First Step Act, which was a monumental step forward in our effort to right past wrongs and restore justice to America's criminal justice system. I am also proud that one of the Senators that was key to the passage of the First Step Act, Senator Cory Booker, is a member of this Committee and is equally committed to creating a pathway to entrepreneurship for justice-impacted individuals. I note that my staff worked very closely with his staff on today's hearing, and I am grateful for his leadership on this important issue.

By now we are all aware of the stigma and discrimination that returning citizens and justice-impacted individuals face in the job market. There are more than 70 million Americans who have a history of involvement with the criminal justice system, and studies show that these individuals are 50 percent less likely to receive a callback or a job offer after an interview. So for many justice-impacted individuals, entrepreneurship is becoming an increasingly common pathway to earn a living.

One of our witnesses here today, Coss Marte, will share with us his reasons for pursuing entrepreneurship. Mr. Marte, I am interested in learning about the difficulties you faced in the job market after you were released and your prospects on the way in which entrepreneurship provides you a better path forward to deal with economic opportunity.

It is critical that we recognize the significant role of entrepreneurship for justice-impacted individuals as well as the inherent benefit for themselves and their communities. Justice-impacted entrepreneurs are less likely to recidivate and are more likely to employ other justice-impacted individuals, which produces a multiplier effect.

Justice-impacted entrepreneurs are succeeding in spite of the many barriers that they continue to face on the path to business ownership, including inadequate access to capital as well as limited opportunities for business mentorship, training, and entrepreneurship development. And because minorities, especially Black Americans, have been over-policed and incarcerated for decades, these barriers are compounded by the continued decrimination that limits minority entrepreneurs.

I am inspired to see that there are already lending institutions and community organizations working to address these challenges. In my hometown of Baltimore, for example, Baltimore Community Lending, a CDFI, specializes in providing capital to returning citizens.

But community organizations and CDFIs cannot do this work alone. It will take the concerted efforts of the Federal Government, grassroots organizations, and lenders to substantially provide support for these entrepreneurs. That is why in the coming weeks I will be reintroducing the New Start Act. My bill will grow the capacity of organizations on the ground already administering entrepreneurial development assistance and training to returning citizens by providing them with grants. These grants will increase an organization's capacity and lead to justice-impacted entrepreneurs being connected with lenders like Baltimore Community Lending, who participate in the SBA microloan program. I am grateful to the Biden administration, who also shares this commitment.

In April, the SBA announced that it was eliminating the criminal records restrictions that prevented entrepreneurs with a past conviction from receiving loans through the Community Advantage Pilot Program. This change is a welcome first step, and it is my hope that we can work together to open up access to SBA's other loan programs as well, including the 7(a) and 504 programs.

We must also examine what we can do to ensure the SBA's resource partners have robust tools and resources to meet the unique needs of returning citizens. We are already seeing how some cen-

ters are playing an important role in providing entrepreneurial training and business development. This is not a partisan issue. In fact, I have worked in a bipartisan manner in the past to ensure the SBA relief programs were made available to justice-impacted business owners.

After the Trump administration initially blocked justice-impacted entrepreneurs from receiving PPP loans in April of 2020, Republican Senator Rob Portman and I sent a letter to the administration urging them to reverse course. Weeks later, in June 2020, Senators Portman, Booker, Lankford, and I introduced legislation to prevent decrimination against justice-impacted entrepreneurs in the PPP program.

I believe that we can work together. This is an area where we can change the lives of many and meaningfully empower entire communities. I recognize this is not an easy task, but it is a critical one.

I am hopeful that this hearing will identify additional areas where we can come together in a bipartisan consensus on how to address these problems and produce meaningful change for the more than 70 million Americans with a criminal history.

I want to thank again our witnesses for being here today and their work and leadership in this area. I am looking forward to hearing your insight and recommendations on what Congress must do to empower individuals to have these opportunities.

With that let me yield to the Ranking Member, Senator Paul.

OPENING STATEMENT OF SENATOR PAUL

Senator PAUL. Today we have two exceptional Kentuckians who recognized a problem in their local communities and, rather than wait for government to come along, Dan Caudill and Rob Perez took action themselves.

Dan Caudill is the owner of Caudill Seed, a regional seed and supply distribution celebrating its 75th year of family ownership this August. I visited Dan's business. I have seen the passion he has for helping returning citizens as they become productive and law-abiding members of society. His partnerships with Volunteers of America and Healing Place to employ individuals coming out of the criminal justice system and rehabilitation programs is laudable.

Dan is joined by Rob Perez. Rob Perez and his wife Diane are co-owners of DV8 Kitchen in Lexington. Rob firmly believes in providing a second chance to those in the early stages of post-incarceration life. As a second-chance employer, DV8 Kitchen does transformative work for returning citizens. I was pleased to visit their kitchen and see what an excellent example DV8 provides.

Returning citizens in Kentucky and all around the country are eager and willing to be productive members of society, but they are faced with unique economic challenges following their incarceration. Whether it is on the basis of stereotype or stigma, Dan and Rob know how difficult it is for returning citizens to become economically independent.

Dan and Rob have stepped up to put their money where their mouth is. Returning citizens need stable jobs. They need the direct and specialized support only their local communities can provide.

Without employment opportunities like those provided by Caudill Seed and DV8 Kitchen, many individuals would continue in a cycle of incarceration, drug addiction, and poverty. We can do better, we have to do better, and I am proud to see Kentuckians leading the way on all fronts.

Chairman CARDIN. Let me thank Senator Paul, and let me welcome Dr. Phillips and Mr. Perez. Senator Paul has, I think, given you all the proper introduction.

I mentioned Mr. Coss Marte in my opening statement. He is currently CEO and Founder of CONBODY, a prison-style bootcamp that has trained over 70,000 clients and has employed over 50 justice-impacted individuals to teach fitness class.

In 2009, Mr. Marte was sentenced to jail as a leader of a multi-million-dollar drug operation in New York City. In 2017, four years after his release, Mr. Marte launched CONBODY, inspired by his fitness journey while in prison.

And we are also pleased to have Dr. Damon Phillips, a resident of Maryland. That gives you the priority in this Committee anyway, when I am Chairman. He is the Robert Steinberg Professor of the University of Pennsylvania Wharton School and Annenberg School for Communications. He is also a Senior Research Scholar with the Tamer Center at Columbia Business School, where he was a full professor from 2011 to 2021. Dr. Phillips is an expert in labor markets and entrepreneurship with a focus on entrepreneurship by people from marginalized communities.

We will start with Mr. Marte.

STATEMENT OF COSS MARTE, CEO AND FOUNDER, CONBODY

Mr. MARTE. Chairman Cardin, Ranking Member Paul, and members of the Committee, I really appreciate you inviting me to share my journey as a small business owner with a criminal record. I am born and raised in the Lower East Side of New York City where, as a child, there were limited opportunities to succeed legally. The individuals that I saw succeed were usually the drug dealers that stood on the corner, and wore big chains and rode in luxury vehicles. As a kid, schoolteachers would ask me, "What do you want to be when you grow up?" and I would tell them I wanted to be rich.

I wanted to be rich so badly because my mom immigrated from the Dominican Republic with limited resources and six months pregnant with me. I grew up in a heavily drug-infested neighborhood at the time and I hated the fact that my mom denied me things because she had no money.

This led me to the streets at a very early age where I began selling drugs and eventually created a multimillion-dollar drug empire, and by the age of 19 I was making over \$2 million a year. But this all ended when I was arrested by the DEA and ended up being sentenced to seven years in prison.

As I entered the prison system I developed a workout routine that saved my life. I lost over 70 pounds in just six months doctors told me I could die in prison from a heart attack because of my cholesterol levels. I then helped over 20 inmates lose over 1,000 pounds combined, and this led me to develop a business plan while I was sitting in solitary confinement, and the idea launched as CONBODY, a prison-style bootcamp that hires formerly incarcerated-

ated individuals to teach fitness classes. Today we have trained over 70,000 people worldwide.

As I came home from my prison sentence I was released with \$40, a bus ticket, and this net bag with my business plan. However, I was faced with many barriers such as insurance, real estate, capital, and policy regulations against hiring employees who have been formerly incarcerated. Even finding a job was difficult as I was denied over 100 times because of my past.

Thanks to programs like Defy Ventures, who believe that formerly incarcerated individuals have the entrepreneurial skills to start their own businesses, I was able to navigate the resources of running a small business.

However, even with the help of Defy, I was rejected business insurance multiple times. I was even quoted an absurd rate of \$30,000 a month to launch my small business because of my criminal record.

Then capital came into play as banks had those questions in their applications: "Have ever been convicted of a criminal record?" I literally sold my collection of over 300 pairs of Jordan sneakers to use as my start-up capital to start my business. In addition, real estate locations rejected me because of the same factors. It took me three years of showing up every single day, twice a day, through rain, sleet, and snow to train my clients in a public park.

It was truly not an easy task, but I was fortunate enough to catch the ear of a landlord who owned a Buddhist Temple, who let me rent their basement to operate my small business, where we were able to create a safe space for myself and my employees who all have been incarcerated in the system. We truly thought it was going to be a safe haven for my employees who have gone through so many biases in the workforce due to their past criminal record, but we were faced with fraternizing, a rule that is stated in parole and probation, where formerly incarcerated individuals are not allowed to be in the same place at any given time. Our goal was to create a space where our employees had each other's back and made sure that we would never go back into the system, which has worked so far.

However, fraternizing has blocked us from employing some formerly incarcerated individuals due to their parole and probation officers denying them from working with us. For example, we had one individual who was about to be violated on parole and sentenced to two years in prison for working with us, but thankfully enough we were able to create a petition with our community and clients and employees to prevent him from going back inside. We also brought this issue up to the regional supervisors in the parole system to stop one of our employees from being reincarcerated because he was working with us. Our efforts worked and were able to get him out of the situation, but today there are so many individuals that come out of the system that face this issue but do not have a community that can support them through these barriers.

I have been a strong advocate for criminal justice reform for the last nine-plus years, and I am a true believer that if given the tools that we need we can show that we cannot only bring recidivism rates down but demonstrate that we can really tap untapped talent in the entrepreneurial space.

According to the Harvard Political Review currently our national recidivism rate is 76 percent, but if we employ our returning citizens the recidivism and give them a second chance it drops down automatically to 31 percent. And the stat that I am proudest of at CONBODY is that we have a zero recidivism rate. No one has gone back into the prison system.

I believe what New York State is doing in the cannabis space is a great example of innovation in the business world. By giving first licenses to people that have been justice impacted by the war on drugs in the cannabis space. I believe this is a great example that we could follow, that not only could help our communities but our economy as well. For example, I have recently launched a company called CONBUD, a potential dispensary in New York State, where we will be hiring formerly incarcerated individuals to work with us and will give back portions of the proceeds to community members that have been affected by the war on drugs.

I would like to end by leaving you with these questions. What if you were judged for the worst thing you have ever done for the rest of your life? Or what if you were known for taking those negative situations and turning them into a legacy that can impact our future? What would you want to choose?

Thank you so much for your time and I look forward to your questions and answers.

[The prepared statement of Mr. Marte follows:]

Testimony of Coss Marte and Owner of CONBODY
U.S. Senate Committee on Small Business
July 27, 2022

Chairman Cardin, Ranking Member Paul, and members of the committee, I really appreciate you inviting me to share my journey as a Small Business owner with a criminal record. I'm born and raised in the Lower East Side of NYC where as a child there were limited opportunities to succeed legally. The individuals that I saw succeed were usually the drug dealers that stood on the street corner where I grew up, who wore big chains and rode in luxury vehicles. As a kid, school teachers would ask me, "What do you want to be when you grow up?" and I would tell them I wanted to be rich.

I wanted to be rich so badly because my mom immigrated from the Dominican Republic with limited resources and me in her belly. I grew up in a heavily drug infested neighborhood at the time and I hated the fact that my mom would deny me things because she had no money.

This led me to the streets at a very early age where I began selling drugs and eventually created a multi-million dollar drug empire. By the age of 19 I was making over \$2M in profit a year but this all ended when I was arrested by the DEA and ended up being sentenced to 7 years in prison.

As I entered the prison system I developed a workout routine that saved my life and I lost over 70lbs in 6 months then after doctors told me I could die in prison of a heart attack because my cholesterol levels were so high. I then helped over 20 inmates lose over a thousand pounds combined. This led me to develop a business plan while I was sitting in solitary confinement with the idea of launching CONBODY, a prison style fitness bootcamp that hires formerly incarcerated individuals to teach fitness classes. Today we've trained over 70,000 people worldwide.

As I came home from my prison sentence I was released with \$40, a bus ticket and my prison net bag where I held my business plan and believed CONBODY was a great business idea. However, I was faced with many barriers such as insurance, real estate, capital, and policy regulations against hiring employees who have been formerly incarcerated. Even finding a job was difficult as I was denied over 100 times because of my past.

Thanks to programs like Defy Ventures, who believe that formerly incarcerated and incarcerated individuals have the entrepreneurial skills to start their own businesses, I was able to utilize their resources to navigate running a small business.

However, even with the help of Defy I was rejected business insurance multiple times or quoted an absurd rate of \$30,000 a month to launch a small business because of my criminal record and regulations that were placed on a legislated level.

Then capital came into play as banks had those questions in their applications, "Have ever been convicted of a criminal charge?" I literally sold my collection of over 300 pairs of Jordan sneakers to use as my start up capital. In addition, real estate locations rejected me because of the same factors. It took me three years of showing up every single day, twice a day, through rain, sleet, and snow to train my clients in the public park.

It was truly not an easy task but I was fortunate enough to catch the ear of a landlord of a Buddhist Temple who let me rent their basement to operate my small business, where we were able to create a safe space for myself and employees who all have been in the system. We truly thought it was going to be a safe haven for my employees who have gone through so many biases in the workforce due to their past criminal record but we were faced with fraternizing, a rule that's stated in parole and probation, where formerly incarcerated individuals are not allowed to be in the same place at any given time. Our goal was to create a space where our employees had each other's back and make sure that we were able to keep each one of us from returning back into the system, which has worked so far.

However, fraternizing has blocked us from employing formerly incarcerated individuals due to their parole and probation officers denying them from being in a space that has other returning citizens. For example, we had one individual who was about to be violated on parole and sentenced to two years in prison for working with us but thankfully we were able to create a petition with our community of client's and employees to prevent this from happening. We also brought this issue up to the regional supervisors in the parole system to stop one of our employees from being reincarcerated because he was working with us. Our efforts worked and were able to get him out of the situation but today there are so many individuals that come out of the system that face this issue but don't have a community that can support them through these barriers.

I've been a strong advocate for criminal justice reform for the last 9+ years and a true believer that if given the tools that we need we can show that we cannot only bring the recidivism rate down but demonstrate that we can be real untapped talent in the entrepreneurial space.

According to the Harvard Political Review currently our national recidivism rate is 76% but if we employ our returning citizens the recidivism rate drops down to 31% and at CONBODY the stat I'm proudest of is that we've hired over 50 formerly incarcerated individuals and have maintained a zero recidivism rate.

I believe what New York State is doing in the cannabis space has been extremely innovative with giving the first licenses to people that have been justice impacted by the war on drugs and have a successful business. I believe this is a great example of legislators working together with formerly incarcerated individuals to demonstrate their talents that will not only help our communities but the economy as well.

For example, I've recently launched CONBUD, a potential dispensary in New York State, where we will be hiring formerly incarcerated individuals to work with us and will give back a portion of our proceeds to the communities that have been affected most by the war.

I'd like to end by leaving you with these questions, " What if you were judged for the worst thing you've ever done for the rest of your life? Or what if you were known for taking those negative situations and turning them into a legacy that can impact our future? What would you want?

Thank you for your time and I look forward to your questions and answers.

Chairman CARDIN. Well thank you very much for your testimony, and thank you for being here. We hear numbers, but when we see an individual that has gone through this it is very powerful. So thank you very much for your attendance here today.

Mr. MARTE. I appreciate it.

Chairman CARDIN. Mr. Caudill.

STATEMENT OF DAN CAUDILL, OWNER, CAUDILL SEED

Mr. CAUDILL. Thank you for having me here. My name is Dan Caudill and I am Chief Operating Officer of Caudill Seed Company. I and four other partners own the business, and I am one of the directors.

Caudill Seed Company was established in 1947 by my father. It is a family business. It is a diversified agricultural production company that produces a lot of agricultural products for planting purposes, for reclamation purposes, as well as purposes for human consumption, et cetera.

Caudill Seed Company, beginning with my father, has had a long history of not discriminating against people who might have had arrest records or convictions, but had a desire to straighten up their lives and obtain gainful employment. So this really began with my father.

Caudill Seed Company has been involved in a lot of numerous nonprofit agencies there in the state of Kentucky, in Louisville, such as the Healing Place, Volunteers of America, and Talbot House, and a number of other projects. And through that we learned the need to have gainful employment after people completed programs to treat their addiction or other problems that they had. So we offered employment to these people.

We also work with Dismas Charities. They are local, right next to our business actually. And we found little difference between the people that we hired out of these programs and, quote, "the normal population" that did not have an arrest record or a conviction. Our success rate with these people was about the same.

What we did notice is that these employees were much more loyal and dedicated employees after they had been there awhile, and they were anxious to move up through the ranks, into management positions.

Today I am proud to say we have 148 total people working in our company, in different divisions, and nearly 50 right now are all second-chance employees. Some of these employees have been with us for many, many years and others only a few months. We normally start them off at a livable wage of about \$15 an hour with benefits that include health insurance, dental, vision, profit-sharing, 401(k), year-end bonuses, based on the profitability of the company.

Caudill Seed Company has been involved with regular volunteer work at these nonprofits throughout our community, so we are well known for hiring these individuals within our company, especially from the Volunteers of America and the Healing Place.

One thing I find interesting, which is worth bringing up here, is in the 1970s and 1980s, in the company—I began in about 1982—we would not have access to the information on background checks, and it was a pain in the tail to get background checks. We had to hire an attorney. The attorney had to go to the county clerk's office

to find background records on these individuals, and if they lived in numerous places you had to hire an attorney or someone that could go in and get these records. And we only did that with the county people and people that handled cash.

Anyway, today the world has changed. With the explosion of the information technology now, anybody that wants to know a complete background on somebody can spend \$9.99 on the internet and get this information. And, of course, there are many subscription agencies that you can subscribe to for regular background checks, that will pull up all public records on any individual—every stop sign you ever ran, every misdemeanor that you were ever charged with, even arrests but not convictions are on these reports, as well as any property you have bought, any cars you own. All the public information is there, such as LexisNexis and so on.

Today, from my work at in the nonprofit side of this thing and knowing these people, this information is being used to increase the amount of discrimination that people are running into out there, not just in employment but, as you said, to rent apartments or to rent property or to even see a doctor today. The doctors are running background checks on patients to make sure they are not recovering addicts, because they are liable for oxycontin and so on.

So anyway, my thought on this thing is that, really, what we need to do is deal more with reversing the stigma concerning prior criminal records and so on, rather than sinking a bunch of money into new programs, the government running things, to try to make changes, when the problem is stigma. It is led by the Federal Government, followed by state, county, city governments, and the major corporations across the country.

With that I see I am out of time, so thank you.

[The prepared statement of Mr. Caudill follows:]

Dan Caudill
Caudill Seed Company

Opening Statement
Senate Committee on Small Business and Entrepreneurship
July 27, 2022

Caudill Seed Company was established in 1947 by Forrest Caudill and is a diversified production company, marketing agricultural, reclamation and turf products through an independent dealer network in Kentucky, Indiana, Ohio, West Virginia and Tennessee.

Caudill Seed Company, beginning with my father, has a long history of not discriminating against people who may have had arrest records in the past, but had a desire to straighten up their lives and obtain gainful employment. Caudill Seed Company has been involved in numerous non-profit activities in the Louisville area and has found an excellent source of quality employees by hiring individuals that have graduated programs through the Healing Place, Volunteers of America, Dismas Charities, etc., in giving these people second chance employment. Statistically speaking, we have found very little difference from hiring from this group of individuals verses people who have clean records. Many of these second chance employees have become our most loyal and dedicated employees as a result of being giving a second chance and have been allowed to move up through the ranks into management positions throughout the company.

Currently, our total employees are 148 people and of that total employees, we have exactly 50 that are second chance type people. The breakdown for our divisions is as follows.

- Whole Alternative – 27 (supervisors, maintenance, pack room and warehouse)
- Seed – 13 (warehouse, supervisor, maintenance)
- Sprouting - 4 (warehouse personnel)
- CS Health -1 (warehouse personnel)
- KY Fertilizer -2 (sales and a lead warehouse person)
- Morehead – 2 (warehouse personnel)
- Oklahoma- 1 (warehouse manager)
- Grand total 50

Some of the above employees have been with us for many, many years and others for just a few months. We normally start them off at \$15.00 an hour with benefits that include health insurance, dental, vision, profit sharing, 401 K and year-end bonuses based on profitability of the company. Caudill Seed Company has been involved with regular volunteer work at numerous non-profits dealing with the homeless population and addiction recovery, in addition to second chance employment, including the Healing Place, Volunteers of America, the Ice House of Louisville, which has allowed us to recognize the need for gainful employment after residents graduate programs offered at these and other non-profit facilities.

In the past 70's and 80's, we only ran background checks on people who worked in accounting and people who were handling cash, and in order to run those background checks we would have to hire an attorney and he would in turn either hire attorney's or visit all the different counties in which the individual had resided to check with each county clerk to see if there were previous convictions. Today these are public records and can be accessed by anyone who wants to spend \$9.99 on the internet or subscribe to one of the many different agencies such as Lexus Nexus that will pull up every public record including arrests without convictions or were later dismissed as well as any property purchases, sales and any other public information. These services are currently used by most medical professionals and attorneys as well as employers and in my opinion are used to heavily discriminate against these individuals keeping them from obtaining everything from medical to employment as well as renting commercial or residential property. It is getting to the point where many of the people who have graduated programs dealing with addictions have an extremely difficult time finding quality residential apartments and reasonable medical care as well as employment.

In 2008 and 2009 I was Vice Chair of the Healing Place and I saw firsthand how during tough economic times that these people were the first to be discriminated against to get employment. Even McDonalds and other fast food places were running these background checks. This concerns me about the next downturn about how much the current discrimination will increase as it did in 2008 and 2009. With the explosion of information technology and for the public to easily access these records, it has created a situation where these people are facing a lifetime of discrimination in greater ways than they were when they were originally arrested and convicted of their misdemeanor and/or felony crimes. This, in my opinion, is significantly increasing the penalties over what they were originally sentenced to. I fear that with the explosion of the information technology, that we are seeing a permanent branding of these individuals, and perhaps the beginning of the establishment of an information based cast society

such as what India used to have in play. Something really should be done to allow these individuals, after so much time, to have their records either completely expunged or limiting the access of those records to police and the justice system, who have reason to access them.

This ongoing discrimination against these individuals is lead by the federal government and their hiring practices, which is followed closely by state, city and county government, as well as setting standards for large and small companies going forward to continue to heavily discriminate against these people and not allowing them "second chance employment". I believe the efforts of this committee should be to help reverse the stigma and help limit access, after an appropriate amount of time, to these records, allowing these people equal access to non-discriminatory employment, healthcare and lifestyle opportunities that we enjoy. This will be a more impactful approach than creating new government-funded programs administered by the federal government, which tends not to be very successful in solving social problems.

Interesting statistics: It is estimated that there is over 20 million convicted felons in the United States and the cost to incarcerate these people runs on average approximately \$30,000 to \$35,000 per year and that nearly \$40 billion a year is spent on incarceration in the United States per year and minority populations are disproportionately affected.

Best Regards
Dan Caudill
COO Caudill Seed Company, Inc.

Chairman CARDIN. Well, I thank you very much for your testimony but also for your commitment, longstanding commitment to recognize the value of workers and giving chance to those that needed a second chance. So thank you very much for everything you have done.

Dr. Phillips.

**STATEMENT OF DAMON PHILLIPS, PH.D., ROBERT STEINBERG
PROFESSOR OF MANAGEMENT, WHARTON SCHOOL OF BUSI-
NESS, UNIVERSITY OF PENNSYLVANIA**

Mr. PHILLIPS. Chairman Cardin, Ranking Member Paul, and distinguished members of the Committee, and my fellow panelists, good afternoon and thank you for this opportunity to speak on this topic.

I am a tenured professor at Wharton Business School and I previously held tenured positions at Columbia University and the University of Chicago. In 2016, I founded a program at Columbia called ReEntry Acceleration Program—REAP is what we call it. Through REAP, MBA students go inside prisons and teach business skills, including entrepreneurship. I am currently working on bringing a similar program to Wharton.

This work on REAP is rooted in research that I conduct with my collaborator, Dr. Kylie Hwang. This research, in addition to other recent scholarship by Hwang will be the focus of the rest of my testimony.

Dr. Hwang and I are motivated by the fact that this recidivism number that Coss Marte mentioned and the numbers that we were working at the time are two-thirds of returning citizens are re-incarcerated within three years of re-entry. And research has shown over the past 20 years that one of the key reasons is high unemployment, and that is related to the challenge of stigma, that you mentioned.

Hwang and I study entrepreneurship, where returning citizens circumvent employment barriers by becoming entrepreneurs. We have three key findings.

The first is that we found that someone coming out of prison is more likely to start a business than someone who has never been to prison. A key reason why is that employment discrimination makes it painfully difficult for returning citizens to find work.

Second, we found that returning citizens earned more as entrepreneurs compared to what they earned as employees. And third, we found that having a job certainly reduces recidivism, but in our analysis returning citizen entrepreneurs have even lower recidivism rates. As a final note on our research, most of our findings were more pronounced for Black returning citizens.

Our research shines a light on positive outcomes, but returning citizens face significant barriers that make it difficult to reach their full potential as entrepreneurs. In particular, we can think about three types of barriers: financial, human capital, and social capital.

For financial capital we typically think when you are starting a business that there a lot of diverse ways of getting funding. It can be your personal funds, family and friends, credit cards, bank loans, government funds. Yet these resources have been traditionally unavailable to justice-impacted individuals.

So one area where government can help overcoming these barriers is by continuing to reduce or remove restrictions on government loans, as Chairman Cardin noted, adjustments to the PPP loans, the Community Advantage Program. A second suggestion that have for improving access to financial capital is to consider tax incentives for investing in justice-impacted entrepreneurs.

Second, there are these human capital barriers, and this has to do a lot with training and getting skills to run a business, but really, skills, as well, to be a great employee. Some of us pick up these skills in school. Some of us pick up these skills in a career. But justice-impacted individuals are rarely hired for the kind of jobs that teach them these skills that you would need to start a business.

To help overcome this barrier, government can create and expand avenues for entrepreneurial training and other support services, including supporting in-prison opportunities for business training. One example might be the Aspire Entrepreneurship Initiative. It is in the St. Louis area. It is a partnership between the SBA and the Kellogg Foundation to provide loans but also entrepreneurship education. I would also recommend supporting successful prison entrepreneurship programs such as the Prison Entrepreneurship Program out of Texas, the Resilience Education of Virginia, Columbia University's REAP Program, and Georgetown University's Pivot Program.

The last barrier I will speak on is social capital. By that I mean business connections. Most returning citizens lack these kinds of connections even before they were incarcerated, and being incarcerated amplifies that problem.

So strengthening and expanding many of the types of programs to help with connections could be done by the same types of initiatives that are already underway with the programs I mentioned out of Texas, Virginia, Columbia, Georgetown, and others. Part of the reason is a lot of these programs combine providing funds with also helping with mentorship and connections or providing education with helping with establishing other business connections.

One of the things that I would advocate is supporting the kind of programs that exist either through partnerships like the SBA has done, but bolstering these programs that have some success but need to scale that particular success around entrepreneurship training.

Thank you again for inviting me and especially for talking on this important topic. The returns in terms of the time and investment you spend on this, it helps individuals but is also helps communities and society. So thank you very much.

[The prepared statement of Mr. Phillips follows:]

Written Testimony for “A New Start: Opportunities and Barriers to Entrepreneurship for Returning Citizens and Justice Impacted Individuals.” Scheduled for July 27, 2022.¹

Senate Committee on Small Business and Entrepreneurship (Sen. Cardin, Chair; Sen. Paul, Ranking)

Damon J. Phillips, PhD

Robert Steinberg Professor, Professor of Management at Wharton School of Business

University of Pennsylvania Wharton School of Business and (by courtesy) Annenberg School for Communication

Senior Research Scholar, Columbia Business School

Thank you for this opportunity to share the latest research on this important topic. I am a professor at the Wharton School of Business with over twenty years of experience including previous positions at Columbia University and the University of Chicago. One of my areas of expertise is the relationship between employment and entrepreneurship, with a specific focus on returning citizens and justice-impacted communities. In 2016 I founded a program at Columbia University where MBA students go inside prisons to teach business skills – including entrepreneurship. The program, called REAP (ReEntry Acceleration Program)² launched five years ago in partnership with Resilience Education³ and has touched hundreds of individuals. A key reason we teach entrepreneurship was that our focus groups with returning citizens revealed their desire for these skills. REAP is rooted in research that I conduct with my collaborator Kylie Hwang (Ph.D.). This research, in addition to recent scholarship by Hwang, will be the focus of my testimony.

THE CHALLENGE

With over 2.2 million people incarcerated as of 2018, the United States has the highest incarceration rate in the world. This has led to more than 600,000 people per year reentering society from incarceration. Successful reentry is the exception however, with the Bureau of Justice Statistics noting that over two-thirds of returning citizens are rearrested within three years of reentry.⁴

The First Step Act of 2018 represents an important legislative achievement that will benefit individuals and communities. At the same time, one of the persistent factors thwarting successful reentry is the discrimination in the labor market faced by returning citizens. As of 2018, returning citizens suffer from an unemployment rate of 27.3% compared to 5.8% for the general public.⁵ A recent Bureau of Justice Statistics study on returning citizens from federal prisons found that a third of them found no employment at all over the first four years post release. Moreover, no more than 40% of this cohort was employed at any one time during this four-year window.⁶ And while one potential explanation is differences in human capital, academic scholarship that adjusts for human capital differences continue to find that not only are returning

¹ This testimony shares collaborative work with Kylie Jiwon Hwang (Ph.D.), who is currently a Postdoctoral Fellow at Stanford Graduate School of Business (<https://kyliehwang.com/>) as well as independent work by Hwang, K.J. (2022, forthcoming): "From Prison to Entrepreneurship: Can Entrepreneurship be a Re-entry Strategy for Justice-Impacted Individuals?", *The ANNALS of the American Academy of Political and Social Science*.

² <https://www8.gsb.columbia.edu/socialenterprise/initiatives/reap>

³ <https://resilience-education.org/>

⁴ Alper M, Durose MR, Markman J. 2018 update on prisoner recidivism: A 9-year follow-up period (2005-2014). Washington, DC: US Department of Justice, Office of Justice Programs, Bureau of Justice Statistics; 2018 May.

⁵ Couloute, L. and Kopf, D. 2018. "Out of Prison & Out of Work: Unemployment among formerly incarcerated people." <https://www.prisonpolicy.org/reports/outofwork.html>

⁶ <https://bjs.ojp.gov/content/pub/pdf/eprfp10.pdf>

citizens less likely to be hired by employers, but those who are hired earn lower wages and experience less wage mobility.⁷ This unemployment and underemployment in turn, fuels recidivism.⁸

RESEARCH ON RETURNING CITIZENS AS ENTREPRENEURS

In recent research, Kylie Hwang and I examined a potentially critical alternative to traditional labor market participation: entrepreneurship. Entrepreneurship can be a response to labor market discrimination, where justice-involved individuals start businesses in part to overcome barriers to employment.⁹ Our key study has four notable findings: (1) returning citizens start businesses at a higher rate than Americans who have never been incarcerated; (2) labor market discrimination is one key reason why returning citizens move into entrepreneurship; (3) returning citizens earn more as entrepreneurs than they do as employees; and (4) returning citizens have lower recidivism rates as entrepreneurs than they do as employees.

The Prevalence of Entrepreneurship for Returning Citizens

First, using data on thousands of Americans drawn from the U.S. National Longitudinal Survey of Youth (NLSY97), we found that 18.61% of the returning citizens in our sample started businesses compared to 11.48% for those who had never been incarcerated. These results complement a recent RAND study, which finds that over 1.1 million business owners in the U.S. have a criminal record. Moreover, over 1.7 million employees are affiliated with businesses owned by someone with a criminal record.¹⁰

Entrepreneurship as a Response to Employment Discrimination

Second, we examined the relationship between entrepreneurship and employment discrimination by looking at how entrepreneurship rates change when employment discrimination varies. We found that when returning citizens experienced greater employment opportunities through lower discrimination, they were less likely to start businesses. However, when employment discrimination was higher, entrepreneurship rates increased. We also found that this effect is strongest for Black returning citizens.

Entrepreneurship and Income

Third, to determine the economic viability of entrepreneurship for returning citizens, we compared incomes that returning citizens obtain from entrepreneurship to incomes from employment. Our research revealed that returning citizens earn more as entrepreneurs than they do as employees. Specifically, we found that returning citizen entrepreneurs had 11.4% greater hourly earnings compared to returning citizens in employment. This finding is consistent with the argument that entrepreneurship mitigates the income inequality that returning citizens experience in paid employment, as entrepreneurship provides greater opportunities to earn based on one's true productivity rather than depending on an employer's biased assessment of their productivity.¹¹ And while returning citizens may also face barriers in entrepreneurship,

⁷ Western, B. 2002. The Impact of Incarceration on Wage Mobility and Inequality. *American Sociological Review* 67 (4): 526–46. Sugie, N.F. 2018. Work as foraging: a smartphone study of job search and employment after prison. *American Journal of Sociology*, 123(5), pp.1453–1491. Harding, D.J., Morenoff, J.D. and Wyse, J.J., 2019. *On the outside: Prisoner reentry and reintegration*. University of Chicago Press.

⁸ <https://www.science.org/doi/10.1126/sciadv.abj6992>

⁹ Hwang, K.J. and D.J. Phillips. "Entrepreneurship as a Response to Labor Market Discrimination for Formerly Incarcerated People" Conditionally Accepted at *American Journal of Sociology*.

¹⁰ Bushway, Shawn D., Dulani Woods, Denis Agniel, and David M. Adamson, Small Businesses, Criminal Histories, and the Paycheck Protection Program. Santa Monica, CA: RAND Corporation, 2021. https://www.rand.org/pubs/research_reports/RRA1295-1.html.

¹¹ Lippmann, S., Davis, A. and Aldrich, H.E. 2005. Entrepreneurship and inequality. *Research in the Sociology of Work*, 15, pp.3–31. Hegde, Deepak and Justin Tumilson 2018, Asymmetric Information and Entrepreneurship, Working Paper.

these barriers are not as overwhelming as the stigma of an incarceration record in the labor market. Overall, our research suggests that entrepreneurship does more to reduce income inequality than employment for members of the returning citizen community.

Entrepreneurship and Recidivism

Finally, we found that entrepreneurship decreases the likelihood of re-incarceration compared to employment (and compared to unemployment), supporting the view of entrepreneurship as a way for returning citizens to successfully reenter the society. In our study recidivism in the first year dropped by 12.6% for those entering entrepreneurship (compared to unemployment), compared to a drop of 10.8% for those who were employees. This difference grows over time. For example, by year five recidivism for those entering entrepreneurship dropped by 13.5% compared to a 7.9% drop for employment. These findings were especially pronounced for Black returning citizens. Combined with the results on income, these findings on recidivism suggest that entrepreneurship not only helps returning citizens improve their economic well-being but also social integration. Our findings are consistent with the idea that entrepreneurship yields greater economic and social incentives, such as responsibility, work satisfaction, and the sense of publicly “making good”.¹² The combination of these incentives reduces criminal activity.

LOWERING BARRIERS TO ENTREPRENEURSHIP FOR RETURNING CITIZENS¹³

Even though there are positive outcomes associated with entrepreneurship for returning citizens and their communities, it is important to recognize that they also face significant barriers in starting businesses. Due to these barriers, we may not be reaching the full potential of entrepreneurship as a path. In particular, one can consider three types of barriers: financial capital, human capital, and social capital.

Financial Capital Related Barriers

Limited access to financial capital or funding is a primary obstacle facing justice-impacted entrepreneurs. Funding can come from diverse sources, including personal funds, money from family and friends, credit cards, commercial bank loans, or government funds. Yet these sources are often unavailable to disadvantaged social groups. For example, justice-impacted entrepreneurs face obstacles to securing debt caused by the mark of criminal history and the collateral consequences of incarceration.¹⁴ Moreover, people who have been incarcerated are more likely to have insufficient credit scores and interruption in work histories, both of which negatively impact the likelihood of qualifying for bank loans.¹⁵ Justice-impacted individuals are also less likely to apply for bank loans than non-justice-impacted business owners because of their fear of rejection.¹⁶

People with criminal histories have also face challenges gaining federal support or loans from government agencies. For example, the Small Business Association (SBA), an important source of financing for many

¹² Maruna, S. *Making Good: How Ex-Convicts Reform and Rebuild Their Lives*. American Psychological Association. Washington D.C.

¹³ Research in this section draws from Hwang, K.J. (2022, forthcoming) "From Prison to Entrepreneurship: Can Entrepreneurship be a Re-entry Strategy for Justice-Impacted Individuals?", *The ANNALS of the American Academy of Political and Social Science*.

¹⁴ Baskaran, P. (2019). Respect the hustle: Necessity entrepreneurship, returning citizens, and social enterprise strategies. *Maryland Law Review*, 78(2), 323-381.

¹⁵ Aneja, Abhay P. and Carlos F. Avenacio-Leon, 2017. Credit-driven crime cycles: the connection between incarceration and access to credit. *Unpublished*. <https://static1.squarespace.com/static/59dc0ec564b05fea9d3dfee3/5/p1513819887630>.

¹⁶ Rieple, A. 1998. Offenders and entrepreneurship. *European Journal on Criminal Policy and Research*, 6(2), pp.235-256.

entrepreneurs, has a history of imposing restrictions on loans and other aids to business owners with criminal records.¹⁷ Only in 2015 did the SBA Microloan Program change its criteria to allow loan applications from people on parole or probation.¹⁸ More recently, the Paycheck Protection Program (PPP) initially disqualified businesses whose owners had recent criminal histories. This initial restriction not only hurt justice-involved entrepreneurs, but also those that these entrepreneurs employed.

In her doctoral dissertation, Hwang found that aspiring justice-involved entrepreneurs are more than 55% less likely to obtain financial capital through either financial institutions or the government compared to similar entrepreneurs with no justice involvement.¹⁹ In particular, African American and Hispanic entrepreneurs with criminal records have the lowest rates of gaining capital from financial institutions or the government, suggesting that the intersection of minority race and incarceration causes further challenges. As a response to such financial barriers many justice-involved people resort to their personal savings or family and friends for the capital to start new businesses. However, personal savings and funding from family and friends is often constrained for justice-involved individuals due to poverty and low-income levels.²⁰ As a result, they often start businesses in industries that require minimal start-up capital and no physical office.

Human Capital Related Barriers

Many justice-involved individuals lack the human capital necessary for entrepreneurship. The lack of formal education can prevent the successful launching a business, especially in knowledge-based industries. Consequently, individuals with criminal records start businesses where there is less need for advanced formal education (e.g., construction). In addition to formal education, people with criminal records have fewer opportunities to learn essential business skills such as economic literacy, skills in finance and accounting, and business planning skills. Previous research shows that work experience, particularly general full-time work experience and managerial experience, is one of the most important components of human capital for entrepreneurs.²¹ As justice-involved individuals face even greater barriers to employment, they are often unable to acquire the proper work experience that would lead to the type of human capital associated with successful entrepreneurship. Thus, marginalization in the conventional employment market has a spillover effect to barriers to succeeding in entrepreneurship for justice-involved individuals.

Social Capital Related Barriers

Justice-impacted individuals aspiring to entrepreneurship also face challenges due to having fewer connections to role models or suitable business networks for peer support, investment, and business opportunities.²² While the most helpful peers and mentors for potential entrepreneurs typically come from work and post-secondary school, returning citizens and justice-involved individuals face a disadvantage as

¹⁷ Bushway et al. (2021)

¹⁸ Microloan Program Expanded Eligibility and Other Program Changes, 80 Fed. Reg. 34,043, 34,043 (June 15, 2015) (to be codified at 13 C.F.R. pt. 120)

¹⁹ Hwang, K.J., 2021. *Entrepreneurship and incarceration* (Doctoral dissertation, Columbia University).

²⁰ Robb, Alicia. 2013. Access to capital among young firms, minority-owned firms, women-owned firms, and high-tech firms. *Office of Advocacy, U.S. Small Business Administration, Washington, DC*. Baskaran, P. (2019). Respect the hustle: Necessity entrepreneurship, returning citizens, and social enterprise strategies. *Maryland Law Review*, 78(2), 323-381.

²¹ Kim, P. H., H. E. Aldrich, and L. A. Keister. 2006. Access (not) denied: The impact of financial, human, and cultural capital on entrepreneurial entry in the United States. *Small Business Economics*, 27: 5-22.

²² Hwang, K.J. (2022, forthcoming) "From Prison to Entrepreneurship: Can Entrepreneurship be a Re-entry Strategy for Justice-Impacted Individuals?", *The ANNALS of the American Academy of Political and Social Science*.

many lack the educational networks or don't have a viable path to the types of jobs that build social capital for successful entrepreneurship. Families are another main source of social and cultural capital, however many returning citizens are from families where financial and social resources are lacking or unhelpful for entrepreneurship.

POLICY IMPLICATIONS

Research points to positive consequences of entrepreneurship for returning citizens and other justice-involved individuals. At the same time, there are substantial barriers to entrepreneurship for these same individuals. Fortunately, there is a role that the federal government can play in helping to mitigate some of the barriers. Potential actions by government are discussed below, organized by financial capital, human capital, and social capital.

Improving Financial Capital

Members of the Senate Committee on Small Business and Entrepreneurship have actively sought ways to improve access to financial capital for small businesses, often with an eye to communities of color, rural communities, and other marginalized groups. Similar to the way that restrictions were adjusted to PPP loans in 2021,²³ and the Community Advantage Program in 2022, there is a continued role of government to mitigate financial barriers to entrepreneurship for people with criminal histories. Reducing or removing restrictions on government loans to people with criminal records would provide an important lifeline to a group of Americans who often lack other sources of financial support needed to start and sustain their businesses.

A second suggestion for improving access to financial capital is to consider tax incentives for investing in businesses founded by justice-impacted entrepreneurs. These incentives can take the form of a tax deduction through a non-profit vehicle. In this case, investors may be able to treat investments as a charitable contribution. These tax deductions could also be structured as a part of a microloan program. Another approach can be a tax incentive modeled on the way in which Qualified Small Business Stock (QSBS) limits the extent to which an investor is taxed for capital gains, but expanded to include the types of businesses that returning citizens are more likely to start (e.g., restaurants, smaller investment amounts). Under this second kind of incentive, taxes on capital gains could be reduced or eliminated for business with justice-involved owners. Correspondingly, tax law around losses on small business stock could be modified.

Improving Human Capital

Returning citizens also benefit from human capital for entrepreneurship. Returning citizens often report challenges due to the lack of knowledge around applying for a loan, incorporation, accounting, financial literacy, tax filings, as well as management and leadership skills when aspiring to start their own

²³ The original PPP disqualified businesses if any owner with 20 percent or more equity is: presently incarcerated, on probation, on parole; subject to an indictment, criminal information, arraignment, or other means by which formal criminal charges are brought in any jurisdiction; or within the last five years, for any felony, has been convicted; pleaded guilty; pleaded nolo contendere; been placed on pretrial diversion; or been placed on any form of parole or probation (including probation before judgement). The SBA subsequently reduced the scope of these disqualifications to: any felony conviction in the past year or a felony conviction related to fraud, bribery, embezzlement, or a false statement on a loan or federal assistance application in the past five years; individuals starting probation/parole within the last year or individuals starting probation/parole for the same offenses previously listed in the past five years; and individuals presently charged with a criminal felony offense in June of 2020 (Small Business Administration 2020). In February 2021, the Biden administration eliminated the one-year restriction for those who were convicted but not incarcerated (The White House 2021).

businesses.²⁴ Therefore, government agencies can aim to create new avenues for entrepreneurial training, receive support services, and connections with funding opportunities. This should include in-prison opportunities for business training and education. Some recent policy initiatives, like the NEW START Act of 2019, seek to provide justice-involved individuals with entrepreneurial development assistance, including the disbursement of microloans.²⁵ The SBA is also collaborating with foundations such as the Aspire Entrepreneurship Initiative (“AEI”), which provides “entrepreneurial education and microloans for justice-involved individuals, with a specific focus on those who are parents.” The SBDC also has the expertise on starting and running businesses and can build more ties to community-based organizations to explicitly target justice-impacted entrepreneurs.

There has also been an increase of prison entrepreneurship training initiatives such as Texas’s PEP and joint programs with non-profits or universities such as Resilience Education based in Virginia, Columbia University’s REAP Program, and Georgetown University’s Pivot Program. These opportunities for entrepreneurial education are only available in a handful of prisons or jails in the United States. Efforts to provide more systematic, widespread, and continuous training inside prisons that is coordinated with additional training after release can help address the lack of human capital.

Improving Social Capital

Initiatives to help returning citizens build social capital to start and succeed in entrepreneurship can address the lack of connections to mentors, fellow entrepreneurs, customers, investors, and potential business partners. Many of the aforementioned programs that provide human capital also provide social capital (mentorship) as well. In addition, programs such as Defy Ventures and Inmates to Entrepreneurs, not only provide microloans and training, but also facilitate connections to a cohort of aspiring entrepreneurs with criminal records, mentors, and angel investors. Government support of initiatives to expand such programs, including partnerships with organizations already active in this regard, would amplify already successful entities (Resilience, Defy, PEP, Columbia) that seek to scale their successes.

A FINAL NOTE

The work by the Senate Committee on Small Business and Entrepreneurship is critical to improving the fate of small business owners in general, and those with criminal records in particular. And while initiatives to promote and subsidize entrepreneurship as an alternative pathway for justice-impacted individuals is important, it is also essential to achieve a balance with more traditional efforts to aid employment for returning citizens. Entrepreneurship and employment are linked. One of the fundamental reasons why entrepreneurship is prevalent among justice-impacted individuals is because of the challenges associated with employment. Therefore, in addition to policies and programs to make entrepreneurship more accessible as a career choice for justice-involved individuals, continuous efforts to address the ongoing employment barriers and discrimination should be pursued with equal vigor.

²⁴ Rieple, A. 1998. Offenders and entrepreneurship. *European Journal on Criminal Policy and Research*, 6(2), pp.235-256.

²⁵ Necessary Entrepreneurship Workshops via the SBA to Transform and Assist Re-entry Training Act of 2019 or the NEW START Act of 2019: This bill establishes a pilot program for providing entrepreneurial development assistance to justice-involved individuals including the disbursement of microloans.

Chairman CARDIN. Dr. Phillips, thank you for your testimony. We appreciate the specific recommendations that you make. That makes our job a little bit easier.

Mr. Perez.

STATEMENT OF ROB PEREZ, CO-OWNER, DV8 KITCHEN

Mr. PEREZ. Chairman Cardin, Ranking Member Paul, and members of the Committee, I am Rob Perez, and along with my wife Diane, own DV8 Kitchen. DV8 is a restaurant and a bakery company in Lexington, Kentucky, who employs people that are in early stages of recovery from substance use disorder and the formerly incarcerated.

Before I tell you all the reasons why DV8 is awesome, I think I have to probably tell you how I originally thought it was a terrible idea.

Let me be clear: I am a businessman with a long career in the restaurant industry, and as in any small business, you know, my focus is turning a profit. When my wife approached me with the idea of using a restaurant to help people, I was not interested.

Previously, over the course of eight years, we had employed 60 people with a past. Each candidate would admit to their mistakes, claim to be clean, and unfortunately we would lose them within two weeks. I had done the math. Nearly \$800 of training expense per person times 60 people, that is nearly \$50,000. I told my wife no to this idea.

Diane did not give up. She had done her own math. See, we had lost 10 people, 10 employees to fatal overdoses in the same 8 years, so she was heartbroken, and she did not really care about the cost.

While I still was not on board, she decided to schedule a ride-along with a policeman in an unmarked car on a Friday afternoon. I witnessed something during that ride that changed me forever. Why would a person sell themselves for \$5? Ultimately, this was the question Diane had been desperate to answer, and now it was keeping me up at night.

Diane suggested that on the path of poor choices there are sober moments and motivations that people want to become employed. We came to believe people need the support of a recovery community as well as the purpose of a job.

We did not have any of the answers, so we did what any sane person would do—we opened up this restaurant but we did not know what we were going to do or how we were going to do it. We figured we would figure it out along the way.

In August 2017, DV8 Kitchen was born. I still had one condition, that it had to be profitable.

We developed a menu, hired employees, prepared for opening day, and excitedly opened the doors, but it was an epic fail. We had no idea how to validate that our employees were in a recovery program, how to motivate them, and our customers were basically afraid of us.

Over the next couple of months, we took a long, hard look at what we were doing and we wanted to learn from our mistakes. We found two big things.

One, you do not need to be a social worker to employ people with a past. However, you can have experts on your team. People with

a past do need more than a job to be successful. They need housing, therapy, and some case workers. We forged relationships with residential living facilities. These centers validated that our employees are staying in their program and they supported them so they could arrive at work at DV8 each day on time.

Secondly, you do not need to lower your standards to employ people with a past. In fact, we think you should raise it. So many of our people shared one thing, and that was shame. It was both a cause of their substance abuse and the result of it. We realized that work was an absolute perfect place to build them up. We decided to set a higher standard, not only are our people capable of meeting it, but they also needed to see that they could.

Today we work with a group of people most people deem “unemployable,” and together have created two successful restaurants and a wholesale bakery. Turnover is low, profits are good and YELP named DV8 Kitchen one of the top 40 restaurants in all of America for 2 out of the last 3 years.

But now I kind of want more, not really for me but for our people. We have a nurse, an engineer, and a college professor that are working in a restaurant in Lexington. I am thrilled to have them, but they have skills which really could be put to better use in other businesses.

Sadly, just like me, too many businesspeople think someone with a past is legally too risky, expensive, and a waste of time. Our results suggest otherwise, and so do I. You see, I am not just a small business owner but I am a recovering addict, with 31 years sober.

Here is what I want you to know. I am not the exception, and neither is DV8. People in recovery can be excellent in the workplace. What if every American small business rethought HR and employed one person with a past? Based on my experience, small businesses can make a huge impact on recidivism. Contrary to what some people think, free enterprise can save the world.

Thank you for allowing me to testify, and we look forward to your questions.

[The prepared statement of Mr. Perez follows:]

Rob Perez
Owner
DV8 Kitchen

I'm Rob Perez, and along with my wife Diane, own DV8 Kitchen. DV8 is a restaurant and a bakery company in Lexington, Kentucky that employs people recovering from substance use disorder and the formally incarcerated.

Before I tell you all the reasons why DV8 is awesome, I'd like to tell you how I originally thought it was a *terrible* idea.

Let me be clear: I am a businessman with a long career in the restaurant industry. As in any small business, my daily focus is turning a profit!

When my wife approached me with the idea of using a restaurant to help people with a past, I was NOT interested.

Previously, over the course of 8 years, we had employed 60 people at our for-profit restaurants with a past. Each candidate would admit to their mistakes, claim to be clean and rehabilitated. We would hire them and most would disappear within two weeks. I'd done the math: nearly \$800 of training expense per person x 60 people is nearly \$50,000. I told my wife no.

Diane didn't give up. She had done her own math. We had lost 10 of our employees to fatal overdoses in the same 8 years. Diane was heartbroken. She did not care about the cost.

However, I was not on board. So, she scheduled a police ride along for me. On a Friday afternoon I witnessed things that changed me forever. Why would a person sell themselves for \$5 dollars?

Ultimately, this was the question Diane had been desperate to answer. Now it was keeping me up at night too.

Diane suggested that on the path of poor choices there are sober moments and motivation to become employed. We came to believe people need the support of a recovery community AND the purpose of a job.

We didn't have any of the answers. *So, we did what any sane person would do:* We started a restaurant and we would figure it out along the way.

In August 2017, DV8 Kitchen was born. I had one condition: It had to be profitable. We developed a menu, hired employees, prepared for opening day, excitedly flung open the doors and...IT WAS AN EPIC FAIL!

We had no idea how to validate that our employees were in recovery, how to motivate them and our customers were basically afraid of us.

So, over the next couple of months, we took a hard look at what we were doing and tried to learn from our mistakes.

We learned two big things:

One, you do not need to be a social worker to employ people with a past. However, you can have recovery experts on your team. People with a past *do* need more than a job to be successful. They need housing, therapy and case workers. So, we forged relationships with residential living facilities. These centers validate our employees are staying in their program and provide the support they need to arrive at DV8 ready to work.

Secondly, you don't need to lower your standards to employ people with a past. In fact, you should *raise* your standards. So many of our people shared 1 thing: SHAME. It was both a cause of their substance abuse, and a result of it. We realized *work was PERFECT place to build them up*. We decided to set a higher standard because, not only are our people capable of meeting it, *but they also needed to see that they could*.

Today we work with a group of people most people deem "unemployable" and together have created two successful restaurants and a wholesale bakery.

Turnover is low, profits are good and YELP named DV8 Kitchen one of the top 40 restaurants in America twice in the past 3 years.

But now I want more. Not for me, but for our people. We have a nurse, an engineer and a college professor at DV8. I'm thrilled to have them, but they have skills which could be put to better use in other businesses.

Sadly, just like me... too many businesspeople think someone with a past will be legally risky, expensive and a waste of time. Our results suggest otherwise.... so, do I. You see, I'm not just a small business owner, I'm a recovering addict, with 31 years sober.

Here's what I want you to know: *I am not the exception, and neither is DV8. People in recovery can be EXCELLENT in the workplace*. What if EVERY American Small Business rethought HR and employed one person with a past? Based on my experience, small businesses can make a huge impact on recidivism.

Contrary to what some people think, Free Enterprise can save the world.

Chairman CARDIN. Well, Mr. Perez, first of all congratulations on running a successful business. You, like many of us, succeed because of the person we married. Thank you for following your wife's advice. We appreciate that very much. [Laughter.]

Chairman CARDIN. We have had maybe a dozen hearings this year, probably a little more than that. To me, this has been the most impressive panel we have had all year, so thank you, all four of you, for your contributions to this subject.

Let me start off with Mr. Marte. If I understand your testimony, it is challenging for a returning citizen to get all the pieces together to start a business, because you have got to get financing, you have got to get a lease on a property, people have to do business with you, et cetera. But it is even more difficult to find an employer that will hire you. So as difficult as it is for path to entrepreneurship, it is even more difficult for employment, and chances of success seem to be greater with entrepreneurship than employment. Am I reading you correctly in that regard?

Mr. MARTE. Well, I do not know if the chance of success at all varies for, you know, variables and different reasons of that person returning back into society, but for my instance I had previously felt like I ran an entrepreneurial business. The only difference was that I did not pay taxes back in the day, and now I do.

And so I really believe that all I needed was that pathway and guidance of like programs like Defy Ventures, different nonprofit organizations that I took advantage of, to utilize those resources and build those connections and relate my stories and break down those barriers and really start utilizing everybody that wanted to really help me, because there are people that want to help. They just do not know how to. And I feel like when we have these nonprofits that bring individuals that want to figure out how to—like yourself, how do you want to help, you know. And so we put these two different communities in one different room and listen to each other, you know, like what we are doing today.

For me, yes, I believe entrepreneur was the right path, not for everybody, and you know the stats of people running their own businesses. I mean, it is really hard. It is like playing baseball. You know, most people fail at hitting a ball. But for me it was pretty much out of desperation that I made it happen.

Chairman CARDIN. And you still had the challenge of fraternizing. Is that still an issue in regard to parole compliance? Is that still an issue in New York?

Mr. MARTE. Yeah, for certain instances. I mean, I built a great relationship with parole and probation, but there are people that are coming out. For example, I had an individual that wanted to work with us from work release. So in a work release program individuals go in and out of prison every day. So they go out to try to find a job, we interviewed someone, they went back to tell their counselor or whoever they speak to back in the system, and they said, "No, you cannot work with other people that have criminal records." And there is that, stated in those criteria, so that hopefully we could get that out of there, you know, that policy.

Chairman CARDIN. Dr. Phillips, thank you for your suggestions. We have done a lot of late to try to make educational opportunities available while an individual is in prison, and we have broken

down some of the barriers, including post-secondary education. I do not believe we have done much in regard to entrepreneurial education, so think that is a suggestion that we need to look at.

I am just interested in your observations as to where the SBA could play a stronger role in helping returning citizens. We have eligibility for programs today but it is not throughout the entire SBA portfolio. We have resource partners, but they do their own priorities and there is really no resource partner directly associated with returning citizens.

So where could the SBA play a stronger role in trying to remove some of these barriers?

Mr. PHILLIPS. So thanks for the question, Chairman. I agree. I would say also one of the challenges is because it is sort of patchwork, when you are on the other side it gets confusing to know whether SBA, this particular program applies to you or not. And a lot of the people who try very hard to figure that out just get lost in the process.

So I will start there, that one of the challenges is doing our best to communicate when there is a program, that that program is available and what the criteria are. Even with the PPP, when it came out there was a lot of confusion around whether someone actually did qualify, and you needed sometimes intermediaries who were knowledgeable about the loan in order to help with that.

So all of that, for me, means SBA, partnering and finding good organizations to partner with. It is true that there is not a lot of entrepreneurship training or business training within prisons, but because of the work that you and others have done, the infrastructure is there to do that.

I am in a business school. This is what we teach. There are other business schools around the country that are amazing at this. And so I believe partnering with people who are expert in these particular areas can yield some positive benefits.

Chairman CARDIN. Thank you. I do want to point out that Senator Portman and I worked together to expand the eligibility under the Work Opportunity Tax Credit to returning citizens' employment so they are eligible. So we have made some modifications, but it is by program by program rather than comprehensive. And unless you had the support from a resource entity, whether it is the SBA or one of our partners, it is tough to figure out where you are eligible and where you are not eligible, and the subtleties in regard to getting that help.

Senator Paul.

Senator PAUL. Well, I agree with the Chairman. I think this is a great hearing and a good time to hear things that are working and things that are changing and evolving. I think we still have a long way to go, but I think that there are good things happening as far as giving people second chances.

Dan Caudill, you mentioned in your testimony that the stigma and the ongoing discrimination against these individuals is led by the Federal Government and their hiring practices. Then you mentioned also state, city, and county government. Are there people that you are coming across that have tried to get employment in either Federal Government or city government who are still having difficulty because of their criminal past?

Mr. CAUDILL. Yes, from the people I have talked to, yes. And unless things have changed pretty significantly I believe that is still the case today. They did have a campaign not to check the box in Jefferson County and in Louisville for a while, but my understanding is that it is still extremely difficult to get state or Federal jobs with a prior conviction.

Senator PAUL. Anybody else have a comment on that or any awareness of either prohibitions or problems with Federal employment, with records? Okay.

Mr. Perez, I, like the Chairman, am glad that Diane had such a great influence in your life and got you to open the restaurant. I have been there and I have seen the employees, and it is uplifting, really, to see the smiles on the faces and the people who are excited to be there at work. It is not every restaurant you go in that every worker in there is excited to be there, but they do seem to be excited to be there.

I am one who is a big believer that our self-esteem comes from work. No matter who you are, that is how you get your self-esteem. You cannot be anybody unless you really do something. It does not matter exactly what it is. It can be a range of things. But doing something is who we are. So I was pretty impressed with meeting the employees that you are giving these second chances to.

You mentioned that you have a nurse and an engineer and a college professor, and I am, like you, glad that they are able to work, but their full self-esteem has to really come from doing more. Are you aware of any kind of connection to like a consortium of information of people who would hire, like engineers or nurses? Is there some sort of way to connect them, that you are aware of, other than just word of mouth, of finding somebody in the area that might hire an engineer, or do you have any insight as to any way to try to conquer that problem?

Mr. PEREZ. Yeah. So if we speak about just the engineer, I worked pretty hard with this young man after he was employed with us for a year and a half, and we needed an internship. I called ten people and I got one interview, and that one interview felt that it was not safe enough for insurance purposes, he claimed, or because, at the end of the day, he was going to have to do a background check and he did not think that it would make it through all of his HR policies and procedures.

Senator PAUL. You know, there are a lot of groups that deal with criminal justice reform and second chances. I know you are aware of them. You and I are both aware of them. Dan is too. I am wondering if maybe setting up some sort of nationwide, like a LinkedIn, something where you would be able to share information with people might be a way to connect people.

I do know that, for example, and do not know if this would help your industry, that Koch Industries has been a leader in this, in nationwide, not only in giving tens of millions of dollars to the criminal justice movement but also, you know, putting their policy where their money is as well and hiring people. Now that might not be in Lexington, but they have got stuff all over the world. I mean, it is a big company and that might be a possibility for him or her.

Mr. PEREZ. Yes.

Senator PAUL. But I do not know if that is something on the hiring aspect, Mr. Chairman, that we might look into or have our staffs look into, if there are any Federal impediments to hiring, you know, as far as second chances. That is something that maybe you and I could look at together, and perhaps if there are any Federal impediments that are still there that could be removed as far as hiring.

Chairman CARDIN. I think it is an excellent suggestion and I think we will have our staffs follow up on that.

Senator PAUL. Thank you.

Chairman CARDIN. Senator Shaheen.

Senator SHAHEEN. Thank you, Mr. Chairman, and thank you to each of you for being here today.

Dr. Phillips, I want to start with you because you talked about your research showing that entrepreneurship is something that is more prevalent among the previously incarcerated than the general population. Are there any particular types of businesses or areas of interest that you see among previously incarcerated?

Mr. PHILLIPS. Yes, there are some patterns. They usually are industries or settings where you do not need much capital to get launched, and they are also industries that have historically been more open to employment. So food service would be one, for example, you might find, or you might find in construction, as well, as long as it is not the areas of construction that are going to require a lot of upfront. So it could be things that build off the trades if it is in a state that does not have licensing restrictions around trades. So those are the things where you see people start.

There are two ways that I think about it. One is people are going to those opportunities. It does not mean that is the business they want to start, though. It just means that they want to be an entrepreneur.

Senator SHAHEEN. That is where they wind up.

Mr. PHILLIPS. That is where they wind up because that is where you can become an entrepreneur and be productive in a way that matches your own abilities.

Senator SHAHEEN. So thinking about the capital aspect, which is something that SBA could certainly be helpful with, might make a difference, I assume, Mr. Marte, that would have been very helpful to you had there been an SBA availability for previously incarcerated to be able to get capital as you were starting your business.

Mr. MARTE. Absolutely, and I have gone to Federal banks and sat down with them, and I filled out those applications and was denied. You know, this is close to ten years ago when criminal justice was not, you know, excuse my language, a sexy topic. You know, nobody really cared. But now I appreciate everybody putting their word in here and putting in the effort to make this thing happen.

Senator SHAHEEN. Thank you. Mr. Perez, New Hampshire has a pretty sizeable hospitality industry, hospitality and tourism, and one of the concerns I hear everywhere I go is that they cannot find workers. And we also have been very much affected by the opioid epidemic and have a lot of folks who are former misusers of substances. So as you think about your experience, what would you say to business owners in New Hampshire and across the country who are looking for workers, about the opportunities that exist

both with people who have a history of substance misuse but also previously incarcerated? What have you found that works and what kind of advice would you give to people?

Mr. PEREZ. I would tell them that our experience showed this. We have three restaurants in Lexington that we cannot staff that does not have the second-chance motto that we have at the other two restaurants we have. We are fully staffed, have been fully staffed since the day that we opened in 2017, with folks that are in a second-chance position. I have to tell you, the motivation level, the commitment, and the dedication to high standards and effort at our second-chance restaurants far exceed the folks at the regular for-profit restaurants that we have.

Senator SHAHEEN. So how do you respond to people who say, "Well, you are not going to be able to count on these workers. They are not going to be dependable. They are not going to always show up," which is a common problem, as we know, with the workforce in some employment sectors, in general. For example, we have friends who have a restaurant, a seasonal restaurant, and they periodically have problems with people not showing up when they are supposed to be there to do their jobs. How do you answer that concern that people might have?

Mr. PEREZ. I am just like every other businessperson. I want to predict I am going to have success and profit. So the way that we have attacked that is we hire folks with an employment contract. We say, hey, look, your interviewing process is continuing to go on. We source people only that are in recovery centers. We tell them that if they allow us, through a medical release of information, to share with us that they are in the program, that they are in safe housing, and that they are being tested each week, and they good on all three cases, we will keep on employing them. We have them sign a contract saying that they will adhere to the recovery program, and if they do they have gainful employment with good effort standards and relationships. And if they do not, then it is our option to let them go.

And we have found the difference is crazy difference. I mean, we were losing people after two weeks. Our average tenure for 60 people was two weeks. Once we installed this, now we employ only folks with a past, and now we have 11 months, our average tenure, in a place where we are trying to get them to the business that they originally came from. But it is crazy the difference in just using the leverage of a job, that most people cannot get in their position, giving them a good wage, and using that to keep them in recovery. Just the leverage of the job does it.

Senator SHAHEEN. And you think the contract has something to do with it too, the fact that you engage somebody personally in that contract for their future?

Mr. PEREZ. I do believe that. I think the underlying thing is that we are forcing them to evaluate the root cause of why they might be undependable, why they might not have high effort and high relationships in a workplace, and that is with a recovery program, where we validate that folks are clean, because we have access to their test results. We do not want the details. Either it is good or it is not. We want yes or no.

And we start off with a contract that is a second-chance employment contract based on the fact that they do not have really much job history, they do not have a recommendation. And so we, in turn, do this, and it is amazing the results. I cannot even tell you how crazy it is. It is something I did not know. But again, it all has to do with trying to predict success in business.

Senator SHAHEEN. I am out of time, Mr. Chairman, but can I ask Mr. Marte if he would respond to that as well? Because as somebody who has been there and who is working with previously incarcerated people, what is it that you think keeps them coming back, responding in the way that they do?

Mr. MARTE. I believe loyalty is the number one factor. Like loyalty was number one on the streets, and when you hear about a contract being signed it is like this is my word, I am not going to break it, and I am going to full force, and I am going to be committed to this.

My retention rate at CONBODY is four years. I cannot get them out of there. They come in and they want to stay there forever. And when I first hired somebody coming out of the system I did not know how to deal with their other barriers in terms of housing, clothing, funding, you know, those individuals that had no place to live. So I literally had four air mattresses in the studio. I had to deflate the air mattresses at 6 a.m. so we could start classes at 6:30 a.m.

So it was things that I did not project that I was going to deal with, but they understood, like hey, if you have got my back, I have got your back. Loyalty was number one and it is still seen today.

Senator SHAHEEN. Thank you all very much.

Chairman CARDIN. Senator Hickenlooper.

Senator HICKENLOOPER. Thank you, Mr. Chair, and I want to thank all of you for being here.

Several years ago, when I was governor of Colorado, I went through the DEFY program and did a lot of the process where you build relationships with people that were mostly doing hard time. And it was breathtaking. The power that was there was potential.

Dr. Phillips, I have got two questions. One is, in your studies have you seen a difference in age, where if someone is a little bit older are they going to do better with a job when they first get out? And then the second question is, with the record low-level non-violent drug offenses, if you just have a record for some low-level offense you have a hard time getting capital, a hard time getting a loan, start a business. And we certainly worked for and applauded this, SBA's decision to remove barriers to eligibility based on irrelevant criminal history records, both for the 7(a) program, the microloan program, the 504 program. What other adjustments should the SBA be doing to ensure the qualified, formerly incarcerated individuals can access these programs?

Mr. PHILLIPS. So thank you, Senator, for the question. I guess a couple of things. First, in terms of the age, most of the research that I am familiar with certainly says that, no surprise, older people are more mature, and you have a lot of people who have been incarcerated for mistakes and things they did when they were young—18, 19, 20—and maturity has an effect. So someone who is returning to society at age 30, you do see a stronger effect. Also,

studies show that people with children have lower recidivism as well, that connection and I think the maturity that comes with that.

Senator HICKENLOOPER. Before you go to the next question, let me ask Mr. Marte, because you hired a lot of people. Are young, recently released, incarcerated individuals higher risk, do you think?

Mr. MARTE. Yeah, I think somebody that is younger than 23 years old is not fully developed and has not experienced. I have individuals that committed murder, and, you know, we look at non-violent offenders as like, oh, they deserve a second chance. But I have seen the people that have done 25 years, 27 years, for we think the worst crime ever, you know, are the best employees, you know, the most loyal individuals. I have got one female that 22 years, went in at 16, came out at 38. She has been with us for six years, and you would never think that she did something super wrong. But she is the happiest person and will greet you with a smile every single time you walk in.

Senator HICKENLOOPER. Right. Mr. Phillips, let me go back to the next question. What else can the SBA be doing?

Mr. PHILLIPS. So I think those programs you mentioned are actually on the right track. I am very supportive of those initiatives. I think two things. One, more initiatives that involve partnership with organizations that are on the ground and actively doing the work so that things are not just loans but they are also education. There are also connections. You know, those three barriers of finance, human capital and training, and connections.

So in addition to the loan programs, partnering with organizations that help out with those other buckets, so it is a more robust change that happens, that is what I would advocate. So in addition to those programs, finding ways of linking them to others.

I would say, too, in the business school we spend a lot of time trying to talk to employers to convince them, and we are very good at generating numbers, as it turns out. And numbers do part of it, but I just wanted, as a comment, the personal stories. If SBA can also organize things like this, where it is just people talking about, as employers, going through this, that, in our experience, has been at least if not more powerful than us putting statistics. I have and I can provide numbers of lower turnover—

Senator HICKENLOOPER. Sure, but it is not the same.

Mr. PHILLIPS. It is not the same.

Senator HICKENLOOPER. And you are right. That is another way that the SBA could partner with some of these organizations doing it.

I am out of time, but Mr. Perez, my brother had a bakery for many years and they had occasion to hire—some of the employees had been formerly incarcerated. And that sense of loyalty that you all have kind of addressed is very powerful in and of itself.

Anyway, I appreciate, again, all of you for being here, and I am out of time. I yield back.

Chairman CARDIN. Senator Rosen.

Senator ROSEN. Thank you, Chairman Cardin and Ranking Member Paul. This is a really important hearing, and I just thank you for everything that you are doing and your caring about your

community, your neighbor. Uplifting people is very important. So I want to build on what people have been talking about here and some of the things, we talk about loyalty, I want to talk about mentorship, because how do you bring people back, some of the things that you are talking through.

You know, over the past few years, in my home state of Nevada we have seen a big jump in startups. But even with that surge, potential entrepreneurs, they just do not have easy access to the information. It is complicated. It is hard to find—permitting, SBA loans, a lot of the things we are talking about. So I think mentorship is one way to maybe help new entrepreneurs, startup business, to fill this knowledge gap.

The Small Business Administration did establish the All Small Mentor-Protégé to develop protégé firms to help all kinds of folks through mentor-provided business development assistance. You have been there. People have been there before. You know what the opportunities and challenges are.

Dr. Phillips, maybe you just want to elaborate a little bit on how the mentorship programs, led by seasoned entrepreneurs like those we have here and others around the country, can really help build that trust and loyalty with other formerly incarcerated individuals, build up that community.

Mr. PHILLIPS. Thank you, Senator. I think that is an excellent idea. Right now it just happens informally and sort of, you know, if I run into someone who wants to start a fitness business I would say, “Oh, do you know Coss Marte? You should get in touch with him.” It is not systematic at all, but the programs you are talking about could be successful.

There are already programs that are—let’s say the local Chamber of Commerce will have a program where retired entrepreneurs can give feedback. So what I am wondering is, maybe there is an infrastructure into these like that, to also just build on—it is already people who are showing up and very excited to provide mentoring, maybe attaching that to the sort of initiative that you proposed. But I think it is an excellent idea.

Senator ROSEN. So we need to be sure that we find a way to robustly build this out, because the opportunity is there. We just have to kind of help build the infrastructure to do that.

Mr. PHILLIPS. Yes.

Senator ROSEN. And speaking about infrastructure and how you are mentoring others, I wonder if any of you have any thoughts about registered apprenticeship programs. In my state of Nevada we have, I think, around 90 registered apprenticeship programs. People earn while they learn. They graduate debt-free. They are in labor and industry, and we are trying to even bring them into cybersecurity, all kinds of things.

And so how do you think maybe the SBA could partner, enhance our apprenticeship programs that really work well around this country, to bring those individuals, help them, lift them up to get perhaps a trade, if you will? Does anybody have any comments in thinking about how we might use the registered apprenticeship programs that we have?

Mr. MARTE. Yes. So I actually started an apprenticeship program called Second Chance Studios, a nonprofit that helps formerly in-

carcerated individuals get into the media space. And what we have seen is that, you know, there are a lot of programs out there for formerly incarcerated individuals but none of them are giving them a check, and that is the first thing you need. Like when I was speaking in my testimony, all I was released with was \$40. You know, what am I going to do with \$40? The first thing I did, I went to McDonald's at my bus stop, and then the next \$20 I took a Metro card and then I am left with \$10 in my pocket. What is next?

So what I did was go into different organizations to help me get small internships, do small little jobs that I could get a couple of bucks in my pocket. But what I created was an apprenticeship program not only just to work in the back of the kitchen or do manual labor jobs. What we did was get into the media space, which is growing significantly. And we got individuals that graduated the program to work at MTV now, to work in these bigger industries like Vice and companies of that nature.

Senator ROSEN. So maybe the small business, the mentorship, the protégé program can work with some of our registered apprenticeship programs in many industries. Maybe that is a natural partnership going forward.

Mr. Marte, I want to talk a little bit about the information. You had to find all these different places to go to get information, and you were really entrepreneurial to figure all that out and create what you did. What do you think Congress can do to alleviate information, the access, the challenges—centralize it, find a way for people to find those resources right away, not wait until they have \$1 in their pocket?

Mr. MARTE. I think getting to the media that speaks to the individuals that have been incarcerated, going inside the prison system, giving this information. Literally, the transitional programs, when I had to write a resume before I was released, all they give you was lined paper and a number 2 pencil, and they expect you to go with a resume that is written to go into a job interview that way, with no computers. There is no internet inside. So let's start on the inside.

And your feedback on mentorship, without mentors that have been serial entrepreneurs at ran businesses, I would not be in the position I am in right now. Like there is one individual called Michael Rothman who, you know, pretty much every week, Friday morning, 7 a.m., we met. And he gave me homework. I did my homework and I went back to him. And so setting up individuals that really care that are retired or, you know, are really successful, that want to give back, it is a great example to give back.

Senator ROSEN. Thank you. My time is up too, but thank you all again.

Chairman CARDIN. Senator Booker was one of those that helped us plan for this hearing, who has made reentry a priority not only here in the Small Business Committee but in many areas in the United States Senate. Senator Booker, thank you very much.

Senator BOOKER. I want to thank both the Chairman, first of all, for your cooperation and your leadership in this space. It has been extraordinary and you have been a great partner. And I want to thank the Ranking Member as well. Since I got to the United

States Senate, this is an area he has brought a lot of common sense and a lot of partnership as well.

Gentlemen, I am so excited to see you, and especially the three folks out there that are getting folks hired. When I started in New Jersey, the first-ever municipal Office of Reentry, we started finding a lot of patterns but also having a lot of frustrations with all the barriers that men and women coming home were facing, getting sort of rapid attachment to work, finding someplace to just live for a night. I was so desperate that I lived in a two-family home as mayor, and I would let just guys crash there as we tried, with our agency, to put people back to work.

And so there is a lot that has been documented here, I am sure, and gone over, and I do not need to go over it all, the benefits to society in helping people get rapid attachment to work, helping people deal with a lot of the challenges that often create that slippery slope.

There are 40,000 collateral consequences, according to the American Bar Association, if you have a criminal record, 40,000 things you cannot do that most Americans often take for granted. And so my hope is this Committee, which has a great bipartisan sensibility about themselves, can start doing even more to removing these artificial barriers. And I would love to maybe get some examples of these from you and maybe some advice for this Committee about what could we be doing to deal with it.

During the pandemic I was stunned—and again, we had bipartisan help fixing it—that the PPP loans were very artificially excluding people that had been incarcerated within five years. It did not reflect other areas within our government but it was just arbitrary and unfortunately uneven in its impact.

And so, Professor, I do not know if there is anything, Dr. Phillips, that you might be able to point to right now. I do not care what space it is, whether it is in access to capital or credit worthiness, of things that this Committee might attack to really help a class of people that have higher rates than average Americans for starting businesses, often because of the urgency for it, because they just cannot get hired. But I do not know if there was anything that you would advise us, hey, if this Committee attacked this in a bipartisan way you could remove another barrier that would save government money in the long run, lower crime in the long run because people would not recidivate, but also help expand our economy.

Mr. PHILLIPS. Thank you, Senator, and also thank you for your work in New York. I spend a lot of time in New York so I am familiar with the great work that you did there. So thanks for that question.

What I want to say is similar to before, and it sort of links to the overall concept. In my mind, entrepreneurship and employment are linked, and sometimes we organize them in different ways, but they are very much linked. Entrepreneurs hire employees. Employees then become entrepreneurs. The two are linked.

One of the things that I think can be very helpful is helping provide information and education in prison as early as possible. One of the challenges, there are too many things to combat. I mean, there are too many things to keep in mind, and what we find is

then if you try to add on that entrepreneurship training or here are some opportunities, people are just so overwhelmed they cannot take advantage of all the things that, you know, everyone put a whole lot of hard work to put forward.

In prison, a lot of times people are idle, unfortunately, but there are ways of spending that time productively. We have the advancement that have been done lately and also including the Pell grant. So I think that is a place to tackled. And I think it can be captured as both entrepreneurship and employment skills. I do not see these two as distinct. I think they can be captured and taught to people early on.

The students we teach inside prison are amazing. They are dedicated. Our MBA students are sometimes embarrassed by how devoted these students are, and question their own devotion to their own education. They are groups of people who could really take advantage.

So focusing on that area, getting those opportunities, information about loans, other things, as early as possible, that is what I would think.

Senator BOOKER. Anybody else want to add, in the last 30 seconds or so?

Mr. PEREZ. Yeah. I would just maybe suggest that instead of worrying about a specific program, how can we open it up to everybody? For example, if the SBA loan, on the PPP loan automatically excludes someone with a past in the last five years, they would throw out that application. Do not even fill it out. But I am suggesting that PPP applications should just be like an interview. If someone has a past, they should have an opportunity to explain what they are doing to change their life.

And I am telling you that that is going to help the greater good. Instead of a single program we have 20 percent of our population that is in a second-chance position. We have got to open up the funnel. We keep on putting it down to one thing, and we need to be able to talk to someone about their past, and just like every other opportunity, we are going to ask them the question in an interview, or at an SBA loan, what are you doing to change? Explain to me what your plan is.

And I think that is really the crux of this. If we want to help the greater good, that is the mentality we have to have, not a single program, but open it up for everybody.

Senator BOOKER. Thank you. Mr. Chairman, the last thing I would say is Mr. Marte might have an athletic program here that all the Senators could enroll in perhaps. [Laughter.]

Senator BOOKER. I appreciate that, sir. And I would love to submit maybe a question for the record to all of you, if you could maybe add to that list of some of the common-sense things I heard from Mr. Perez and Mr. Phillips, so thank you.

Chairman CARDIN. I think we can benefit from the testimony of all four of these witnesses. Thank you.

Senator Marshall.

Senator MARSHALL. Thank you, Mr. Chairman. If somebody else has asked you this question, forgive me. Obviously we are all running back and forth. But I would be curious, for any of you, if you

have used any SBA resources to help in hiring recently incarcerated individuals.

Okay. Are you aware of any SBA options out there? Okay. I am not either.

What about just in accessing capital? Any businesses using the SBA to access capital, to get loans? None of you have tried them?

Mr. MARTE [continuing]. The PPP loan, at first I thought I did not qualify until they changed and reversed that criterion about the time spent.

Mr. CAUDILL. We did receive PPP funding.

Senator MARSHALL. Okay, which is not meant for new startups or new companies or anything, right? Okay.

We certainly have a strong group of folks, non-government entities, committed to the recidivism rate and employing them, somehow, some way, in Kansas City, and I am trying to help them. How can a Congressman help an employer be connected to employees to help this along? You see any congressional offices doing a good job with this? I would love to copy them. Sometimes it just helping connect people.

Mr. CAUDILL. I think the connection, at least in my case, with the nonprofit community that was working with recovering addicts, alcoholics, former prison inmates, halfway-backed programs, and so on. And due to our contact with those people they knew that we would hire people with backgrounds, and they referred them on to us, and then they would do follow-up.

Senator MARSHALL. Okay. In any of your programs is there any type of a spiritual component to the issues as well?

Mr. PEREZ. Yeah. You know, we have a faith-based attitude to our business. It is not a requirement for anybody to do, but we subscribe to the 12-step program with everybody that we work with, or a similar program, and you get to choose who your God is. It is not for us to kind of do it, but we think it is important for us, as recovering folks, to contemplate that we are not the center of the universe. We are only part of it. And so it is an important piece for us, and we try to do it in a way that is appropriate for an employer to do it.

Senator MARSHALL. Great.

Mr. CAUDILL. Yeah, we also have worked the Healing Place, which is a faith-based, 12-step program, and here again, with halfway-backed programs. We did run into an issue, which was kind of interesting. It seems like a new solution to addiction problem is suboxone. I was up in Winchester and we went to a Kentucky recovery facility, but everyone was on suboxone. And so we checked with our insurance company, and due to the dangerous equipment we work with—forklifts, tractors, trailers and stuff—we could not employ them.

So primarily the people that we have here have come out of programs that were faith-based.

Senator MARSHALL. Okay. Anybody else?

Mr. PHILLIPS. Sorry. This is to the previous question about what can Congress do. You got me thinking.

Senator MARSHALL. Good.

Mr. PHILLIPS. One of the things I would recommend is championing those employers that are doing second-chance hiring. There

are still employers that are afraid, that may even be hiring but are afraid to let others know, and still becoming more legitimate thing to do. And getting attention, positive attention for doing it, just like today, can help other employers move a little bit closer to hiring.

Senator MARSHALL. Great. Okay. Thank you so much. I appreciate you all being here. Thank you, Chairman.

Chairman CARDIN. Senator Paul.

Senator PAUL. The discussion of addiction reminded me of coming to your place, Dan, and in a small group several of them saying, "Oh yes, I am in Narcotics Anonymous" and somebody saying, "I am somebody's sponsor." And you mentioned also that they actually meet and that part of that is part of employment, or after hours they do meet there?

Mr. CAUDILL [continuing]. A lot of times, and we allow them, you know, if they have a bad day or something they can leave early, go make a meeting and come back, or whatever. So it works out really well. I have got a second-shift supervisor that sponsors the entire crew, 100, and he has done a great job. He has been there for eight years.

Senator PAUL. And I think that is sort of one thing, me learning from listening to you and listening to Rob and others, is that, you know, everybody deserves a second chance but not everybody is going to take the second chance. You have to be doing something. I mean, you know, not every alcoholic is going to be a great employee, and not every heroin addict is going to be a great employee. They have to be wanting to try to recover. And so being in some kind of program, was what Rob was saying, requiring them to be in a program.

And I liked the idea of the contract. It reminded me, I was visiting one of the KIPP charter schools down in Nashville, and a young girl was just like, you know, brilliant, and going on to all these great places. She has probably already graduated from college by now. But part of what they told me was that they had a contract, and the parents sat down, and they, for the children at least, they were responsible that the child was going to bring his homework in, and for a child you can see that. But somehow accepting that responsibility through the contract, which leads to loyalty, but it has to be this two-way street, and you have got to, you know, I do not know.

But I am amazed how many people want to try to get the second chance. When we first did expungement in Louisville, an attorney gave like \$300,000 to help with the fees for it, and 1,000 people showed up. And to me that did not show that everybody wants their record expunged. Not everybody wants a second change, but 1,000 people did. And you have selected out, for the people who are no longer a drug dealer, why get your record expunged if you are a drug dealer? They want legitimate jobs, and 1,000 people showed up.

So I think there is great hope and great momentum going forward with this. And the one thing that we will try to work on is looking at the Federal employment to see if there are any impediments to Federal employment. But then also I think that—I will bet you there is some group that may have started this, but I want to look in to see if there is some way of having a posting for em-

employers, maybe not even just a job but employer that is friendly towards hiring people with a second chance. And it may be that it would be a national posting. You have to go somewhere else if you are an engineer or a nurse.

But I bet you something like that might be of value, because here it is by word of mouth. People know you can go to Caudill Seed, and people know about your restaurant. Anyway, there might be some way of facilitating that. It might not have anything to do with government but there might be a way of facilitating the knowledge of who these employers are.

But thank you all for your testimony, and Thank you, Mr. Chairman, for doing this.

Chairman CARDIN. Thank you, Senator Paul.

Senator Booker, anything further?

Senator BOOKER. No, sir, but I would look forward to following up and seeing if we can think of some things we can work on together to make it easier to access loans. I think the idea about doing something maybe with this Committee—I do not know how in-person it would be—but also with the Bureau of Prisons to talk about something that we could try to do together, or a pilot program.

Because I noticed, from my own personal experience, the differences between those prisons in New Jersey that have those programs that open people up to basic financial literacy, resume writing on computers, the different you give in people coming out is pretty extraordinary. And more people than we think max out and then are just sort of released with no preparation or no arrangements being made if possible. And it is just a pathway to having people get in trouble again, and they go back right into the environments that often foster the criminal activity in the first place, as opposed to having a real plan and a real help and a real start.

So I am very curious about what we can possibly do together.

Chairman CARDIN. Thank you, Senator Booker. I do think this is an area where we can make progress in this Committee. There is strong bipartisan interest in moving forward.

What this hearing has demonstrated, there is a path forward. There is hope. There is a path forward where we can provide opportunities for people to succeed in life, and, by the way, it is going to be good for our business.

Mr. Perez, I tell you, I am so impressed by your experience, and the same thing with Mr. Marte, so impressed at how you have been able to give opportunities to individuals, but at the same time you have grown your own business to be a successful entity, which is what America is all about. So you give us hope that there is a path forward.

What we need to do is remove the obstacles. That is what Senator Paul was saying. If we remove the obstacles, if it is in your business interests to hire the best employees, you will find a way to do it. But when we put obstacles in the way it makes it challenging for the private sector to do what they need to do. I agree with Senator Paul on this point. We do not always agree on that point, but this one, I think, is right.

But I also think we can offer incentives, and, Dr. Phillips, you talked about some of the incentives, the extra costs involved, the

risk factors. Those issues I think we can offer incentives to help in that regard. So I think we can put together a package.

And Senator Paul, you are absolutely right. The Federal Government, in its employment practices, should be an example. They should not be a problem. So that is an area I think we clearly can work on.

Again, I want to thank all four of our witnesses for your incredible commitment. You are an inspiration to all of us, so thank you all very much for being here.

The Committee record will stay open for two weeks in the event members decide to ask questions for the record. We would ask that you would promptly reply to those questions. And once again, thank you for your testimony, and with the Committee will stand adjourned.

[Whereupon, at 3:54 p.m., the Committee was adjourned.]

Senate Committee on Small Business and Entrepreneurship Hearing
July 27, 2022
Follow-Up Questions for the Record

Questions for Mr. Marte

Questions from:

Senator Coons

As a formerly incarcerated individual who has successfully operated his own business, I applaud you for not only overcoming considerable barriers but also dedicating your life to helping others.

QUESTION 1:

Have you utilized any Small Business Administration (SBA) resources? For instance: SBA loan programs, SCORE Business Mentoring, or Small Business Development Centers?

I took advantage of the PPP program during the pandemic but I never heard of the SCORE program. I would love to be connected and learn more on how I could take advantage of any SBA programs. Please connect me with them if possible.

QUESTION 2:

If so, what were your experiences with SBA as a returning citizen?

N/A

Questions from:

Senator Hirono

Personal Experience

You have had a considerable amount of success as a returning citizen who became an entrepreneur – starting several companies that now employ dozens of people.

QUESTION 1:

What were the hardest barriers you had to overcome on your way to starting these companies?

I believe one of the hardest steps was that no one wanted to help me fund my business idea after I had a proof of concept. I went to banks, VC's, Angels, and friends to try to raise funds. After three years I was able to win a business plan competition that helped me gain \$50K in investment.

QUESTION 2:

What resources were most helpful as you were overcoming these barriers?

My most helpful resource was a non profit org called Defy Ventures that assisted me in receiving assistance in properly setting up my business plan, connecting me to mentors, and most importantly really believing in me.

Dan Caudill
Caudill Seed Company

Responses to Follow-Up Questions for the Record
Senate Committee on Small Business and Entrepreneurship Hearing, July 27, 2022

Senator Hirono: You have worked with and volunteered for a number of organizations that provide employment and training, rehabilitation, and housing opportunities for returning citizens.

Question 1: In your opinion, what resources are most helpful for these individuals – particularly those who would like to become successful entrepreneurs?

Caudill: The number one problem, in my opinion, is the stigma associated with those individuals that have been arrested/convicted of crimes in obtaining gainful employment as well as housing and healthcare. For those who would like to become successful entrepreneurs, one they need to be able to get jobs to learn an industry before they can become successful entrepreneurs and two, they need equal access to lending from SBA and community banks and the national banks.

Question 2: How can we make sure individuals have access to these resources?

Caudill: I think we should evaluate what reasonable background checks are and provide federal guidelines for those background checks. Also, in some cases, perhaps not even have a box to check to allow those people equal access to employment, loans, housing and healthcare.



Damon J. Phillips, Ph.D.
 Robert Steinberg Professor
 Professor of Management at Wharton (Penn);
 (by courtesy) Professor, Annenberg for
 Communication (Penn)

The Wharton School
 University of Pennsylvania
 2016 SH-DH
 3620 Locust Walk
 Philadelphia, PA 19104
 djphill@wharton.upenn.edu

July 23, 2023

Dear Senators Coons and Hirono,

Thank you for this opportunity to respond to your questions about ways to improve entrepreneurial outcomes for our returning citizens. Thank you as well for the important work you continue to champion, such as your work to expand access in April of 2023 through the revision of SBA's lending criteria and other operating procedures.¹

I will list each question in italics on the following pages and then respond. My general view is that some of what needs to be done is additional policy innovation, but we should keep sight of the fact that there are already solutions throughout the country that are local in their impact. These local solutions, such as the Mink Center in Hawaii, should be robustly supported and incorporated into policy advances so that others throughout the country are incentivized and equipped to replicate that local success. My responses are informed by my continuing work and include information from my consultations with other experts in the field such as Professor Kylie Hwang of Northwestern University and Margaret Love, founding director of the Collateral Consequences Resource Center (CCRC). I am more than happy to address any follow-up questions and continue to serve in any capacity you see fit.

Regards,

Damon J. Phillips

¹ See: <https://www.federalregister.gov/documents/2023/04/10/2023-07173/affiliation-and-lending-criteria-for-the-sba-business-loan-programs> as well as <https://ccresourcecenter.org/2023/04/14/sba-modifies-criminal-history-restrictions-in-its-loan-programs/>

Senator Coons: *How can Congress help formerly incarcerated individuals take advantage of federal resources and engage with the Small Business Administration?*

The recent work by the Small Business and Entrepreneurship Committee has recently pushed significant changes to lower barriers to achieving financing, and the momentum for further reforms is very promising. In particular, the recommendation to eliminate most inquiries about criminal history on SBA application forms is a laudable reform. However, to the point of the question, one challenge is better helping formerly incarcerated individuals take advantage of SBA resources. There are two broad types of ways that Congress can help. For the first type, Congress can continue to work with the SBA to lower psychological deterrents to applying for loans. For example, not only do reforms take time to implement, but end-users must also learn of the reforms. Given that the default view is that SBA loans are especially unfriendly to people with criminal records public awareness is necessary. I would advise working with non-profit organizations that already provide financial education to returning citizens. These community-based organizations are not only skilled at communicating financial information, but justice-impacted communities also trust them. Congress can also ensure that the new verification of incarceration that third parties do on behalf of the SBA restricts its search to whether the person is currently incarcerated.

Second, Congress can partner with financial intermediaries to ensure that SBA reforms don't merely shift the stigma from the SBA to the banks. In other words, while reforms that remove biases in the SBA's procedures are critical, lenders still have ultimate discretion on issuing loans. Potential applicants often assume that they will be discriminated against, while data on actual lending practices rarely exist to support or counter these assumptions. I believe that Congress should work with the SBA and lenders to make SBA lending practices (such as lender's loan disqualification data) more transparent to the public. This way, formerly incarcerated individuals have actionable data on which financial institutions are unbiased, and Congress makes a substantial impact without the challenge of additional regulation, monitoring, and enforcement of the financial sector.

Senator Hirono: *Locally in Hawaii, we have a number of different programs to support new entrepreneurs. These include programs like our small business development centers (through Hawaii SBDC) and our women's business center (the Mink Center) – which are both run by SBA resource partners that receive federal funding. Can you speak to how these kinds of programs [small business development centers through Hawaii SBDC, Mink Center] are important for returning citizens and justice-impacted individuals?*

Small business development centers Hawaii's SBDC and the YMCA's Mink Center are excellent examples and serve as best practices that other communities in the U.S. should champion. As I noted earlier in this document and in my testimony on July 27, 2022, there are successful programs that

exist across the U.S., albeit on the local level. The challenge is not always to generate new ideas, but sometimes we need to bolster successful programs and replicate them in other communities nationwide. Hawaii has been pioneering in understanding the intersection of entrepreneurship, criminal justice reform, and Native peoples – particularly women. In doing so, the program not only helps women start businesses, but their families and communities are uplifted through their entrepreneurship.

These programs are important for returning citizens and justice-impacted individuals because the lack of economic opportunities (such as employment) diminishes the likelihood that a return home will be successful. Moreover, members of justice-impacted populations often are often unable to obtain foundational information or tools to identify business opportunities and launch a business. The types of programs you identified in Hawaii actively counter those challenges by providing skills, resources, and services to launch one's own business, even when employment opportunities may be lacking.

In sum, these kinds of programs are essential because they provide access to insights, tools, and discipline that typically are not available to returning citizens, especially those from underserved or marginalized populations.

Senator Hirono: *What kind of impact do they [these kinds of programs] have on those individuals?*

My own experience and academic research on the topic suggest three types of impact: (1) confidence and self-esteem, (2) improved financial performance, and (3) greater ability to uplift their communities.

Impact #1: Confidence

I have learned from focus groups and observed firsthand that many incarcerated individuals in our nation's prisons aspire to become entrepreneurs. They do so knowing that their employment opportunities may be limited, resulting in them not getting a job that matches their true talents and potential. Programs like those that you identified help returning citizens fulfill a dream of entrepreneurship that is often discouraged by others and hindered by their battered self-esteem. A vivid example comes from the founder of Ulu's Lemonade, who benefited from the Fernhurst Women's Furlough Program and Mink Center. In a video featuring the founder, she talks about not just the knowledge received but how the program at the YWCA empowered her.²

² Please click this link for a video of the interview: <https://www.facebook.com/watch/?v=10154002610461889> (accessed July 21, 2023).

Impact #2: Financial Performance and Social Integration

Academic research verifies the impact of SBA-sponsored entrepreneurship training. In 2003 the Department of Labor (DOL) and the Small Business Administration (SBA), in a joint effort with local organizations, launched "Growing America through Entrepreneurship" (GATE) in both rural and urban areas in Maine, Minnesota, and Pennsylvania.³ As a part of this initiative there was an experiment where free entrepreneurship training was randomly distributed. Dr. Jun Huang, in his 2015 Columbia University dissertation, used this data to assess the impact of that training. He found that training led to entrepreneurs becoming more prudent with their resources and achieving greater financial performance.⁴ Complimenting these findings, Dr. Kylie Hwang and I found that formerly incarcerated entrepreneurs earn more than they would otherwise as employees. They also have lower 5-year recidivism than their employed peers.⁵

Impact #3: Uplift Communities

A vast majority of incarcerated people who envision entrepreneurship also have a strong desire to improve their communities and the fate of other returning citizens. As such, programs that advance entrepreneurship opportunities for returning citizens also positively impact entire communities. For example, Coss Marte, who received entrepreneurship training as a returning citizen, now not only has a successful venture-backed business in the fitness industry called CONBODY, but he also hires dozens of returning citizens. He has also launched a foundation, the CONBODY Foundation, which "provides career paths in fitness to incarcerated and formerly incarcerated professionals."⁶ Bridget Osborne, a graduate of an in-prison entrepreneurship training program run by Columbia University, is now a social entrepreneur having founded Sons and Daughter's Ministry, a non-profit organization that is "dedicated to reaching, empowering, spiritually equipping and ministering to individuals, etc., especially those who are incarcerated."⁷

Senator Hirono: *SBA has a number of different programs to help new entrepreneurs, including those focused on promoting access to capital – like the 7(a) and 504 loan programs. I have heard from many businesses and entrepreneurs who have relied on these programs to build their businesses. Can you speak to how these kinds of programs are important for returning citizens and justice impacted individuals – especially those who are unable to find credit elsewhere?*

Both anecdotal and academic evidence has shown that obtaining financing is one of the most difficult tasks for justice-impacted citizens wishing to start a business. This difficulty is amplified when the

³ The GATE dataset and surveys are available at <http://www.doleta.gov/reports/projectgate> (accessed July 22, 2023).

⁴ Huang, J. (2015). *On the Performance and Financing of Nascent Entrepreneur*. Columbia Business School PhD Dissertation.

⁵ Hwang, K and D. Phillips (2023, in press). "Entrepreneurship as a Response to Labor Market Discrimination for Formerly Incarcerated People" *American Journal of Sociology*.

⁶ <https://conbody.com/donate-2/> (accessed on July 22, 2023)

⁷ <https://sonsanddaughtersministry.org/?mibextid=Zxz2cZ> (accessed on July 22, 2023)

person is also a member of a traditionally marginalized population.⁸ The potential for the SBA to improve financing opportunities is great, and your committee's work in the past few years is a testament and template for future advancements. For many, the loan opportunities made available from the SBA will be the only viable financing option.

I would like to take this opportunity to emphasize that the lack of financing does not only affect whether one starts a business. The lack of financing also affects the type of business that is launched. For example, a returning citizen with culinary skills and leadership abilities may reasonably conclude that the most lucrative business would be to launch a food truck business and eventually hire employees. However, it is not unusual to require more than \$100,000 to launch a food truck. The lack of financing would preclude a food truck idea, but the person may not abandon the idea of entrepreneurship, especially if they face labor market discrimination and many returning citizens do. In this example, the entrepreneur in question may instead start a different kind of business, a sole proprietorship outside of the restaurant industry that requires no start-up capital. Not only is the entrepreneur starting a business that does not capitalize on their skills, but they are unable to create a business that employs others.

In sum, SBA loan programs can not only help returning citizens launch businesses, but also lead them to launch businesses that fit their talents and better improve their communities.

Senator Hirono: *How can we make these programs more accessible?*

I would suggest three ways to make these programs more accessible: (1) address lender requirements for down payments; (2) streamline the application process; and (3) make SBA lending data transparent and easily available to the public.

#1: Loan Down Payments

As stated in an online Forbes article, "*In many cases, the SBA, private lenders, or conventional loans through a bank will require that you supply somewhere between 15% and 25% of the total amount necessary. As an example, if you project a cost of \$400,000 to open your new restaurant, you will need between \$80,000 and \$120,000 in cash. Your cash investment demonstrates to the bank or investor that you have "skin in the game." I have never seen a bank or investor finance a new restaurant 100%.*"⁹ For returning citizens, obtaining a down payment of 15% to 25% would prove to be a barrier in and of itself even if the lender would otherwise provide the loan. This is a surmountable barrier, but it must be prioritized. Otherwise, the current reforms will only help

⁸ Hwang, K. (2021). *Entrepreneurship and Incarceration*. Columbia Business School PhD Dissertation.

⁹ Occhiogrosso, G. (2021) 8 Costs To Consider When Opening A Restaurant. *Forbes*. Jul 30, 2021, <https://www.forbes.com/sites/garyocchiogrosso/2021/07/30/8-costs-to-consider-when-opening-a-restaurant/?sh=61fdb6b42742> (accessed on 7/23/2023).

relatively wealthy returning citizens. Thus, one way to make these loans more accessible is to minimize the down payment barrier.

#2: Streamline

Whether one has been incarcerated or not, a barrier to financing is the paperwork involved. In my own family's business, we neglected to pursue SBA loan opportunities because it was not clear that the opportunity cost associated with applying would yield offsetting returns. In other words, when we estimated the time and effort to apply, the loan amount, and the likelihood of getting the loan, it was not always clear that it made sense to pursue the loan. For returning citizens, time is even more valuable, and the likelihood of receiving a loan is even less than for aspiring entrepreneurs who have never been incarcerated. Lowering the opportunity cost by continuously streamlining the process will benefit all aspiring entrepreneurs, but especially those with criminal records.

#3: Greater Transparency

As I noted in my response to Senator Coon's question, Congress can partner with financial intermediaries to ensure that SBA reforms don't merely shift the stigma from the SBA to the lending community. In other words, while reforms that remove biases in the SBA's procedures are critical, lenders still have ultimate discretion on issuing loans. Potential applicants often assume that they will be discriminated against, and reformers advocate changes, but the fact is that data on actual lending practices rarely exist. I believe that Congress should work with the SBA and lenders to make lending practices and decisions (such as disqualifications) more transparent to the public. This way, formerly incarcerated individuals have actionable data on which lenders are unbiased, and Congress makes a substantial impact without the challenge of additional regulation, monitoring, and enforcement of the financial sector.

Senator Hirono: *Locally in Hawaii, we have seen the success of comprehensive reentry programs that prepare returning citizens for their lives after incarceration. These include the YWCA's Fernhurst Women's Furlough Program (on Oahu), which provides affordable housing and wraparound services for incarcerated women before their release – making sure they have access to the skills they would need to be successful. Programs like these can reduce recidivism and promote success. In many cases, they support Native women. Can you speak to how reentry programs such as these support returning citizens – especially those who are interested in becoming successful entrepreneurs?"*

I have responded to this question with my previous answers. I will only reiterate that these programs are excellent examples of models that should be replicated elsewhere in the U.S.

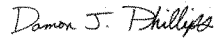
Senator Hirono: *Are you familiar with similar programs that have been successful in other states?*

Your programs in Hawaii are unique to my knowledge. There are successful wraparound programs for women returning from incarceration throughout the country (such as Hour Children in New York City).¹⁰ Still, these programs do not focus on helping women start businesses. There are also impressive entrepreneurship programs, such as the Texas Prison Entrepreneurship Program¹¹, that provide wraparound services. However, Texas PEP has only successfully worked with men and (to my knowledge) does not work with the SBA. This is why I see the work of the Fernhurst Women's Furlough Program as unique. I am not sure why it is not better known as a best practice, but it should be. As someone who has been involved with teaching entrepreneurship to women in prison, I know much more can, and should, be done.

Senator Hirono: *How about programs focused on Native women?*

Similarly, I am unaware of any other programs focusing on Native women returning from incarceration and looking to start businesses. If there is an interest in bringing this model to other places in the U.S., I would be honored to help. The partnerships between the SBA and the kind of coalition of universities that I advocate for in a recent article I authored is one avenue for increasing the impact of this kind of program.¹²

Regards,



Damon J. Phillips, Ph.D.
Robert Steinberg Professor
Professor of Management at Wharton (Penn)
(by courtesy) Professor, Annenberg for Communication (Penn)
djphill@wharton.upenn.edu

¹⁰ <https://hourchildren.org/> (accessed on July 23, 2023)

¹¹ <https://www.pep.org/> (accessed on July 23, 2023)

¹² Phillips, D. (July 17, 2023). Entrepreneurship Program Empowers Prisoners, Association to Advance Collegiate Schools of Business. <https://www.aacsb.edu/insights/articles/2023/07/entrepreneurship-program-empowers-prisoners> (accessed on July 23, 2023)



Senator Coons –

Thank you for your interest in creating an environment for employing people by giving second chance opportunities and for your follow-up question:

How can the federal government best support the work of organizations like Second Chances Farm and DV8 Kitchen to reduce recidivism rates and offer second chance employment opportunities?

Humbly, we as a nation are looking at improving recidivism through employment incorrectly. Currently, we are looking at this from the supply side and not the demand side. I would like to suggest approaching this differently.

It is estimated over 20% of our population is unemployed or under-employed because of a past of incarceration, addiction or generational poverty. We have an abundant supply of second chance employees.

Most experts, including the government, seem to focus on making the second chance employee look more marketable to a potential employer by offering programs in a classroom. In my experience, this approach is narrow and ineffective. Too few second chance job candidates have access to a government program. In addition, classroom education that's available is expensive, abstract and not nearly as effective as on-the-job training.

The lucky few who do improve the quality of their resume, learn interviewing skills or earn a certificate for understanding work skills by attending an offered class do not improve their opportunities for a job. The reality is the employers still do not hire these people. The demand for an employee with a "certificate" is not there.

I would suggest addressing employers – or the demand side. If employers were incentivized to give people a second chance and provide them with a clear path for successful employment, we would reduce recidivism and dramatically increase our workforce.

Suggested steps to accomplish this initiative:

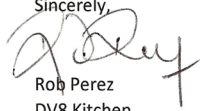
- Provide monetary incentives / tax credits to second chance employers.
- Provide a clear and safe legal path to employ people with a past (personal records, medical information, workplace incidents liability, EEOC violations).
- Work with human relations executives, HR industry and HR service organizations (i.e. SHRM) to build processes and a mindset that include people with a past into mainstream employment practices. Almost unanimously, businesses eliminate any person with a past by excluding candidates for an interview who have gaps in employment history.
- Work with Insurance industry to outline the specific liabilities for employers who employ second chance employees. I have never been questioned about employing someone with a past when selecting insurance. I believe there is no extra cost in the restaurant or hospitality industry.

- Provide additional risk mitigation tools for employers who do offer second chance employment (i.e. federal bonding program).
- Create a system where employers hire a candidate under an employment contract stipulating adherence to a recovery program, restitution or child support payment. This will leverage a job to ensure the employee is given a job and held accountable to "do the right thing." We find this improves recidivism rates and improves the performance of the employee.

This change of perspective is needed for social change and widespread action for jobs to be available to all leaving incarceration.

I'm happy to share any of our second chance experiences, processes and practices which have influenced our opinions and suggestions above.

Sincerely,



Rob Perez
DV8 Kitchen
rob@dv8kitchen.com
859-321-5600

