



Engine Statement for the Record regarding the House Small Business Committee's Subcommittee on Oversight, Investigations, and Regulations hearing: *Navigating Regulations: Alternative Pathways to Investing in Small Businesses*

March 22, 2024

The Honorable Beth Van Duyne
Chairwoman, Subcommittee on Oversight,
Investigations, and Regulations
House Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515

The Honorable Kweisi Mfume
Ranking Member, Subcommittee on
Oversight, Investigations, and Regulations
House Committee on Small Business
2069 Rayburn House Office Building
Washington, DC 20515

Dear Chairwoman Van Duyne, Ranking Member Mfume, and Members of the House Small Business Committee's Subcommittee on Oversight, Investigations, and Regulations,

Thank you for holding a recent hearing, *Navigating Regulations: Alternative Pathways to Investing in Small Businesses*. As a nonprofit research and advocacy organization that supports high growth startups—our economy's principal job creators—Engine strongly supports efforts to ensure our nation's entrepreneurs can access the capital they need to launch and grow startups.

While we are broadly supportive of steps to improve capital access across all major funding streams—from venture capital, to federal grants and loans, to increasing generational wealth—so that all founders are well supported in our startup ecosystem, this is particularly important for underrepresented founders, who face significant challenges in accessing the funding and resources they need.

For the past 18 months, with the support of the Ewing Marion Kauffman Foundation, Engine has been engaged in a project entitled Innovation for All, to identify barriers faced by underrepresented founders and propose policy solutions to bring about more equity in the startup ecosystem.¹ While this project is not yet completed, we have engaged with dozens of underrepresented founders, including through a series of roundtable discussions. Attached, you will find a recent blog post² we published detailing what we have heard through our discussions with founders thus far. The entrepreneurs highlight a number of areas where they face challenges, in particular with respect to capital access. We hope you will look to this information as you continue your work in examining alternative pathways to investing in small businesses

¹ www.engine.is/innovationforall

² Jennifer Weinhart, What the ecosystem needs to ensure Innovation for All (Mar. 22, 2024), <https://engineadvocacyfoundation.medium.com/what-the-ecosystem-needs-to-ensure-innovation-for-all-ea2e64b142dc>

and while thinking about the scope of the capital formation issues many underrepresented founders encounter.

Thank you again for holding this important hearing. As always, Engine remains committed to advancing the interests of U.S. startups, and is available for any follow up questions.

Sincerely,

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What the ecosystem needs to ensure Innovation for All

By Jennifer Weinhart, Senior Policy Advisor, Engine

The U.S. startup ecosystem is built on the foundation that entrepreneurship is for anybody with an idea—but in practice, systemic inequities and socio-economic factors hold back many founders and would-be founders. In September of 2022, with the help of the Ewing Marion Kauffman Foundation, Engine embarked on a [two-year project](#) in support of a more equitable startup ecosystem—one in which founders and investors from all backgrounds have the opportunity to innovate and access the capital and resources they need.

For the past 18 months, we have talked to dozens of founders representing different, and often intersectional backgrounds—founders of color, Black founders, women founders, rural founders, immigrant founders, and LGBTQ+ founders. We've held six roundtables, undertaken a vast network survey, facilitated engagement with policymakers, submitted agency comments and statements for the record to Congress, advocated for several pieces of legislation through committee and House votes, and placed op-eds.

And our work is not done. Through these, and ongoing efforts, we continue to identify barriers faced by underrepresented founders—from diminished access to capital, networks, and opportunities to serve as an investor, to struggles accessing and affording child care, health care, and student loan relief, to difficulties navigating the visa process and hiring needed talent, and more—and propose policy solutions to bring about more equity in the innovation ecosystem.

Here's a look at what we've heard so far:

Access to Capital

Access to capital is perhaps the biggest challenge founders face regardless of background. Diverse founders and investors alike are held back by the limitations of the current accredited investor definition, which equate independent and generational wealth—which many underrepresented founders and would-be investors do not have—with financial acumen. Andrew Prystai, founder of Omaha, NE-based startup Event Vesta, [told us](#), “it just doesn't make sense that someone in Carroll, Iowa or Omaha, Nebraska, that's making \$200,000 a year doesn't qualify as an accredited investor. But I guarantee that they probably have more free cash flow than someone making 250k in New York or San Francisco.” And Tani Chambers, founder of New York, NY-based RAVN, [conveyed](#) that her startup has a “community of over 30,000 Black women who are established and aspiring investors. . .sometimes it's not about the percentage of your income, but that you may have a windfall, you have some disposable income in excess and you want to invest and grow, and according to what's being put out there by the SEC, it would limit them.”

But it's not just the accredited investor definition that is hurting diverse founders. Underrepresented founders have diminished access to all capital streams, from personal savings, to friends and family funding, bank loans, venture capital, federal grants, and more. Federal grants are particularly challenging for many founders, [because](#), “[t]here's never any mechanism for feedback. I asked for feedback, and they send you what's basically a form letter.” Kathryn Rose, founder of Framingham, MA-based startup, getWise goes on to explain, “If they want folks in underserved areas to apply for these grants, they have to give us not only clear guidelines, but also give us feedback on how we can make it through the application process.” And for others, navigating the Small Business Administration is a challenge—Regina Gwynn, [founder](#) of New York, NY-based startup, Black Women Talk Tech told us, “[t]here's a lot of things at the SBA that could be tweaked—there should literally be an ombudsman that is dedicated to black and brown founders in each state, to make sure that every single registered startup in their state has all the materials that they need.”

For many founders, bootstrapping is a struggle, and can even limit access to further forms of financing. Jessica Thurmond, has experienced this first hand with her Nashville, TN-based company, Athelo Health—she [explains](#), “I don't have a lot of friends and family who have a cool million bucks laying around that they can just toss me whenever they feel like it. We bootstrapped predominantly. But what's so interesting about that is in the space of venture capital, [bootstrapping] is like a negative...VCs don't think you're hot because you haven't gotten a bunch of VC money previously.”

Access to Networks

Roundtable participants also expressed difficulty cultivating a network and mentors to help guide them through the process of launching and growing a company, sourcing investors, and building a customer base. Seasoned founder, Sarah Adler, of Palo-Alto, CA-based startup Wave, [explained](#) of her fundraising journey, “[without] a small supportive network of other female founders who have already been through the process, I would have spent six months fundraising talking to 500 people instead of 30.” And Nitin Pachisia, co-founder of San Francisco based-venture capital fund Unshackled Ventures, also [underscored](#) the importance of building a network for immigrant founders, “[t]he network and the community is truly instrumental in a lot of us moving faster, not just from an immigration standpoint, but also the shared journeys of being an immigrant.”

Access to Talent

Other founders shared their struggles accessing the talent they need to grow their companies. “Finding great talent is a challenge,” Tiffany Stanard, founder of Philadelphia, PA-based startup Stimulus, [told us](#). “[D]epending on what it is you're building and selling, you need people with more experience to build your product and to grow your team. And trying to get that talent, whether you're directly promoting within or you are trying to poach them from another company...is a challenge, getting someone to come to a startup from a large company.” Other founders, like Amélie-Sophie Vavrovsky, founder of Stanford, CA-based startup Formally,

[explained](#) that policymakers should enable foreign students in U.S. universities to more easily stay in the U.S.— “how do we help the students that we trained here that we educated here, that have already brought a lot of value economically and also socially to the country—how do we help those folks thrive?”

For immigrant founders, navigating the visa process is often exceedingly difficult. Susanna Sierra, founder of Miami, FL-based startup BH Compliance, [told us](#) she was “more worried about the visa application than my sales meeting with new potential clients.” Multiple founders underscored that the O-1 visa process was long and challenging—“It’s really hard to know, am I ‘extraordinary’? Do I qualify? What does extraordinary ability even mean? How do we break that down into tangible criteria. . .to consider yourself extraordinary, you have to have already experienced some sort of traction, you have to already experienced some sort of belief in yourself that you could even be considered extraordinary under the US government regulation.” [Others](#) insisted that government should focus energy on improving existing pathways— “there’s some real opportunity in pathways that exist, but making them more applicable does not require congressional approval, that is very much in the hands of existing machinery.”

Access to child care

For women founders in particular, child care struggles are a significant hindrance to becoming an entrepreneur and finding success. Many of these women founders expressed the limitations of existing programs and support in the child care space in a letter to Congress, calling for an expanded child tax credit. They [explain](#), “[p]olicymakers should be doing everything in their power to dismantle barriers to entrepreneurship, including those created because women more often than not shoulder the responsibility of family caregiving.” And Engine Executive Director Kate Tummarello and Liz Tenety, co-founder of Motherly, [agreed](#) in a joint op-ed. They call on Congress to “invest in supporting women entrepreneurs, including those with children. [Because] Motherhood is a powerful catalyst for entrepreneurship; mothers see problems others cannot and often from different perspectives.”

Access to exits

Successful exits drive the dynamic flows of knowledge, talent, and capital that build and grow successful startups ecosystems, making them a critical part for broadening where and by who startups are founded. Rural founders often [lack the institutions](#) that are critical to making successful exits happen. Meanwhile, other underrepresented founders historically shut out of institutions and networks critical to mergers and acquisitions or going public also encounter higher barriers to experiencing a successful exit. Preston James II of Austin, Texas-based startup DivInc, [urged policymakers](#) to expand access and encourage M&A because “with the capital from selling their company, as an example, a Black founder can become an investor that then invests in more Black founders. They can share their expertise to help those founders build to their own exit and the cycle repeats. Over time, this ripple effect builds generational wealth and fosters an ecosystem that helps diverse communities to prosper.”

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This is just a brief snapshot of what we've heard throughout the past 18 months. One thing is clear—the diversity of the U.S. startup ecosystem is its greatest strength—but there is work to be done so that there is also equity. There's more to come, both through the Innovation For All project, and beyond.

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.