



Full Committee Hearing: “Unleashing Main Street's Potential: Examining Avenues to Capital Access” - Engine’s Statement

February 1, 2024

House Committee on Small Business
2361 Rayburn House Office Building
Washington, D.C., 20510

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

Thank you for convening a hearing last week covering capital access challenges for small businesses and startups. Engine is a non-profit technology policy, research, and advocacy organization that bridges the gap between policymakers and startups. Engine works with government and a community of thousands of high-technology, growth-oriented startups across the nation to support the development of technology entrepreneurship through economic research, policy analysis, and advocacy on local and national issues. Equitable access to capital for startup founders is a core tenet of Engine’s work, and we are grateful for the opportunity to provide our feedback on the struggles and successes of entrepreneurs in our network.

Access to capital is one of the most significant barriers startups face when launching. Most startups launch with a limited amount of funding, often put together from a mix of personal loans and family savings, with just a small fraction securing venture capital.¹ Even the most successful startups that have gone on to attract outside funding only have roughly \$55,000 a month in resources to cover all expenses.² Given these limited resources, capital access issues can be a huge burden on startups. Improved and more equitable access to capital is crucial to create a brighter economic outlook for startups and promote further innovation.

Through Engine’s Innovation For All Initiative, we’ve seen that underrepresented founders, including BIPOC founders, rural founders, and LGBTQ+ founders, especially face the burden of capital access barriers across most financing avenues.³ Founders from underrepresented backgrounds frequently receive approvals for lower loan amounts and are often quoted significantly higher interest rates. For women founders, access to funding sources is also complicated. Kathryn Rose, the founder of getWise, said “We need easier access to debt instruments like loans. I mean, there's loans available out there. But... there are just so many hoops to jump through.”⁴ Though

¹ Kauffman, *Access to Capital*, https://www.kauffman.org/wp-content/uploads/2019/12/CapitalReport_042519.pdf.

² Engine, *Engine Releases Report On The State Of The Startup Ecosystem*, <https://www.engine.is/news/engine-releases-report-on-the-health-of-the-startup-ecosystem>.

³ Engine, *Innovation For All*, <https://www.engine.is/innovationforall>.

⁴ Engine, *Women Startup Leaders Roundtable: What we Heard*, https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/64346ad31d539c3d06092981/1681156819155/Innovation+for+All+_+Women+Startup+Leaders+Roundtable_+What+we+Heard_Final.pdf.

gender and racially diverse startups are more likely to be more profitable and successful,⁵ funding still primarily benefits white-led companies.⁶ And without diversity in the innovation ecosystem, diverse viewpoints fail to be acknowledged, and innovation will lag.⁷

Access to capital for underrepresented founders also becomes challenging if startups lack access to smaller banks. Small banks tend to establish closer relationships with their customers, simplifying the process for startups to obtain banking services.⁸ Moreover, they have the flexibility to customize their offerings, such as offering specialized industry advice and assisting in building professional networks, to meet their clients' specific needs. According to the Independent Community Bankers of America, "In stark contrast to the nation's largest banks, community banks operate under an entirely different business model—one that's based locally and is relationship focused. As small businesses themselves, local community banks take pride in serving the unique needs of their customers and communities."⁹ Additional regulatory burdens can have an outsized impact on smaller banks, impacting lending and the services they offer to startups. And increased capital requirements could make bank lending more expensive or result in customers, like startups, receiving less financing.¹⁰

Policymakers can take action to support the startup ecosystem by improving the regulatory environment where startups raise capital. This is particularly crucial given indications that the SEC intends to narrow the definition of accredited investor.¹¹ Policymakers should focus on promoting diversity in the investment community by facilitating greater participation from a variety of investors, particularly those from diverse backgrounds, including by expanding the definition of accredited investor.¹² Policymakers can also tackle capital accessibility challenges through federal funding avenues, such as simplifying grant procedures, enhancing the reach of federal programs, allocating funds to incubators and accelerators, and other organizations that offer essential support, resources,

⁵ Matt O. Dhaiti and Jamie Dohopolski, *Engine's Response to the Call for Comments on Expanding American Innovation*, Engine (Feb. 23, 2021), <https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/60366ecbd288114c62743c45/1614180046522/Engine+USPTO+diversity+comments.pdf>.

⁶ Suraj Gupta, *Diversity: The Holy Grail of Venture Capital* (May 26, 2022), <https://www.forbes.com/sites/forbesbusinesscouncil/2022/05/26/diversity-the-holy-grail-of-venture-capital/?sh=1de992054178>.

⁷ Engine, *Startup Policy Playbook 2023*, <https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/63da7fc7acc7e40d77d84ffe/1675263944074/Startup+Policy+Playbook+2023.pdf>.

⁸ Engine, *SVB: What Happened, How the Fallout Impacts Startups, What Policymakers can do Next*, <https://www.engine.is/news/category/what-policymakers-need-to-know-about-the-svb-collapse-and-startup-fallout>.

⁹ ICBA, *Silicon Valley Bank and the Nation's Largest Banks Are Not Community Banks*, <https://www.icba.org/newsroom/news-and-articles/2023/03/13/icba-silicon-valley-bank-and-the-nation-s-largest-banks-are-not-community-banks>.

¹⁰ Bill Hulse, *How New Banking Rules Might Harm Your Business*, U.S. Chamber of Commerce (Nov. 6, 2023), <https://www.uschamber.com/finance/how-new-banking-rules-might-harm-your-business#:~:text=When%20capital%20requirements%20for%20banks,main%20street%20business%2C%20and%20consumers>.

¹¹ J.D. Alois, *SEC Publishes Review on Definition of an Accredited Investor* (Dec. 15, 2023), <https://www.crowdfundinsider.com/2023/12/218235-sec-publishes-review-on-definition-of-an-accredited-investor/>.

¹² Engine, *Startup Policy Agenda 2023 - Capital Access*, <https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/63d98e37c99f9e613300ce6a/1675202105904/Startup+Policy+Agenda+2023.pdf>.

and programs for startups.¹³ Andrew Prystai of Event Vesta, an event promotion and discovery platform located in Omaha, Nebraska agrees that change is needed at the SBA—stating, “I believe the issue overall is access to capital, as SBA can't make loans to asset lite businesses like ours. . . I do think almost anything here (whether loosening restrictions on small grants from the SBA, providing working capital to potential investors, or setting up tax credits for angel investments) would help.”¹⁴

Thank you once again for your commitment to examining the barriers faced by current underrepresented startup owners and exploring how Congress can better support them. Engine is happy to serve as a resource for the committee as you continue this critical work.

Sincerely,

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¹³ *Id.*

¹⁴ Engine, *What Startups are Saying About the JOBS 4.0 Draft*, <https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/629a299aff12856973b9a17c/1654270362843/Startup+Feedback+JOBS+4.0+.pdf>.