Congressional Testimony
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Esteemed members of the House Financial Services Committee, I stand before you today as a representative of the voiceless and marginalized, the overlooked and underestimated. I am here to speak on behalf of the forgotten founders who were never given a chance to showcase their potential, and the hardworking people who are being shut out of investment opportunities because they don't belong to the elite class of the wealthy. Today, I bring a message of hope and a call to action. The time has come to break down the barriers that have held back our economy, and empower the next wave of American innovation. The time has come to put the American dream back within reach of all those who seek it.

Overview of the Venture Capital Industry

The venture capital industry is a critical part of the American economy. Venture capital firms invest in early-stage companies that have the potential to grow into large, successful businesses. These investments help create jobs, drive innovation, and promote economic growth.
According to the Q1 2023 PitchBook-NVCA Venture Monitor report, venture capital investment in the United States continued at a record pace in the first quarter of 2023. In total, $70 billion was invested in 3,636 deals in the quarter, up 31% from the previous quarter. While this is a positive development, it's important to note that much of this investment is concentrated in a few select areas and sectors. For example, the software sector received the largest share of venture capital investment in Q1 2023, accounting for 41% of total investment.

Despite the overall growth of the venture capital industry, there are substantial barriers that prevent countless talented entrepreneurs from accessing the capital they need to start and grow successful companies. Women, Black founders and people who exist outside the lines of the traditional startup ecosystem in particular, face significant barriers when it comes to accessing capital and building the networks that are necessary for success. The PitchBook-NVCA Venture Monitor report highlights some of these challenges:

- Women-founded startups received just 2.4% of venture capital investment in Q1 2023
- Black and Latinx-founded startups received just 2.6% of venture capital investment in Q1 2023
- Startups located outside of the major startup hubs (Silicon Valley, New York City, and Boston) received just 16.6% of venture capital investment in Q1 2023

These statistics highlight the need for greater access to venture capital for underrepresented founders and startups located in less-established regions.

IPO Reform

One of the essential ways to promote greater access to capital for startups is to make it easier and more attractive for companies to go public. According to the PitchBook-NVCA Venture Monitor report, the number of IPOs has declined by more than 38% since 2014. This decline is troubling because IPOs provide a critical source of capital for companies to grow and expand. By going public, companies can access a larger pool of investors and raise the capital they need to invest in new products, hire more employees, and expand into new markets.
However, going public is a daunting process for many companies, especially smaller ones. It's expensive, time-consuming, and comes with a host of regulatory requirements that can be overwhelming. To address this, we need to make it easier and more attractive for companies to go public, while maintaining strong investor protections.

Diversity in investing

The NVCA report highlights a concerning trend that the share of venture capital investment going to companies with at least one female founder, one Black founder, or one Latinx founder has remained stubbornly low over the past few years. In fact, female-founded companies received only 3.5% of total venture capital investment in 2022, while Black-founded companies received just 1.2%.
This lack of diversity in venture capital is a major problem for the startup ecosystem and the broader economy. It means that talented and capable entrepreneurs are being overlooked and denied the opportunity to build successful companies, while venture capitalists are missing out on promising investment opportunities.
There are several reasons why we need to support overlooked founders.

1. First, it's a matter of fairness and equity. We should strive to ensure that everyone, regardless of their background, has a fair shot at success. By supporting overlooked founders, we can help level the playing field and create more opportunities for underrepresented groups.
2. Second, supporting overlooked founders is good for the economy. Diverse perspectives and experiences can lead to more innovative ideas, better decision-making, and more effective problem-solving. By supporting overlooked founders, we can unlock this potential and drive economic growth.
3. Third, supporting overlooked founders is good for venture capitalists. By expanding their networks and investing in a more diverse set of founders, venture capitalists can tap into new sources of talent, gain a competitive advantage, and ultimately generate better returns.

To support overlooked founders, we need to take a multi-pronged approach. This could include initiatives like setting diversity and inclusion goals for venture capital firms, providing funding and resources for programs that support underrepresented founders, and creating new tax incentives for venture capitalists who invest in diverse founders.
In addition, we need to do more to address the underlying systemic issues that have contributed to the lack of diversity in venture capital. This could include improving access to education and mentorship for underrepresented groups, addressing unconscious bias in the investment process, and creating more equitable hiring practices in the tech industry.
Overall, supporting overlooked founders is not only the right thing to do, it's also good for the economy, good for venture capitalists, and good for our society as a whole. By taking action to support underrepresented groups, we can help create a more diverse and inclusive startup ecosystem, and ultimately build a stronger, more resilient economy. This concentration of investment not only limits the potential for innovation in other parts of the country but also limits the diversity of ideas and perspectives

that are being funded. This is where non-traditional founders come in - those who exist outside the lines of the traditional startup ecosystem. These founders often bring fresh perspectives and ideas to the table, but they are also more likely to be overlooked by traditional venture capital firms due to unconscious bias and the phenomenon known as homophily.

Homophily is a social phenomenon that refers to people's tendency to associate and bond with individuals who share similar backgrounds, characteristics, and experiences. In the context of venture capital, homophily can lead to a lack of diversity in investment decisions, as venture capitalists tend to invest in founders who resemble them in terms of gender, race, education, and other factors. This can lead to a lack of funding for underrepresented and marginalized founders, who may have the talent and potential for success but don't fit the traditional mold of a successful entrepreneur.
(https://www.nber.org/system/files/working_papers/w23459/w23459.pdf)
To combat homophily in venture capital, it's imperative to increase the diversity of venture capitalists themselves. When venture capitalists come from a variety of backgrounds and experiences, they are more likely to be open-minded and inclusive in their investment decisions, and less likely to rely on biases and stereotypes. Additionally, having more diverse venture capitalists can help attract a more diverse pool of entrepreneurs, who may feel more comfortable seeking funding from investors who understand and appreciate their perspectives.
Therefore, it's crucial to promote diversity and inclusion in the venture capital industry, both by encouraging more underrepresented individuals to become venture capitalists and by supporting existing venture capitalists in their efforts to expand their networks and perspectives. This can include creating mentorship programs, offering training and education on bias and inclusion, and actively seeking out diverse candidates for venture capital positions.
Ultimately, increasing diversity in venture capital can lead to more diverse investment decisions, which in turn can lead to a more equitable and prosperous economy. By breaking down the barriers that hold back underrepresented and marginalized founders, we can unlock a new wave of American innovation and drive economic growth for all.

Innovation

The danger of falling behind in the innovation race is real, as other countries are investing heavily in their own innovation ecosystems. If we want to remain competitive and maintain our position as a leader in innovation, we need to ensure that we are tapping into the full potential of all our talented entrepreneurs, regardless of their backgrounds. This means creating more opportunities for non-traditional founders to access the resources they need to succeed, including access to capital, mentorship, and networking opportunities.

Investing in non-traditional founders not only helps to promote diversity and equity in entrepreneurship but also helps to drive economic growth and job creation across the country. By expanding our investment focus beyond the traditional startup hubs, we can tap into new sources of talent, creativity, and innovation, and help to ensure that America remains at the forefront of the innovation race.
According to the Q1 2023 PitchBook-NVCA Venture Monitor report, the concentration of capital in the hands of a few large venture capital firms has become a growing concern for limited partners (LPs) in the venture capital industry. As more capital is being concentrated into larger funds, many LPs are finding it increasingly difficult to secure allocations in the most sought-after funds. This has resulted in a growing disparity between the returns generated by top-performing funds and the rest of the market.
Furthermore, the concentration of capital has led to a growing number of companies remaining private for longer periods of time, thereby denying LPs access to potentially lucrative investment opportunities. As

companies remain private for longer, they are able to raise larger rounds of funding, making it more difficult for smaller LPs to invest in these companies. This has resulted in a decline in the number of available investment opportunities for LPs, leading to a decreased return on investment for many.
The concentration of capital has also led to a "winner-takes-all" mentality among venture capitalists, leading to a smaller number of companies receiving the majority of the funding. This has created a challenging environment for smaller firms and overlooked founders, who are often overlooked by the larger VC firms due to their lack of established relationships and networks.
To combat this trend, LPs need to shift their focus towards smaller, diverse VC firms that are more likely to invest in overlooked founders and provide a more diversified portfolio. This will allow for greater access to investment opportunities and promote greater innovation in the industry. By investing in smaller funds that are focused on overlooked founders, LPs can help to level the playing field and promote a more equitable distribution of capital in the industry.

As mentioned earlier, homophily or the tendency of individuals to associate with those who are similar to themselves, can lead to a lack of diversity in the VC industry. This homogeneity can result in a lack of access to funding for non-traditional founders and ideas, which can hinder innovation and economic growth. This is a concern not just for the founders but also for the LPs who invest in these VC funds.
VC funds with diverse portfolios and investments in a range of founders and ideas have the potential to generate higher returns for their LPs. Diverse founders bring unique perspectives and experiences to the table, which can lead to innovative solutions and market opportunities. The lack of diversity in VC investments could lead to missed opportunities for growth and returns.
In addition, investing in non-traditional founders and ideas can also serve as a hedge against market volatility. Concentration of capital in a few companies or industries can make a portfolio more susceptible to market downturns. By diversifying their portfolios, LPs can potentially mitigate this risk.

Forbye, institutional LPs have a fiduciary responsibility to generate returns for their stakeholders, such as college endowments or pension funds. Concentration of capital in a few VC funds that primarily invest in traditional networks and founders can result in suboptimal returns for these LPs.
In conclusion, LPs that invest in VC funds should consider the potential risks and missed opportunities that come with a lack of diversity in VC investments. Investing in funds with diverse portfolios and investments in non-traditional founders and ideas, LPs can potentially generate higher returns, mitigate risk, and fulfill their fiduciary responsibility to their stakeholders.

Capital Concentration

The concentration of capital is a major problem not only for the venture capital industry but also for other industries such as banking. The concentration of capital in a few financial institutions, especially those located in a single geographic region, can be dangerous for the entire economy. For instance, the near-collapse of Silicon Valley Bank in 2023 showed how the concentration of capital in a single region can have ripple effects across the entire banking industry.

Silicon Valley Bank, which had become a key player in financing startups, had over-relied on the technology sector, making it vulnerable to market fluctuations. When the pandemic hit and technology companies started to struggle, the bank's losses piled up, and it was on the brink of collapse. The collapse of Silicon Valley Bank could have had a contagion effect on the entire banking industry, leading to widespread economic damage.

If venture capital was more spread out across the country, more founders and VCs would bank with regional banks. This could help provide local economic benefits and diversify the risk of collapse. Withal, if regional banks had more access to capital, they could provide more loans to local businesses, creating a more diverse and resilient economy.
However, the concentration of capital in venture capital also has broader economic implications. The investors in venture capital funds, including institutional investors like college endowments and pension funds, are risking significant losses due to the lack of diversity in venture capital investments. By investing in a limited number of VC funds that focus on a narrow set of industries and geographic regions, these investors are missing out on the potential returns from investments in overlooked founders and emerging markets.

Moreover, the lack of diversity in VC investments means that VC-backed companies are not representative of the country's diversity, which can lead to a lack of innovation and competitiveness. If more non-traditional founders, including women, people of color, and those from outside traditional startup ecosystems, were funded, it would create more competition and drive innovation.
In conclusion, the concentration of capital in venture capital is a significant problem that extends beyond the industry itself. It can have ripple effects on the entire economy, and institutional investors risk significant losses due to the lack of diversity in VC investments. By investing in overlooked founders and emerging markets, and by spreading venture capital across the country, we can create a more diverse and resilient economy that benefits all Americans.

LPs losing money, which belongs to everyday Americans in pension funds etc:

The case of pension funds losing money by investing in FTX highlights a major problem in the venture capital industry: the tendency to invest in founders from privileged backgrounds without doing adequate due diligence. As a result, investors may overlook critical red flags and invest in companies that are not well positioned to succeed, ultimately leading to significant financial losses.
The FTX case also illustrates the need for increased diversity in the venture capital industry. Research has shown that diverse investment teams are more likely to identify and invest in underrepresented founders, who are often overlooked by traditional venture capital firms. By investing in a more diverse group of founders, the industry can mitigate the risk of investing in companies with insufficient due diligence and improve the likelihood of long-term success.
Moreover, the loss of pension funds' money due to the lack of due diligence hurts everyday Americans who rely on these funds for their retirement savings. It is crucial for venture capitalists to recognize the impact of their investment decisions on broader society and ensure that they are making informed and responsible investment choices.
In conclusion, the FTX case serves as a cautionary tale of the importance of conducting thorough due diligence and investing in a diverse group of founders. Doing so not only helps mitigate risk for investors but also ensures that venture capital funds are making responsible investment decisions that benefit society as a whole. One of the main problems with investing in founders from privileged backgrounds

without doing proper due diligence is that it can lead to significant losses for investors. In the case of FTX, many venture capital funds failed to conduct proper due diligence on the company before investing, relying instead on Bankman-Fried's credentials and reputation within the industry. This lack of due diligence ultimately resulted in significant losses for investors, including pension funds that had invested in funds that in turn had invested in FTX.

The issue of due diligence is particularly important when it comes to investing in founders who come from privileged backgrounds. Research has shown that white-male founders are more likely to receive funding from venture capitalists than founders from underrepresented groups, even when their qualifications and business ideas are similar. This disparity is often due to unconscious bias and a lack of diversity within the venture capital industry.

By investing in founders from privileged backgrounds without conducting proper due diligence, venture capitalists perpetuate this cycle of bias and exclusion, which not only harms underrepresented founders but also leads to significant financial losses for investors. In the case of pension funds, these losses can have a direct impact on the retirement savings of everyday Americans.

Therefore, it is important for venture capitalists to prioritize diversity and inclusion in their investment decisions and to conduct proper due diligence on all potential investments, regardless of the founder's background or reputation within the industry. This not only helps to mitigate financial risks but also promotes a more equitable and inclusive startup ecosystem.

Conclusion

1. Promoting diversity in the startup ecosystem can lead to economic growth and job creation: According to a study by the National Bureau of Economic Research, diverse startup teams are more likely to be successful and generate more revenue, leading to increased economic growth and job creation. Therefore, it is essential to support and encourage diversity in the startup ecosystem to drive long-term economic growth.

A study conducted by McKinsey & Company in 2018 (https://www.mckinsey.com/capabilities/people-and-organizational-performance/our-insights/delivering-through-diversity) found that companies in the top quartile for ethnic and racial diversity in management were 33% more likely to have above-average profitability compared to those in the bottom quartile. Similarly, companies in the top quartile for gender diversity in management were 21% more likely to have above-average profitability compared to those in the bottom quartile.

Another study by Boston Consulting Group (BCG) (https://www.bcg.com/publications/2018/how-diverse-leadership-teams-boost-innovation) found that diverse management teams lead to more innovation and revenue growth. The study analyzed 1,700 companies across eight countries and found that companies with more diverse management teams had 19% higher innovation revenues compared to companies with below-average diversity. In addition, these companies had higher revenue due to innovation (45% of total revenue) than companies with below-average diversity (26% of total revenue).

Furthermore, research from the Harvard Business School (https://faculty.wharton.upenn.edu/wp-content/uploads/2021/07/Calder-Wang-Gompers-JFE-Forthcoming-2021-And-the-children-shall-lead-Gender-diversity-and-performance-in-venture-capital.pdf) found that venture capital firms with more gender-diverse teams are more likely to invest in companies with women founders. In contrast, all-male teams are less likely to invest in women-led startups. The study suggests

that a lack of gender diversity within the VC industry could be one of the reasons why women-led startups are underrepresented in venture capital.
These studies and others suggest that diverse teams can bring a range of benefits, including increased profitability, revenue growth, and innovation. By investing in overlooked founders and supporting more diverse venture capital teams, we can not only improve equity and access in the industry but also reap the economic benefits of a more diverse and innovative economy.

2. Increasing access to venture capital can help reduce the gender gap in entrepreneurship: Despite the significant contributions made by women entrepreneurs to the U.S. economy, female founders still face significant hurdles in accessing capital. According to Pitchbook, only 2.4% of venture capital went to female-founded companies in 2021. By increasing access to venture capital for female entrepreneurs, we can help bridge the gender gap in entrepreneurship and promote economic growth.

The gender gap in entrepreneurship is a persistent problem in the United States. Women face numerous challenges in starting and growing businesses, including access to capital. According to a 2021 report by Pitchbook, only 2.4% of venture capital funding went to female-founded companies in 2021. This figure represents a slight increase from previous years, but it is still a shockingly low number given that women-owned businesses account for approximately 42% of all businesses in the U.S.
One reason for this disparity is the lack of diversity among venture capitalists, who tend to invest in companies led by people who look like them. As we discussed earlier, homophily is a phenomenon that can lead to a lack of diversity in venture capital investment. When VCs only invest in companies led by people who are similar to themselves, they may overlook innovative ideas from women and other underrepresented groups.
Another contributing factor is the implicit bias that exists in the venture capital industry. Studies have shown that male investors tend to favor male founders, and that female founders are often subjected to more scrutiny than their male counterparts when seeking funding. A 2018 study by Harvard Business Review found that venture capitalists asked female entrepreneurs significantly different questions than they did male entrepreneurs. The study also found that investors tended to perceive female entrepreneurs as less competent than male entrepreneurs, even when they had the same qualifications.
By increasing access to venture capital for female entrepreneurs, we can help reduce the gender gap in entrepreneurship and promote economic growth. Studies have shown that women-owned businesses have a significant impact on the economy, generating $1.9 trillion in revenue and employing over 9 million people in the U.S.

3. Encouraging venture capital investment in underserved communities can promote economic development: Many underserved communities across the U.S. lack access to venture capital, which can hinder economic growth and development. By incentivizing venture capital investment in these communities, we can create new economic opportunities and promote sustainable growth.

Underserved communities face significant barriers to accessing venture capital, including a lack of available funding and limited access to networks and resources that can help connect them with potential investors. This lack of investment can have a significant impact on economic growth and development, particularly in communities that have been historically marginalized or disadvantaged.
Studies have shown that increasing venture capital investment in underserved communities can lead to significant economic benefits. For example, a study by the National Bureau of Economic Research found that venture capital investment in underserved areas can lead to higher job growth, increased patenting activity, and overall economic growth.

Additionally, there are a growing number of initiatives and programs focused on increasing access to venture capital for underserved communities. For example, the Opportunity Zone program, established as part of the 2017 Tax Cuts and Jobs Act, provides tax incentives to investors who invest in designated low-income communities. Similarly, the Minority Business Development Agency provides funding and resources to support minority-owned businesses and help them access capital.
By incentivizing venture capital investment in underserved communities and supporting initiatives that help connect underserved entrepreneurs with potential investors, we can help promote economic development and create new opportunities for growth and prosperity. This, in turn, can help to reduce economic disparities and create more inclusive and equitable communities across the United States.

4. Supporting emerging industries and technologies can drive economic growth: Emerging industries and technologies, such as biotech, artificial intelligence, and blockchain, have the potential to drive significant economic growth. By supporting venture capital investment in these industries, we can help promote long-term economic growth and job creation.

Improving access to capital for small businesses is crucial for economic resilience, as small businesses are major contributors to job creation and economic growth. According to the Small Business Administration, small businesses employ nearly half of the U.S. private sector workforce and are responsible for 65% of net new job creation. However, access to capital remains a significant challenge for small businesses, especially those in underserved communities.
Moreover, supporting emerging industries and technologies is essential for driving economic growth. The United States has been a leader in developing cutting-edge technologies, such as artificial intelligence (AI), biotech, and blockchain. These technologies have the potential to revolutionize various sectors, from healthcare to finance to transportation. A report by the McKinsey Global Institute estimates that AI alone could contribute $13 trillion to global GDP by 2030.
(https://www.mckinsey.com/industries/public-and-social-sector/our-insights/the-potential-value-of-ai-and-how-governments-could-look-to-capture-it)

However, access to capital remains a significant barrier for small businesses and startups in emerging industries. According to a report by the Brookings Institution, venture capital investment is highly concentrated in a few geographic areas, with the top five metropolitan areas accounting for 75% of all venture capital investment. This concentration of capital limits the ability of entrepreneurs in underserved communities and emerging industries to access the resources they need to grow their businesses.
By increasing access to venture capital for small businesses and startups in emerging industries, we can help promote economic growth and resilience. This is especially true for technologies like AI, which are poised to have a significant impact on the economy. According to a report by the Information Technology and Innovation Foundation, AI has the potential to create more than $5 trillion in economic value in the United States over the next decade.

However, the benefits of emerging technologies and industries will not be realized if venture capital investment remains concentrated in a few geographic areas and industries. By incentivizing venture capital investment in underserved communities and emerging industries, we can promote economic growth and job creation across the country. This will not only help drive innovation and competitiveness but also promote a more inclusive economy that benefits all Americans.
Expanding access to venture capital is not only critical for individual entrepreneurs but for the overall growth and development of our economy. By breaking down the barriers that prevent talented and innovative individuals from securing funding, we can promote economic growth, create jobs, and foster technological innovation.

As we have discussed, this is not just about expanding access to capital for traditional founders and VCs, but also about supporting underrepresented groups, underserved communities, and emerging industries and technologies. By promoting diversity in our investor base and investing in communities and industries that have been historically overlooked, we can unlock a new wave of economic growth and innovation that benefits all Americans.

This is an important moment in time, and we have a unique opportunity to shape the future of our economy for generations to come. By passing legislation that expands access to capital, encourages diversity in the investor community, and promotes investment in underserved communities and emerging industries, we can help build a more prosperous and equitable society.
Let us seize this opportunity to support our entrepreneurs, drive economic growth, and advance the frontiers of innovation. The time to act is now.