



**Senate Committee on Small Business and Entrepreneurship Field Hearing
'Barriers to Entry in the Tech Industry for Diverse Entrepreneurs'
Testimony of Emilia DiMenco, President and CEO, Women's Business Development Center
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Thank you, Senator Duckworth, for inviting me here today. My name is Emilia DiMenco, I am President and CEO of the Women's Business Development Center, the WBDC. The WBDC serves women, minority and veteran business owners in Illinois, Wisconsin, Minnesota, Iowa, Missouri, Kansas, Nebraska, North and South Dakota.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Let me share three examples:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Next to increase effectiveness, we need to address measurement – how do we know if the supported programs by our federal dollars have impact? The various programs supported by the SBA – SBDC,

VBOC, and WBCs—not only collect information from different systems that do not talk to each other, but measure the success and impact of these programs differently. All these programs should be more focused on outcome-based measures, using consistent and shared metrics and tools, so that we can make decisions based on data and invest money in programs that we know achieve the outcomes we hope.

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

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

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

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

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

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

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

Again, thank you for this opportunity, I am happy to answer any questions.