Innovation For All

June 2024

Engine | Ewing Marion Kauffman Foundation

INTRODUCTION

The U.S. startup ecosystem is anchored by the premise that anyone—no matter their race, gender, sexual identity, background, or location—with an idea and the will, can launch a startup and grow a successful company. And while this is technically true, many entrepreneurs and would-be entrepreneurs from specific communities face significantly greater challenges than your average startup founder—typically a 40-something white, heterosexual man,[1] who is often a graduate of a top university and resides in an urban environment.

But successful startups don't come from just one type of founder. Women-owned startups are more likely to outperform those launched by their male counterparts, generating higher revenues and a greater average return on investment.[2] And companies with diverse teams generally produce better results—companies with racial and/or gender diversity are more likely to be profitable than less diverse teams, they produce products and services that target a wider market, and they ultimately often lead to better innovation and improved product development because of the breadth of viewpoints represented.[3]

And in turn, diverse participation in the startup ecosystem can improve outcomes for marginalized communities. The success of startups launched by underrepresented founders means the creation of new jobs. Women-founded startups are significant job-generators, and companies that have a woman founder and woman executive hire roughly six times more women employees than those without.[4] The ability to serve as a startup investor as a venture professional or an angel investor, opens up opportunities for building generational wealth across all communities. And seeing successful founders from all backgrounds means that more people will view entrepreneurship as a career pathway that is possible for them.

But barriers continue to stifle the ability of diverse populations to thrive in the startup ecosystem. Capital access challenges, student debt, talent availability, immigration difficulties, and more are challenges for many founders, but underrepresented founders are disproportionately impacted. And without policy crafted to address these barriers, equity in the innovation ecosystem is out of reach. Innovation for All—an Engine project supported by the Ewing Marion Kauffman Foundation—delves into the challenges faced by six groups of underrepresented founders—women founders, Black founders, founders of color, LGBTQ+ founders, immigrant founders, and rural founders—identifying hurdles they've faced in launching and growing startups and proposing solutions to work towards a more equitable startup ecosystem.

As part of this 2-year initiative we heard from 274 underrepresented founders, including 75 women and 82 founders of color, 16 LGBTQ+ founders, 31 rural founders, 37 immigrant founders, and 33 Black founders. We conducted six roundtables, helped six underrepresented founders to submit statements to the record for congressional hearings, published op-eds and social media campaigns, sent coalition letters to policymakers, submitted comments to agencies, and led a 14-person fly in to Washington, DC, where founders held briefings and relayed their experiences to policymakers firsthand. The findings of this endeavor truly show the depth of innovation, diversity, and the strength of the U.S. startup ecosystem—but they also show that these things exist in spite of policies and practices that hold back underrepresented founders.

There is so much policymakers can do to make the startup ecosystem more equitable. This report will parse out specific areas policymakers can work to improve, but

Startup Spotlight

ConciergeBot
San Francisco, Calif.
James Silva, Founder & CEO

"Being Latino and queer, I feel that the doors don't open as easily for me as they do for others...It often takes longer for underrepresented founders to get their ventures off the ground, which can mean going some time without much of a safety net."

government-wide solutions are also needed—including more and better representation throughout government agencies and amongst government decision-makers and more and better data about startups, underrepresented founders, and the government programs that exist to help them. We know myriad resources exist, but many founders—especially underrepresented founders—do not know where they are or how to find them, because there is no singular government office or resource dedicated to startups. Without a full and complete understanding of who is participating in the startup ecosystem and who lacks insufficient access, proposed solutions will fall short.

To that end, policymakers should pursue systemic change, including throughout the government. In order for our startup ecosystem to truly reach its full potential, we must dismantle the barriers that threaten Innovation for All.

The Senate can pass and expand the reach of H.R. 5398, the Advancing Tech Startups Act, to better understand the makeup of the startup ecosystem and government efforts in support of the ecosystem.[5]

Policymakers should establish a National Innovation Council, or interagency startup advocate, similar to recommendations from NACIE, inclusive of the heads of all agencies, including the USPTO and NSF, that administer programs that support startup founders and their companies.[6]

Survey Methodology

In addition to the six roundtables, we surveyed a broader group of underrepresented founders to learn more about the barriers they encounter and what policymakers can do to address them. Eighty-eight underrepresented startup founders responded to the survey, including: 44 women founders; 9 founders who identified themselves as LGBTQ+; 22 founders from rural areas; 27 immigrant founders; 23 Black founders; and, 53 founders of color.

Founders from rural areas include those entrepreneurs located in regions that are predominantly rural and are located outside of major technology/startup hubs.

The total number of Black founders includes those founders who indicated they identify as Black, as well as those founders identifying as two or more races, one of which includes Black.

Founders of color include those individuals that identify as non-white, including Black founders, Hispanic/Latinx founders, Asian founders, and those founders who identify as two or more races.

Startup spotlights featured throughout the report are sourced from the six roundtables Engine held as part of the report, as well as #StartupsEverywhere profiles featured weekly by Engine.

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Key Takeaways

Access to capital challenges

- → Underrepresented founders, including women, LGBTQ+, rural, immigrant, and Black founders and founders of color, face significant barriers accessing all streams of capital, from personal financing, to government grants and loans, to venture capital.
- → Diversifying the pool of eligible investors will lead to greater diversity amongst startups receiving funding, including by expanding the definition of accredited investor.
- → Diversity should be prioritized throughout government where startup resources and programming are located, particularly amongst decision-makers, to ensure equitable access to these resources.

Access to Talent Challenges

- → Diversity of STEM students and STEM educators should be prioritized, so that innovation and entrepreneurship are career pathways for all.
- → High-skilled immigration pathways need to be expanded and improved so they are more accessible for underrepresented founders trying to build out their teams.

Barriers to building networks and mentorship

- → Founders, including those from underrepresented backgrounds, who have mentors are more likely to be successful.
- → Underrepresented founders rely on mentors to help navigate barriers to entrepreneurship, but there are fewer opportunities for underrepresented founders to find mentors.
- → Building a network can be challenging for underrepresented founders across the board, but they are crucial, especially for capital formation opportunities. Policymakers should invest in entrepreneurial support organizations that facilitate these connections.

Human capital barriers

- → Student loan debt represents a significant barrier to entrepreneurship, especially for women. Student debt relief would help alleviate risk associated with launching a company.
- → Access to healthcare and other benefits are a concern for many underrepresented founders, often dissuading some from leaving steady employment.
- → Child care access and affordability most especially affects women founders. Government should direct more resources to ensuring founders have access to affordable care, including by permanently expanding the child tax credit.

Barriers related to connectivity and broadband

- → Founders located in certain communities, including rural areas and on tribal lands, struggle with broadband accessibility and affordability.
- → Policymakers should further efforts to accurately identify areas with insufficient broadband access and increase investments in broadband accessibility in those communities, including through the Affordable Connectivity Program and the E-Rate program.

Challenges faced by immigrant founders

- → The U.S. immigration system is complex and often slow. The startup ecosystem needs a dedicated startup visa to enable foreign innovators to launch companies in the U.S.

Challenges faced by Native American founders

- → Barriers to entrepreneurship for Native American entrepreneurs are multifaceted and complex, and solutions require significant input from Native American communities to best affect change.

Barriers to Capital Access

Access to capital is the most significant challenge all startup founders will likely face—and for underrepresented founders, it can be insurmountable. Education around funding pathways is also limited, and for founders who lack an entrepreneurship background or who are located outside of a large innovation hub, the learning curve associated with understanding what capital tools and options exist is steep.[7]

Capital access challenges can, and often do, follow diverse founders throughout their entire startup journeys. Studies examining the exits of top-funded startups have shown that the average startup led by an underrepresented founder lags behind their white male peers across all stages of funding—felt most acutely at exit, receiving just 43 percent of what the average white male-founded startup receives.[8] But these challenges are pervasive for underrepresented founders no matter the type of capital they are accessing, from bootstrapping, to bank loans, to venture and more.

Personal funding and Friends and Family

Overall disparities in wealth affect underrepresented founders bootstrapping their startups. Founders of color, for example, are more likely to use personal funds to support their startups than their white counterparts—72 percent of Hispanic business owners and 71 percent of Black business owners vs. 66 percent of white business owners—but the racial and gender wealth gap and pay disparities mean relying off personal funds can be significantly more challenging for founders of color and women founders.[9] One study found that the median liquid wealth for a Black family is just $3,600, but it jumps to $79,000 for white families.[10]

Raising a friends and family round is challenging for many of the same reasons—underrepresented founders often lack access to the deep, wealthy networks needed to raise a substantial round. For some founders, their networks have less to give, for other founders, including immigrant founders, they may not have those connections at all. One study found that the average outcome of a friends and family round of fundraising is roughly $23,000, but for the average Black founder, it drops to less than $1,000.[11]

And founders indicate that without systemic change addressing broader wealth inequality, inequity within the startup ecosystem will perpetuate, regardless of how many programs we implement to fix it.

For some underrepresented founders, bootstrapping itself is seen as a negative and can hinder future fundraising.[12]

Equity crowdfunding has been seen as a solution for underrepresented founders to raise funds in a more equitable manner, because unaccredited investors can participate in funding rounds, leading to more diverse investors.[13] But, Reg CF is still expensive for many women and minority-owned businesses—from financial review and legal documentation to platform fees, a Reg CF offering can be costly for founders.[14] And on the platform side, smaller and mission driven platforms struggle to comply with cost and regulatory requirements associated with running a platform—and reviews, audits, and self-reporting financials represent another expense for platforms.

Startup Spotlight

The Generator at Go Forward Pine Bluff
Pine Bluff, Arkansas Area
Mildred Franco, Executive Director

"When a white friend of mine wants to create a business, they may be able to go to their families and borrow $5000. When a Black friend of mine wants to create a business, they may not be able to do that if his/her family's accumulated wealth on average is around $15,000. We can talk all day long about creating businesses and offering loans and technical assistance — and we'll continue to do that — but you can't effectively accomplish that when the system isn't set up to address basic issues."

Startup Spotlight

Legal Karma
Austin, Texas
Kory Kelly, CEO

"I think any new business owner needs community, especially those who don't have built-in networks to access capital. I wasn't born into money and I don't have wealth of my own, nor do I have family and friends' checkbooks that I can just draw on."

Startup Spotlight

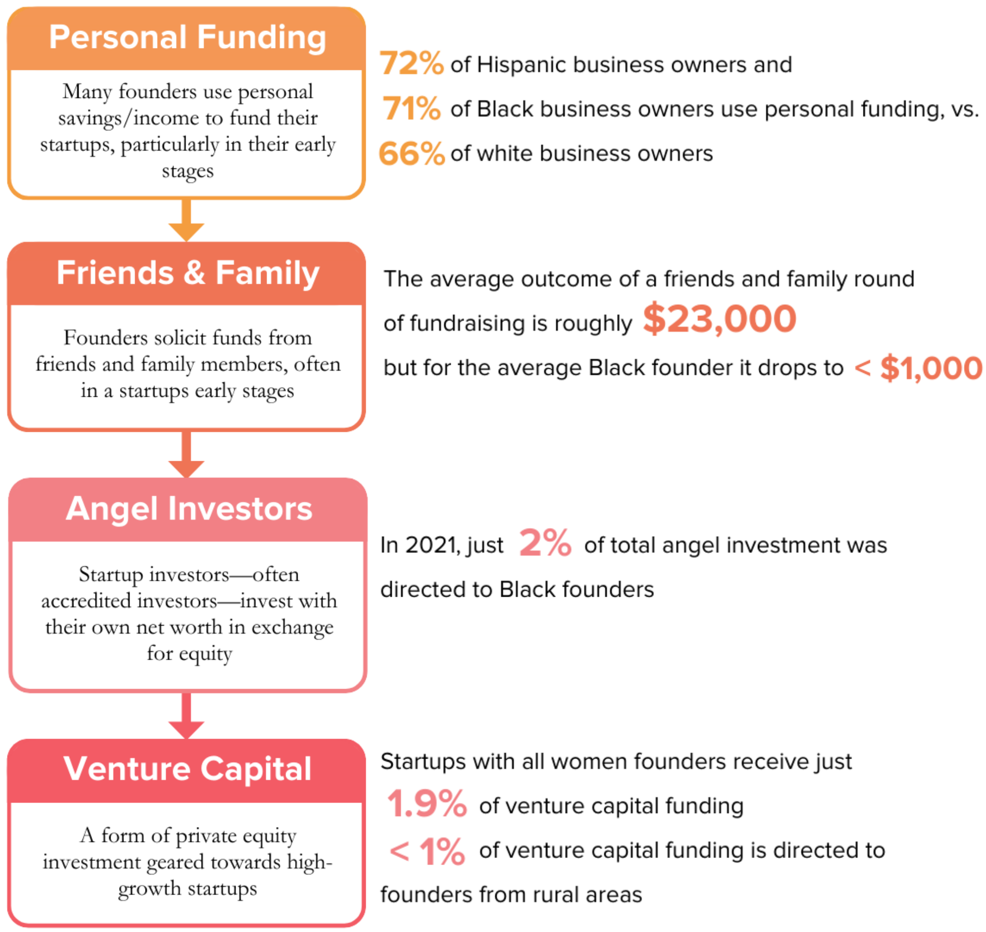
Athelo Health
Nashville, Tennessee
Jessica Thurmond, CEO & Co-Founder

"I literally had a rejection from an investor who said that the reason they were passing on us is because we've been around too long and haven't raised enough venture capital money for them to invest in us. That's another risk you run into if you bootstrap...VCs don't think you're hot because you haven't gotten a bunch of VC money previously."

Barriers to Capital Access

Venture Capital and Angel Investment

The disparities in venture capital are well known throughout the startup ecosystem, even though few startups are venture-backed.[15] And attacks on funds that target diverse communities are making the funding outlook for founders from these communities worse, leading to a rollback of the already slim investments in Black and brown entrepreneurs.[16] The majority of VC-backed founders are white (over 70 percent) and male (almost 90 percent).[17] In 2022, Black founders received just 1 percent of venture capital,[18] dipping to .48 percent in 2023—just $661 million of out $136 billion.[19] Latinx and Hispanic founders don't fare significantly better—in 2022, roughly 1.5 percent of all venture dollars went to Latinx founders.[20] That same year, less than .1 percent of VC dollars went to Latina and Black women combined.[21] Moreover, the average Series A round size for Black founders is significantly below the national average—$7.3 million in 2022 vs the average of roughly $15 million.[22] While the average Series A round size for Latino founders hovered near the national average, they received just 1.1 percent of all Series A capital.[23]



Angel investment dollars are not significantly better—in 2021 only 2% of total angel investment was directed to Black founders.[24]

But, the statistics are perhaps most concerning for Native American founders, who received just .0004% of VC dollars in 2021.[25] The numbers are so small that it is difficult to pinpoint how many native startups receive VC funding year after year. VC for Native American founders is so limited that Native American ecosystem members have to train their community members to be investors themselves.[26]

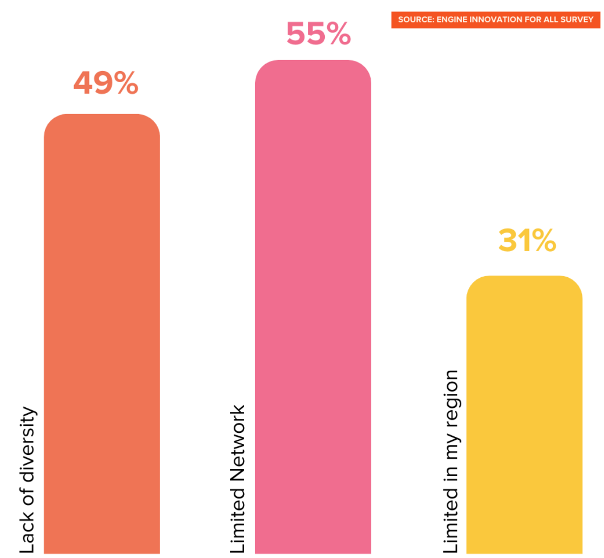
Women across all races and ethnicities received just a small percentage of total VC funding as well—just 1.9 percent in 2022.[27] They face a funding gap in angel investment as well—according to the Angel Capital Association, the average seed round in 2022 for a male CEO was $253,000; for women it was $195,000.[28] Also in 2022, teams consisting of at least one woman founder received just 6.5 percent of all Series A funding that year.[29] This is despite the numerous reports proving that diversity and success go hand-in-hand: women-founded startups outperform those founded by men,[30] angel-backed companies with known women CEOs have a significantly higher Median Multiple on Invested Capital—the value of an investment relative to the initial investment cost—[31]than known male CEOs.[32]

Rural founders similarly struggle to access venture capital and angel investment. According to the Center on Rural Innovation, less than 1 percent of venture capital dollars are directed toward founders from rural areas.[33] Geography is a factor in angel investing—with investors more likely to deploy capital close to home.[34] According to a 2020 report, for example, less than 4 percent of total angel investment deals in North America went to companies in Great Plains States, whereas companies in New York received roughly 10 percent of angel deals and those in California received about 21 percent.[35] And while angel investors are located all across the country, more than 30 percent are concentrated in San Francisco, New York, and Boston.[36]

LGBTQ+ founders also report limited access to outside investment, despite strong company performance—between 2000-2022, startups founded by LGBTQ+ individuals outperformed despite receiving less funding than the average founder—creating 36 percent more jobs and 44 percent more exits.[37] And according to Start Out, of the total $2.1 trillion in startup funding raised nationwide in that same period, just 0.5 percent was directed to founders in the LGBTQ+ community (though 7.1 percent of the U.S. population identifies as LGBTQ+).[38]

For most underrepresented founders, networks are key to fundraising, and underrepresented founders often have to reach out to more investors to receive a smaller piece of the capital pie.[39] Compounding the problem is a diminishing number of first time funds, which are more likely to invest in underrepresented founders.[40]

Role of Diverse Investors and the Accredited



For founders that pursued **VC investment** what challenges did you face?

Venture capital-backed founders are

In 2022

Black founders received **1%**

Latinx and Hispanic founders received **1.5%**

Latina and Black women founders received **< .1%**

Out of those unable to secure venture capital funding

74% are people of color.

SOURCE: ENGINE INNOVATION FOR ALL SURVEY

Investor Definition

Lack of diversity amongst accredited investors was a frequently cited barrier in Engine's roundtables and the Innovation for All survey. This is particularly important as diverse funders are more apt to fund diverse founders,[41] including when they share the same race or ethnicity.[42] If the investor community lacks diverse funders, diverse founders will continue to lag behind. To that end, the vast majority of underrepresented founders that took Engine's Innovation for All survey indicated that expanding the accredited investor definition would help them access more diverse funders.

Roundtable participants expressed concerns that the accredited investor definition—which makes up most companies' investor pools—limits which communities can build generational wealth and slows diverse startup investment. Accredited investors must meet high financial requirements—a net worth over $1 million or income over $200,000 individually or $300,000 with a partner—or a limited number of professional criteria.[43] But, it fails to take into account cost of living, where $100,000 in rural America for example, can be stretched further than even $200,000 in Silicon Valley.

Barriers to Capital Access

Amongst the angel investor community, who are usually accredited investors, diversity is lagging, though for some demographics not as severely. According to the 2017 American Angel Study, 22 percent of angel investors are women.[44] By 2021, women made up roughly 34 percent of all angel investors, and women led 23 percent of angel-backed companies.[45] [46] But racial and ethnic diversity is not as robust. According to the same 2017 study, just 1.3 percent of angel investors are Black, 2.3 percent are Hispanic, and 5.7 percent are Asian, while 87.6 percent identified as white.[47]

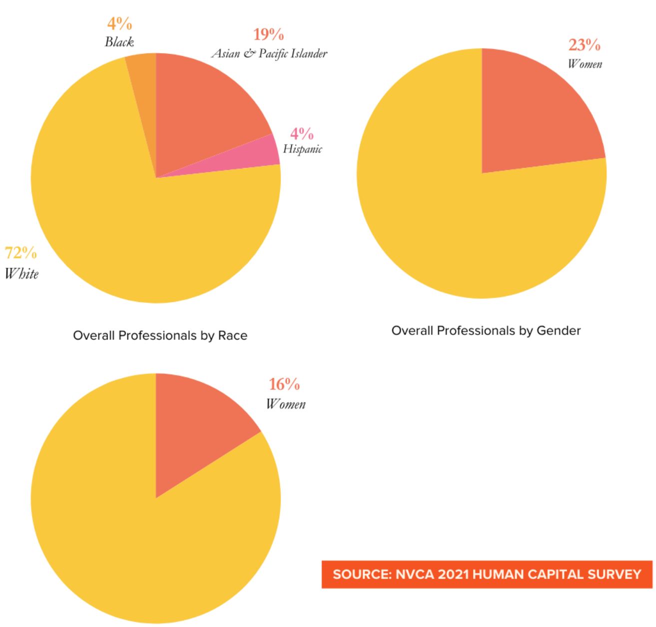
According to the National Venture Capital Association, people from diverse backgrounds are underrepresented as venture capital professionals. A 2021 report found that in 2020, women represented 23 percent of investment professional roles and just 16 percent of investment partners or their equivalent.[48] Black investment professionals made up just 4 percent of all investment professionals at VCs, and just 3 percent of investment partners.[49] Asian and Pacific Islanders represented 19 percent of investment professionals and 15 percent of partners.[50] And Hispanic professionals represented just 4 percent of investment professionals and 4 percent of investment partners.[51] And not all venture professionals are created equal when it comes to decision-making—general partners are more likely to be white and male and some estimates show that over 90 percent of venture capital dollars are controlled by white men.[52]

Startup Spotlight

Event Vesta
Omaha, Nebraska
Andrew Prystai, CEO & Co-Founder

"Changing something around the accredited investor standard is a great and free option. I understand why we need to set a national standard, but 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, who now all of a sudden is able to make an investment into a company like mine, even though they're probably in a worse position to make that type of financial decision."

Diversity in Investment Professionals (2020)



Overall Professionals by Race

Overall Professionals by Gender

Investment Partners by Gender

SOURCE: NVCA 2021 HUMAN CAPITAL SURVEY

But, more diversity is found amongst emerging fund managers and correlates to success—roughly 90 percent of women-led funds are emerging managers[53] and emerging fund managers and diverse fund managers outperform in terms of returns and profitable exits.[54]

Loans

When accessing debt, underrepresented founders are at a disadvantage across the board—higher rates of denials, securing amounts lower than requested, higher interest rates, and personal credit score challenges.[55] And many of these challenges push underrepresented founders to access riskier credit options to finance their companies.[56] People of color are also more likely to be unbanked or underbanked, especially Native Americans[57] and Black people,[58] meaning many lack access to debt financing.

While some disparities in loan access can be explained by differences in average credit scores amongst demographics,

Startup Spotlight

hampr
Lafayette, Louisiana
Laurel Hess, Founder & CEO

"We need more diverse investors—more women investors—so that startups like mine get funded. Part of the way we accomplish that is by allowing more people to invest in startups by expanding the definition of an accredited investor. There are so many people who want to invest but just simply can't because they don't meet the qualifications. Another solution to widening the opportunity gap for women innovators could be to create more affordable childcare, which would allow moms the time and flexibility to launch their businesses."

Startup Spotlight

Attane Health
Independence, Missouri
Emily Brown, Co-Founder & CEO

"From a policy perspective, I think that goes back to, again, who can be an investor—who's considered an investor? Because we know that investors inherently are funding people that look like them, that are familiar to them. And…[t]here are not a lot of fund managers that are women of color."

it doesn't tell the complete story. Moreover, research indicates that credit scoring favors white, male founders.[59] Women and people of color have comparatively lower credit scores than white men, in part because of pay and education gaps that favor white men.[60] But other factors can demonstrate a loan applicant's ability to repay that are not reflected in a credit score, including rent and utility payments.[61] This is especially important for founders that are unbanked or underbanked, including Native American founders.

For many rural businesses, securing loans through large banks is a challenge, though they are more likely to be successful at small banks.[62] However, urban businesses are more likely than rural businesses to be approved for a loan generally at banks of any size.[63] Unfortunately, independent banks continue to decline—including Black-owned banks,[64] and the threat of proposed requirements that banks hold more capital, coupled with banking consolidation, means many underrepresented founders will struggle more to access bank loans.

For founders of color, loan approval is a significant barrier, including for government backed loans like SBA's 7(a) program.

Startup Spotlight

Roanhorse Consulting, LLC
Albuquerque, New Mexico Area
Vanessa Roanhorse, CEO

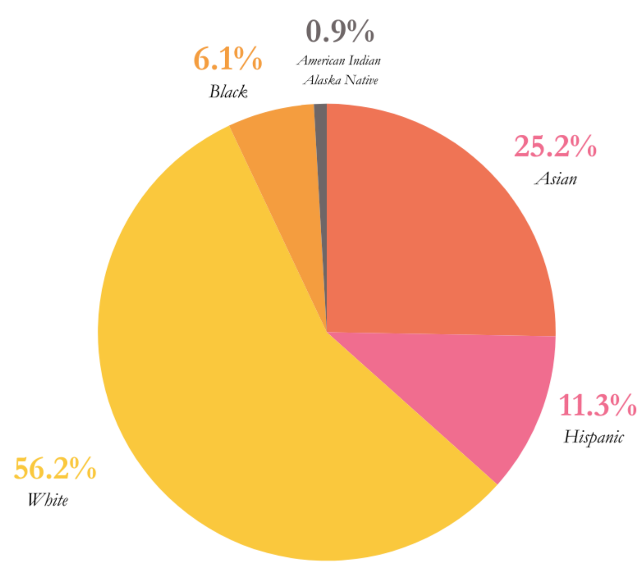
"I see the opportunity for the federal government to really consider hybrid types of fund building and/or creative strategies. For one, getting rid of the credit score would be a great conversation. Banks aren't required to use a credit score, it's best practice. It's not even regulatory."

When approved, founders of color are more likely to receive significantly less funds than requested. According to the Ewing Marion Kauffman Foundation, 75 percent of Black-owned businesses and 70 percent of Hispanic-owned businesses are granted less than half of their requested amount, or no funds at all, while only 53 percent of white-owned businesses see that result.[65] They also are more likely to face higher interest rates than white men.[66] And studies show that white applicants of low socioeconomic backgrounds with similar financial backgrounds as Black applicants are treated more favorably than Black applicants.[67] Another field study further illuminated racial bias in banking, with white testers offered business lines of credit more often than Black testers with better financial profiles.[68]

Some underrepresented founders are shut out of business loans because of the arduous application requirements. In surveys, women and people of color cite the application process itself as a barrier—and undercapitalized startups often can't afford to hire support to surmount these types of hurdles.[69] Others indicate that because they expect to be turned down, they do not bother applying.[70]

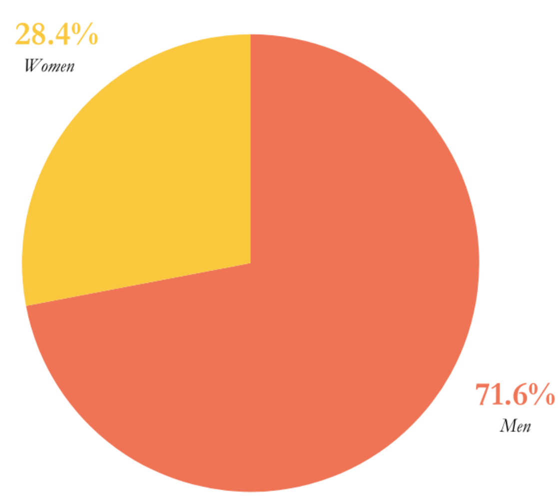
For the underrepresented startup founders we surveyed, roughly 57 percent have pursued a bank loan. Those that sought a bank loan identified multiple pain points—46 percent indicated that limited pre-existing banking relationships were a barrier;

SBA 7(a) Loan Approvals by Race/Ethnicity (FY 2023)



SOURCE: SBA

SBA 7(a) Loan Approvals by Gender (FY 2023)



SOURCE: SBA

26 percent faced high interest rates; and, 38 percent were denied a loan. Sixty percent of Black founders surveyed that sought loans were denied, nearly all of whom were Black women. Black founders and women founders in Engine's network also indicated that other factors, like poor credit scores and being "unbankable" due to their startup still being pre- or early revenue, as factors limiting bank loan access.

For immigrant founders, lack of access to U.S. banking institutions plays a role in building up the creditworthiness necessary to secure a loan. The requirements to access government-backed financing can also be significantly challenging for immigrant founders—application requirements may be more complex to navigate for non-U.S. citizens.

Federal Grants

Federal grants are particularly attractive to founders who do not wish to take on debt or give up a stake in their company. And in Engine's series of roundtables, women founders in particular indicated an interest in exploring funding options, like grants, outside of venture capital.

But underrepresented founders frequently acknowledge dissatisfaction with the federal grant process. Innovation for All survey respondents indicated that grant opportunities are inaccessible, and it is challenging to identify what programs are available to founders. Other founders struggle with the application process—many federal grants, including the Small Business Innovation Research (SBIR) program, have long, complicated applications, often suited to those with academic backgrounds and require costly outside assistance or mentorship to complete. The approval process can take months, if not years, which is out of step with the startup lifecycle—where capital access challenges (felt more acutely by underrepresented founders) mean many startups are constantly on the verge of closure.

Founders in Engine's network also indicate barriers exist to improving future applications following denials, because there is no mechanism to receive feedback. And different grant programs across federal agencies each have their own set of preferences, from requirements for preferred language and key words to necessary documentation—without feedback, it is nearly impossible for some founders to know how to achieve future success.

Startup Spotlight

Black Women Talk Tech
New York, New York
Regina Gwynn, Co-Founder

"Part of it is, founders have to take the initiative and find the opportunities. But, the needed piece is making the process and the applications much easier. You shouldn't have to submit five years of tax returns, or, every owner has to have perfect credit scores. We make it extra hard to access these other opportunities."

Startup Spotlight

Mavity
New York, New York
Tomás Uribe, Co-Founder and CEO

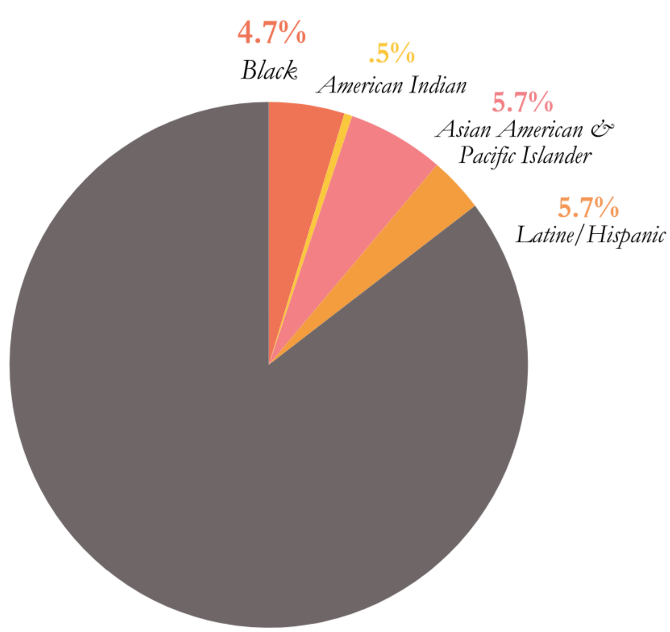
"But the most important thing about access to capital is access to banking and financing options. So when I came as a student, the only way to build up credit was to self fund a credit card, that's on a personal level."

Startup Spotlight

channelWise
Southborough, Massachusetts
Kathryn Rose, Founder

"There's never any mechanism for feedback. I asked for feedback, and they send you what's basically a form letter. 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."

SBIR/STTR Phase 1 awards to diverse-owned small businesses



SOURCE: NATIONAL ACADEMIES PRESS

Just 25 percent of underrepresented founders surveyed by Engine indicated they had taken advantage of government programs and resources, including those provided by the SBA. Founders indicated a number of reasons for not pursuing government programs: 70 percent of respondents who did not apply cited inaccessibility and an unawareness of what programs were available to them; 35 percent indicated a lack of government outreach to their community. But it wasn't for lack of interest: 97 percent of founders were interested in receiving support through the programs.

Despite efforts by the Bident administration to advance equity throughout the federal government, underrepresented founders are still not equitably awarded federal grants. Women and people of color are underrepresented, for example, in Small Business Innovation Research/Small Business Technology Transfer (SBIR/STTR) awards as awardees, and make up smaller percentages of applicants.[71] This may be, in part because of lack of communication with diverse communities—Innovation for All survey respondents indicated that lack of outreach served as a barrier to the grant process.

Startup Spotlight

RAVN
New York, New York
Tani Chambers, CEO

"In today's competitive landscape, applying for grant funding can be arduous and time-consuming. With tens of thousands of applicants vying for a handful of grants, as a founder, it's hard to justify investing and spending so many hours completing lengthy and complicated applications, especially when the chances of receiving funding are slim."

Startup Spotlight

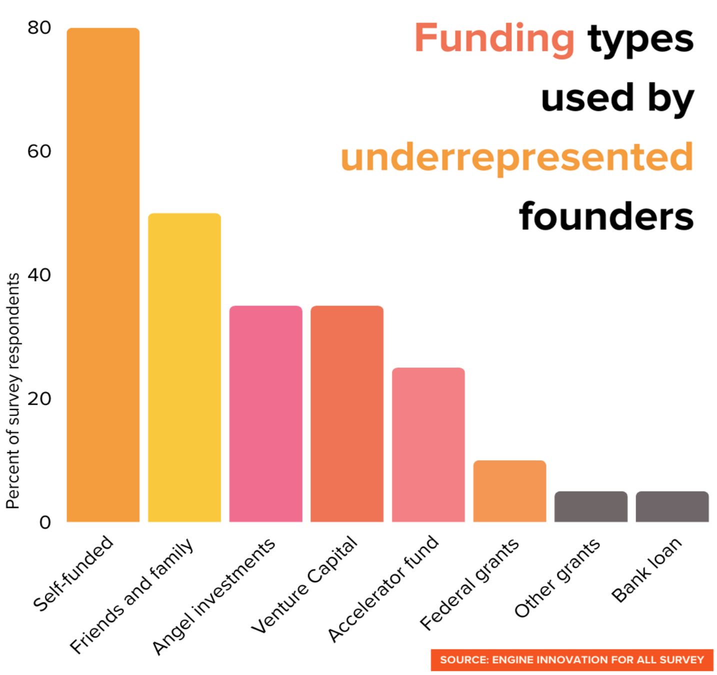
Stimulus, Inc.
Philadelphia, Pennsylvania
Tiffanie Stanard, Founder & CEO

"A percentage of government contracts are supposed to go to diverse suppliers. . .But they never actually get to the number that's required for that policy. And even within that policy, every year you have to pay to tell them you're Black, but non diverse companies don't have to go through that."

Government Contracting

While government contracts are an attractive opportunity for companies looking to grow a stable customer base, applying for and receiving government contracts is similarly challenging, and the awardee pool does not reflect the diversity of the U.S. population.[72] According to a Government Accountability Office report, in 2019 just four of the top federal contractors were companies owned by women—none of the companies were owned by a person of color.[73]

The federal contracting process is complex and often favors large, incumbent companies that know how and have the time and resources to navigate the government contracting process in order to win awards. Small disadvantaged businesses, including startups owned by underrepresented founders are often unable to compete, despite government targets for participation.[74] This disadvantages the federal government. Diverse companies provide diverse viewpoints and novel solutions, and startups in particular are at the forefront of technological advancement—they are crafting the products and services that could truly support and streamline government activities, if only they could compete.[75] And for startups, having the government as a customer provides a significant, stable form of revenue[76] and can be a benefit when attracting future customers and investors and increasing valuation.[77]



Engine survey responses indicated multiple barriers across the contracting process and of the survey respondents, just 1 indicated they had received a federal contract. Many cited lack of time and resources to complete the application process as barriers, others cited uncertainty as to how to become certified as a woman-owned business. An immigrant respondent indicated that they were not eligible due to their immigration status and lack of citizen co-founder.

Personal Funding/Friends and Family

- Ease barriers to Reg CF. Smaller and mission driven platforms struggle to comply with cost and regulatory requirements. The cost of launching a portal and remaining in compliance is significant. Policymakers should explore ways to incentivize the creation of mission-driven platforms so that they are better able to manage costs associated with running a platform, including tax benefits and fintech sandboxes. On the founder side, Reg CF is still expensive for many women and minority-owned businesses—from financial review and legal documentation to platform fees, a Reg CF offering can be costly for founders. Policymakers should explore ways to ease these expenses.[78]
- Explore and build upon public-private partnerships with minority, LGBTQ+, and women serving institutions that provide small business and startup support, as well as incubators and accelerators to conduct financial literacy and education initiatives to better prepare founders to fund their companies.
- Support strong financial footing by addressing broader systemic barriers and by including financial literacy in school curricula, ensuring the courses include a comprehensive view of entrepreneurship.

Angel Investors and Venture Capital

- Policymakers should work to incentivize venture capital funds to invest in diverse founders, leveraging tax credits and incentives for investors that direct a portion of their investment to companies operated by underrepresented founders or underserved communities outside of technology hubs, or for investors that commit to maintaining a percentage of diversity amongst their partners.[79]
- Likewise, policymakers should leverage tax incentives for limited partners to invest in diverse emerging fund managers, which the data show[80] invest in diverse-led companies.
- Policymakers could use tax benefits to incentivize angel investment in diverse communities.[81] For example, Congress could enact a federal tax program which would allow angel investors a credit of the amount they invested in a startup launched by an underrepresented founder (e.g., new investments in recently established businesses with a tech-focus and with underrepresented founders).
- Encourage Small Business Investment Companies (SBICs) to fund smaller startups led by underrepresented founders or in underserved regions including rural communities by providing more leverage for qualifying investments[83] or by exempting such investments from their leverage cap.[84]
- Government programs that invest in underserved founders also need to be defended. Programs that improve equity within the startup ecosystem are a net positive for all founders and should be steadfastly defended, including those offered by the Fearless Fund, the SBAs 8(a) program in support of socially and economically disadvantaged businesses, and at the Minority Business Development Agency.[86]

The Senate can pass House passed bills including: H.R. 835, the Fair Investment Opportunities for Professional Experts Act, H.R. 1579, the Accredited Investor Definition Review Act, H.R. 2797, the Equal Opportunity for All Investors Act, and H.R. 2799, the Expanding Access to Capital Act.[82]

Startup Spotlight

RAVN
New York, New York
Tani Chambers, CEO

"Modernizing and democratizing the accredited investor definition would represent a significant step to bringing equity to our startup ecosystem. The ability to invest in promising startups is central to the ability to build wealth, but high income thresholds restrict many Americans, especially people of color, from participating."

The Senate should pass H.R. 5333, the Investing in All of America Act of 2023, which would exempt SBIC investments in certain industries or rural and low income areas from the leverage cap.[85]

Role of Diverse Investors

- Diversify the pool of investors eligible to invest in new businesses by reforming 3(c)(1) funds—private funds capped at 100 beneficial owners who must be accredited investors.[87] By boosting the number of possible investors and raising the financial cap on these funds, more individuals would have the opportunity to participate at lower investment levels, which could lead to a more diverse pool of accredited investors investing in more diverse entrepreneurs,
- Diverse funders are more likely to fund diverse founders, but the existing accredited investor definition means many would-be investors from underrepresented backgrounds are not able to invest in startups to get them the capital they need and deserve. Policymakers must expand the definition of accredited investor by lowering financial barriers and providing other mechanisms to qualify, so that diverse communities can build generational wealth and invest in diverse startups.

Pass and implement the Expanding American Entrepreneurship Act or the ICAN Act (already passed in the House), to increase both the fund size and cap of 3(c)(1) funds.[88]

Grants and Loans

- Increase diversity amongst government decision-makers. In order to improve access to grants, loans, and other federal resources, it is critical the federal government prioritize diversity amongst decision-makers who are aware of, and recognize the needs of diverse communities across the country, and to combat bias in decision-making.
    - For example, the Small Business Administration should work to hire and retain more diverse staff, especially in its regional offices, ensure regional offices receive and distribute resources equitably to their geographic regions, and focus on programs targeted at underrepresented entrepreneurs like the 8(a) Business Development Program.
- Streamline grant programs, improving timelines and application processes to improve accessibility. Founders across backgrounds told Engine of the struggles they faced accessing federal grants. The process and requirements were often so onerous, that many forwent applying because they could not devote the time, or afford to hire assistance, to navigate the process. Setting and meeting faster approval timelines and simplifying applications would allow founders from underrepresented backgrounds to better access crucial government programs.
- Establish a mechanism for feedback for federal grant denials. Many applicants receive basic notices of denial and have no help in determining how to improve their applications for better chances of future success. Providing feedback will prevent founders from having to hire costly assistance for future grant applications.[89]
- Improve access to the SBIR/STTR programs by shifting to more open topic solicitations across agencies. Startups are solving the problems of the future—problems the government has not even identified they have or that might impact specific communities disproportionately. Open topics allow startups to better showcase their solutions that fit within agencies' missions, without the added rigidity of specific topic solicitations.
- Improve government outreach to underserved communities regarding grant opportunities and set and meet metrics for diversity across government programs. Government needs to meet startups where they are—in diverse communities across America—if they want to achieve diversity within government grant and loan programs. This could include more and better outreach to HBCUs and land grant universities, as well as ecosystem support organizations in rural communities and communities of color, and by attending conferences, pitch competitions, and other events organized by underrepresented founder groups.
    - Improve education efforts for applicants surrounding best practices, key words and preferred terms, and what documentation is necessary for federal loan and grant programs to make them more accessible to those who cannot afford application support services.[90]
- The government could funnel some traditional SBIR and STTR funding and/or other grant funding through incubators, accelerators, and innovation intermediaries who can disburse it directly into the startup ecosystems in their communities. This would make government grants more nimble and allow more focus on underrepresented founders.
- Improve and expand data collection regarding federal loan and grant recipients and applicants as well as federal contract recipients and applicants. Gaining a better understanding of what communities are not equitably accessing and receiving federal funding will allow government to better ask and determine why communities are being left behind, and will allow for more accurate development of solutions.

- Ease requirements to qualify for federal loan programs. Many startups do not have years of business ownership under their belts, and racial and gender wealth and pay gaps play a significant role here. Consider eliminating or developing alternatives to the credit score so that diverse applicants can better obtain business loans.
- Provide more support to Community Development Financial Institutions (CDFIs) and better enable them to reach underserved founders in need of capital, including by providing incentives for private investors to invest in CDFIs. Especially as rewards requested continue to outpace rewards available, including for the Native American CDFI Assistance Program.[91]

Pass the Community Development Investment Tax Credit Act of 2023 to implement a tax credit to encourage equity investment in CDFIs so that they have more capital to reach communities in need.[92]

- Collect better data surrounding banking and communities of color, including efforts by Minority Depository Institutions and Community Development Financial Institutions, and nonbanks and fintech companies, to improve lending to diverse founders.
- Increase awareness of and access to other forms of financing, including revenue-based financing, to provide more alternative financing options to underrepresented founders.[93] Again, government outreach is critical to informing diverse founders of their capital access options.
- Further encourage banks to implement special purpose credit programs[94]—unique benefits, standards, and lending products that improve lending to economically disadvantaged individuals.[95]
- Consider the impact on diverse founders and their access to business loans if capital requirements for banks are increased. There is already little incentive for banks to issue smaller dollar business loans—-the types of loans diverse founders are more likely to access.[96] These loans are often not as financially lucrative for banks to originate and many small banks have ceded this business to larger financial institutions.[97] Elevated capital requirements for banks will further increase the cost of capital and will likely further diminish the ability of underrepresented founders to access needed business loans.
- Make it easier (and more known) to register as a woman-owned or minority-owned business. Bureaucratic hoops and mounds of paperwork for resource strapped companies hinders access. Making it easier to register, so that more founders do, would enable private and local services to better direct their support.[98]
- Support access to nonbank and fintech lenders, creating a regulatory path forward that balances consumer protections while continuing to support access to these platforms by underserved communities. Fintech solutions also help to reach the unbanked and underbanked, and those who reside far from traditional banks. Nonbank lenders have recently improved access to capital for those unable to access loans from traditional lenders—especially amongst communities of color.[99]
- Undertake reforms to the Minority Business Development Agency and leverage the agency to better provide assistance to underserved founders.[100] Per the Center for American Progress, enhancing the role and status of the MBDA could help to make it a one-stop shop for many underrepresented entrepreneurs: providing technical assistance, loans, and grants as well as a hub for internal advocacy across the executive branch.

Government Contracting

- Provide more outreach and mentorship guidance to minority- and women-owned business enterprises (MWBE) so that they are better able to effectively bid.
- Ensure diversity amongst decisionmakers, reflective of the diversity of bidding companies.
- Set and meet diversity metrics—while the administration is making progress on this front, too often are these metrics set, but not met. Government should proactively track progress in meeting goals.[101]
- Much like government loans, the contracting process needs to be streamlined so that it is better aligned with startup needs and lifecycles. There are significant paperwork requirements that startups may not be able to meet without help (that they likely cannot afford). And similar to the loan process, unsuccessful applicants could benefit from feedback, to improve their chances on future bids.[102]

Access to Talent Challenges

The U.S. innovation ecosystem relies on highly skilled, diverse talent to support and grow startups. Currently, startups are competing for limited talent, and existing pipelines for increasing the STEM talent pool are failing to keep up with demand. Education is a crucial component of building a successful domestic talent pool, and it must start young. Representation matters to ensure that children see successful role models in STEM fields as well as in entrepreneurship more broadly, so that they are aware of innovation as a career pathway. And skilled immigration fills out gaps in the U.S. talent pool, often in high tech fields relevant to startups, but the immigration system is difficult for startups to navigate.

Disparities in STEM education

Anecdotal evidence suggests that disparate access to education, lack of encouragement at an early age, discrimination, difficulty balancing work and family, and lack of representation are barriers that keep underrepresented innovators from entering STEM fields. These disparities are compounded by problems of retention, which often push people out of the innovation pipeline early.[103]

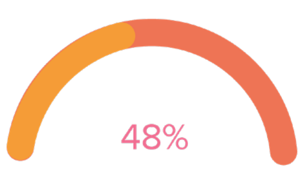
Just 8.9 percent of STEM post secondary degrees are awarded to Black students, 0.4 percent to American Indian/Alaskan Native students, 15.6 percent to Hispanic students, and 35.5 percent are awarded to women.[104] Latinos and Black individuals switch out of STEM programs at higher rates that white students,[105] and women represent just 19.3 percent of engineering graduates and 17.9 percent of computer science graduates.[106]

While data on LGBTQ+ representation is less clear, LGBTQ+ people are more likely to leave STEM majors and earn degrees in STEM than non-LGBTQ+ individuals, and are likely less represented in STEM fields than expected, likely in part due to unsupportive environments including workplace harassment.[107]

Similar disparities are seen amongst STEM educators, which contributes to a lack of representation among STEM students. According to a 2017 study, 12.2 percent of the population is Black, but only 0.7 to 2.9 percent of STEM faculty are Black.[108] And while 16.3 percent of the population is Latino, between 2.5 to 5.1 percent of postsecondary STEM faculty identify as such.[109] Gender parity is likewise absent, with only 18 to 31.1 percent STEM postsecondary educators identifying as women despite comprising 50.8 percent of the population.[110]

Have you faced challenges related to STEM education?

72% of respondents cited challenges in the innovation ecosystem with respect to STEM education.



of those cited of STEM education challenges pointed to a lack of diversity in student populations as a problem

SOURCE: ENGINE INNOVATION FOR ALL SURVEY

What challenges does the innovation ecosystem face with respect to STEM education?

43% of participants who cited STEM eduaction challenges said the lack of diversity among educators was a problem.

The vast majority of those who cited a lack of diverse STEM educators as an obstacle are women and people of color

SOURCE: ENGINE INNOVATION FOR ALL SURVEY

Disparities in STEM fields

Within the workforce itself, women represent just 28 percent of the STEM workers,[111] and retention problems persist outside of the education setting—women in STEM indicate they are almost twice as likely to leave the workforce compared to women in other fields,[112] and Black PhD holders also leave STEM fields at more frequent rates.[113] While barriers for LGBTQ+ professionals in STEM are more challenging to parse, they commonly report systemic inequalities including career limitations and harassment.[114]

People of color, including Hispanic, Black, and American Indian/Alaskan Natives are also underrepresented in STEM careers—9 percent of STEM professionals are Black, 15 percent are Hispanic, and less than 1 percent identify as American Indian or Alaskan Native.[115] And many of these workers are employed in middle-skill jobs, which may not require a bachelor's degree to attain.[116] In contrast, for computer jobs, which report high earnings, Black and Latino people make up just 14 percent of the workforce and women just 25 percent.[117] And in 2018, women made up just 14 percent of engineers.[118]

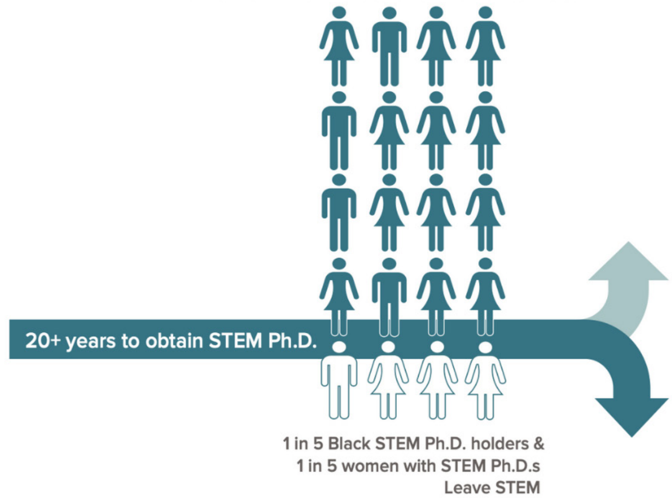
Pay disparities also exist—median earnings for Black and Hispanic full time STEM workers are significantly below those of white workers—$61,000 and $65,000, respectively vs. $78,000.[119] And women similarly experience pay disparities compared to men, with median earnings of roughly $66,000 compared to $90,000 for men, representing a larger pay gap than seen generally across all occupations.[120]

Competition for limited talent

A limited talent pool for in-demand skills can acutely impact early stage startups, particularly as certain parts of the technology industry become critical in the U.S. economy. A limited talent pool can also lead to higher wages offered for critical roles, as startups, established companies, and government all compete for a limited number of in-demand workers. The Department of Labor has indicated that they expect 1.4 million open computer science roles in the near future, but U.S. universities can only supply the talent for 29 percent of these roles.[121] For underrepresented founders, who are often undercapitalized, cost is a critical barrier to obtaining talent. Even the most successful early-stage startups (of all backgrounds) only have on average $55,000 per month to spend on everything,[122] from product development to talent, and some reports indicate that average salaries for engineers working on artificial intelligence exceed $180,000 per year.[123]

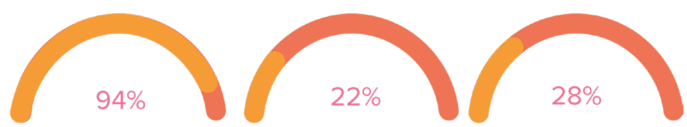
A survey of underrepresented founders in Engine's network indicated that 51 percent of founders were unable to hire the talent they needed to grow their companies. Of the respondents that indicated barriers to hiring talent, 94 percent cited the inability to presently afford the talent they need as a barrier. And a further 22 percent indicated that needed talent was not available in their region—nearly half of whom were rural founders. Without robust investments in the STEM talent pool, including to build a larger, more diverse workforce, wages will likely continue to skyrocket as demand continues to grow.

Women and Black Ph.D. Holders Leave the STEM Field More Often



What barriers do underrepresented founders face when hiring talent?

51% of founders who indicated they are unable to hire the talent they need to grow their companies.



94% of those mentioning this problem cannot afford the talent they need

22% of respondents facing this problem lack regionally available talent

28% of respondents with this problem struggle to secure visas for foreign-born talent

SOURCE: ENGINE INNOVATION FOR ALL SURVEY

Startup Spotlight

Wine Not Co.
Los Angeles, California
Ashley Johnson, Founder & CEO

"I found it challenging to even find the network that I needed to truly scale and build this business. I found that as I ventured out and expanded my network, I got better access to better talent."

Access to Talent Challenges

Roundtable participants also underscored the importance of having a robust network to build out their teams. We commonly think of networks as important for mentorship, growing a customer base, and sourcing investor opportunities, but for many founders, a strong network gives access to industry professionals that may be the right company fit.[124]

And rural founders, in particular, face limited opportunities to network and smaller talent pools. While the proliferation of remote work has alleviated this burden to a certain extent,[125] rural employees now also have access to jobs at large technology companies in urban hubs, forcing rural startups to compete with larger companies who can offer compensation packages more in line with tech hubs. Rural America also faces challenges related to age demographics—college age adults often leave rural areas for school, and many don't return and the remaining population is aging, leaving a gap in working age adults.[126]

Immigration challenges stifle talent acquisition

Barriers in our nation's immigration system prevent immigrants from adequately supplementing the talent pool. The share of international students in U.S. STEM PhD programs is significant—making up 45 percent of graduates.[127] And domestic talent in certain technology areas is in short supply.[128] More than 60 percent of new PhD holders in AI are international students.[129] But legal pathways to immigrate as a skilled worker are limited, the processes can be long and costly—28 percent of startups surveyed who faced barriers hiring talent indicated that difficulty securing visas for foreign born talent impacted their ability to hire. For many startups with lean budgets and limited time and resources, the cost and effort needed to navigate the immigration system is too steep.

And failing to make it easier for underrepresented founders to hire the talent they need, through the immigration system or otherwise, may ultimately lead to a loss of U.S. based jobs as founders embrace remote workers—offshoring or nearshoring can help ease the cost of talent acquisition and increase the talent pool available to founders.

Startup Spotlight

Davinci Wearables
Sunnyvale, California
Christy Fernandez-Cull, Founder & CEO

"Many startup founders and even large corporations are increasingly opting for contractor support abroad. This trend raises concerns about talent retention, particularly in retaining graduates (both domestic and international) from local universities and preventing the exodus of startup founders seeking opportunities abroad."

Startup Spotlight

Retail Aware
Chicago, Illinois
Keith Fix, Founder & CEO

"I've been personally frustrated with policies around retainment and recruitment of talent, especially out of universities. We've had some amazing engineers, but the H-1B process, as well as the sponsorship process is complicated. It's very difficult to navigate as an early stage company."

- Collect data on the STEM leaky pipeline to better understand drop off rate from education to STEM careers for underrepresented founders and craft policy to stop the leak. Policymakers should explore how issues like family care responsibilities and student debt contribute to the problem.
- Bolstering diversity amongst STEM educators is crucial so that students from underrepresented backgrounds see themselves in STEM fields and throughout education. Government should also increase funding for initiatives like the Smithsonian STEM Education Summit and 100Kin10 that specifically seek to increase diversity in STEM and I&E education.
    - Government should make clear and foster the narrative that becoming a STEM educator is a viable, sustaining career pathway, including by offering expanded student loan forgiveness.
- Government needs to conduct more and better direct outreach, connecting with potential underrepresented educators. For example, the Department of Education should actively recruit underrepresented educators to join the STEM and I&E education workforce.
- Policymakers at the state level should devote more resources to recruiting and retaining diverse STEM educators, including by ensuring they are paid competitive salaries.
- Policymakers should encourage states to make innovation, entrepreneurship, and financial literacy part of their public school curricula inclusive of diverse educators—so that entrepreneurship is a known pathway for all youth.
- Address inequities in STEM education by funding, and encourage state and local funding, of tailored STEM and I&E education programs for students of all ages.
    - Government should invest in local STEM and I&E co-curricular and extracurricular programs for primary and secondary schools in underserved communities.
    - For postsecondary education, the government should invest in innovation-related clubs at HBCUs, land-grant universities, and other postsecondary education institutions that attract more diverse student bodies, including community colleges.
- Interdisciplinary Innovation and Entrepreneurship (I&E) programs help to guide students to take ideas and turn them into concrete businesses from diverse educational backgrounds, supporting the development of new founders and startup talent. Government should more directly support these programs that are often funded by private donors, including by creating dedicated funding pools or grant opportunities for I&E education, so that schools without a deep cache of wealthy donors can have successful I&E programs. Existing programs like NSF's I-CORPS program could also be expanded to support I&E education. Policymakers should consider focusing on generating programs at institutions with diverse student bodies, including HBCUs, land-grant universities, and community colleges.[130]
- Implement programs to train rural workers for technology jobs—this is particularly important as AI-related businesses continue to grow and certain jobs are phased out due to AI. There is and will continue to be the need for workers trained in new and burgeoning fields.[131]
- Provide resources and guidance for universities to collaborate and work with startups, including by connecting them with student talent.
- Successful partnerships between startups and universities already exist, and we should encourage this more.
- Direct federal funds to incubators and accelerators to improve programming to support the needs of underrepresented founders, non-university based training, financial literacy, and mentoring and networking opportunities.
- Encourage and devote resources to increasing diversity amongst those in professions on which startups rely, for example, lawyers and accountants—this will enable access to support needed to access resources and more broadly, will support diverse founders throughout their startup journeys.

Startup Spotlight

Davinci Wearables

Sunnyvale, California
Christy Fernandez-Cull, Founder & CEO

"We collaborate with universities such as MIT Martin Trust Center, and work with interns when possible. There's a wealth of talent in Indiana, and we have benefited from programs such as Techpoint Xtern, a full-time paid internship program that places 200+ students with Indiana tech employers. We actively seek opportunities to engage the academic communities within our network to find engineering talent, data scientists, and product designers just to name a few. We actively seek out interns, and we build them up and we grow them."

Startup Spotlight

Productions.com

Atlanta, Georgia
Carolyn Pitt, Founder & CEO

"We need Black and brown women throughout government, reviewing grant applications and providing access to other funding opportunities. Even programs erected to directly challenge financial discrimination for underrepresented founders can be inaccessible when the people in charge don't reflect our communities."

Solutions

- Improve existing pathways and create new pathways for international STEM talent to come and work in the U.S, including through reforms to the H-1b program to make it more accessible to and work better for startups and possible reforms to the OPT program. Explore how new and existing pathways could work to specifically bolster the startup community and incentivize talent to work for startup businesses.
    - Explore graduation green cards as a mechanism for retaining immigrant talent who make up the majority of many advanced STEM degree graduates in the U.S.
    - Policymakers should consider implementing a Heartland visa tied to the talent needs of places vs. employers. This would particularly benefit rural communities with smaller talent pools but growing startup ecosystems.[132]
    - Implement updates to the Schedule A list of talent shortages to include occupations and skills in demand by startup companies, including those relevant to AI.
    - Adopt recommendations to bring the requirements of EB-1 visas more in line with O-1A visas to streamline transition from O-1A to EB-1 for those with extraordinary abilities.[133] Provide more guidance to startup founders who are not academics on how they may qualify for an O-1A visa.
    - Continue to take steps to ease processing times and reduce backlogs throughout the immigration system to better facilitate needed talent to work in the U.S., including through visa interview waivers.[134]
    - Policymakers should craft a permanent solution for Dreamers, most of whom know the U.S. as their home and contribute throughout the innovation ecosystem as founders and workers.

Building Networks and Accessing Mentorship

Networking and mentorship opportunities are critical for many founders, providing guidance and support from others who are or have been on similar pathways and serve as a source of industry contacts, including investors, and wells of information.[135] They are especially useful for underrepresented founders who navigate more and higher barriers to entrepreneurship and who have been historically excluded from these support systems.[136] Mentorship can provide insight into not just the ins and outs of running a startup, but of navigating challenges unique to one's identity—-as a woman, a person of color, an immigrant, a member of the LGBT+ community—and how to navigate obstacles like limited investor diversity, systemic racism and sexism, homophobia, bias and more.[137]

Startup Spotlight

Wave
Palo-Alto, Calif.
Sarah Adler, Founder

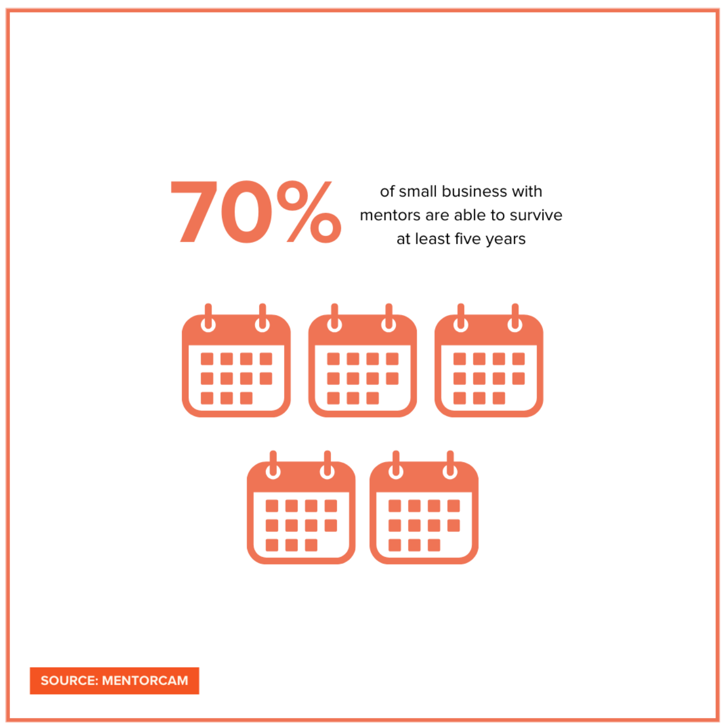
"[Without] a small supportive network of other female founders who have already been through the process, I would have spent six months fundraising talking to 500 people instead of 30."

Studies have tied mentorship with startup success—one study found that 70 percent of small businesses with mentors are able to survive at least five years.[138] Another found that women founders that had scaled their businesses were 10 percent more likely to have mentors who had already been successful in entrepreneurship.[139] But it is difficult for underrepresented founders to build the experienced networks they need to thrive when they are underrepresented throughout the entirety of the startup ecosystem, from founder to investor.[140] And while most Innovation for All survey respondents indicated they had access to a network, many did not have a mentor, citing a lack of resources and lack of diversity among mentors as barriers to accessing opportunities. For underrepresented innovators without a background in business and entrepreneurship, mentorship provides a masterclass in how to run a company.

Startup Spotlight

Megaminds
New York, New York
Eric Tao, Founder & CEO

"This is my first go at starting a business, I didn't go to business school… I had to learn all of this myself. I didn't know how venture worked. I've had to seek out ways to find mentors, people who could help guide this approach…finding folks that could help guide wayward souls like myself."



Solutions

- Policymakers should provide additional funding for networking opportunities for underserved communities, including at institutions with diverse innovator networks, like HBCUs and research universities.
    - Government should also explore funding and enabling online platforms for networking and mentorship. Online resources would be especially helpful to rural entrepreneurs and Native American founders that lack vast local entrepreneurial ecosystems.
- Government should conduct better outreach to communities of diverse innovators, including showing up to HBCUs and land-grant universities and at conferences—underrepresented innovators need to hear first hand what resources are available to them, especially as a central startup support or agency does not exist within government.
- Direct funding to incubators and accelerators to build out programming that facilitates networking and mentorship opportunities for underrepresented founders, and are familiar with the unique needs of their specific startup ecosystems.
- Policymakers can work to bolster existing federal resources that provide underrepresented founders with needed support, including the 8(a) program, and by ensuring SBA offices are staffed by diverse leadership, especially in regional offices, ensuring that resources are equitably distributed.
- Support initiatives to build diversity in other talent pipelines that support startups and their growth, including amongst lawyers, accountants, and tax professionals. Doing so will help foster diverse perspectives and enable startup founders to hire professional support that they trust and feel comfortable with.

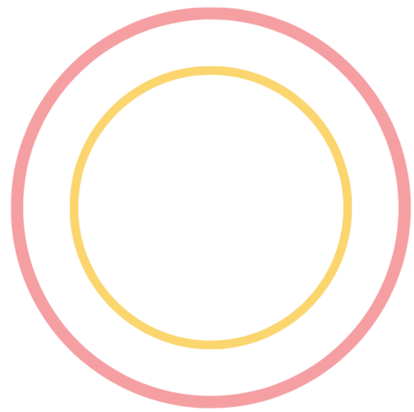
Human Capital Barriers [141]

The path of a startup founder, especially an underrepresented founder, is not without risk. For would-be founders from diverse backgrounds, wealth and income inequality can limit the ability to launch a company from the get-go, particularly as many founders initially lack the security of robust benefits packages that come with other forms of employment, including employer-sponsored health insurance. And other barriers like student loan debt or child and family care responsibilities may keep many from entrepreneurship, instead leading would-be founders to rely on steady paychecks and 9-5 hours.

Student Loan Debt

Americans across the workforce are struggling under crushing levels of student debt. Millennials, who currently make up the majority of the American workforce,[142] carry almost half of it.[143] But student debt doesn't burden every gender, race, ethnicity, or sexual orientation equally. Women carry on average higher amounts of student debt than men—holding 66 percent of all debt.[144] Amongst these women, Black women—who also face significant barriers related to capital access—hold the highest average amount of debt. Individuals that identify as LGBTQ+ are also more likely to hold student loan debt[145]—on average more than $6,000.[146] Disparities in student loan debt carry over to graduate school as well. Twenty two percent of white college graduates have debt originating from graduate school whereas 40 percent of Black or African American graduates carry graduate school debt.[147] And student debt follows underrepresented founders into their careers disproportionately. In the first 12 years of repayment, white women shrink their debt by 28 percent and white men by 44 percent, but the loan burden of Black women instead grows over this period—-by 13 percent.[148]
For many would-be founders, the presence of student debt precludes them from pursuing entrepreneurship as a career pathway. And studies show that for the smallest businesses, increased student loan debt correlates with a decrease in the number of small businesses with one to four employees.[149] Not only do student loan balances and monthly payments hang over would-be entrepreneurs' heads, dissuading many from the risks of entrepreneurship, but they impact a potential founder's ability to secure debt financing (often relied upon by small businesses[150] and already challenging for underrepresented founders).[151]

66% of all student debt is held by women



Women of color have almost twice the amount of student debt compared to white women.

SOURCE: EDCUATION DATA INTERACTIVE

For underrepresented founders surveyed by Engine who faced personal barriers to launching and growing their startup, 32 percent cited student loan debt served as a barrier.

Founders that indicated they held student debt cited multiple challenges that affected their startups because of their debt. Sixty-nine percent of those with student debt indicated that it slowed their startup growth (including 90 percent of women

Startup Spotlight

MITO Material Solutions
Carmel, Indiana
Haley Marie Keith, CEO and Co-Founder

Balancing parenthood and entrepreneurship comes with its unique set of challenges, particularly concerning healthcare, childcare costs, and the absence of the safety net typically provided by traditional employment…with two daughters now, the stakes feel higher, particularly with the soaring costs of child care. I'm taking my six-month-old to work every single day. I didn't have maternity leave and went back to work less than a week after my second daughter's birth. I was on the phone with a lawyer negotiating a term sheet while I was in labor, and I came back to raise another round of funding in 2023."

Individuals that identify as LGBTQ+ have on average

$6,000

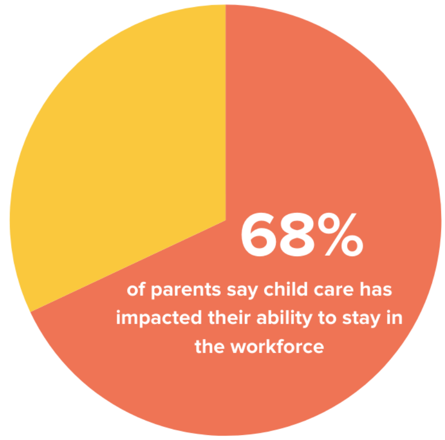
more student loan debt

SOURCE: EDUCATION DATA INITIATIVE

with student debt). Sixty-five percent of respondents with student debt indicated that their student debt caused delayed startup launch and a further 46 percent indicated reduced or delayed hiring resulting from the presence of student debt.

Child and Family Care Responsibilities

The child care crisis has impacted workers across the U.S. and their ability to stay in the workforce—with 68 percent of parents indicating as much.[152] Women—especially women of color—continue to shoulder the majority of family care responsibilities and while also increasingly being family breadwinners. In one study, 54 percent of women entrepreneurs who were parents indicated they were the primary caregiver for their children, versus only 37 percent of male founders.[153] For many, cost represents a significant burden. In the U.S. the average cost of child care is $14,000 per year—but the cost can reach upwards of more than $24,000 per year in major metropolitan areas.[154] In 2023 families spent on average 24 percent of their income on child care costs, with many parents relying on savings to cover the expense.[155] According to the Department of Health and Human Services, to be considered "affordable," child care should not exceed more than 7 percent of a family's income—for families paying $24,000 a year for care, this would mean a household income of almost $350,000.



In 2023, families spent on average

24% of their income on child care costs

SOURCE: BIPARTISAN POLICY CENTER AND THE SOCIETY FOR HUMAN RESOURCE MANAGEMENT

For underrepresented founders and would-be underrepresented founders, many of whom already deal with general wealth inequality, the cost of child care is prohibitive, especially as many founders in a startup's early stages forgo a salary in order to get their companies off the ground.[156] This is a privilege many founders—especially women founders and founders of color—simply do not have.

Startup Spotlight

Hostfully & VC Backed Moms
San Francisco, California
Margot Lee Schmorak, Co-Founder & CEO

"The primary lever to support women is access to childcare. I am very aware that I'm in a position where I was financially stable before starting my company and we were able to hire an au pair who lives in our house and cares for our kids. So many founders who are mothers don't have this—they need options for childcare that are flexible and not too expensive."

The exorbitant cost of child care in the U.S. ultimately pushes many women, including women leaders of companies, out of the workforce. Fewer women in the workforce overall means less of the success that comes from diverse teams,[157] but women in leadership roles specifically also have a positive impact on company culture, including the implementation of policies that benefit underrepresented groups.[158] And the child care crisis has an impact on the broader U.S. economy—studies estimate that it costs the economy $122 billion per year, and the costs trickle down to businesses too, in the form of lost revenue and hiring costs.[159]

In our survey, founders overwhelmingly cited family care as having an impact on their ability to be a startup founder. Sixty-two percent of all founders who cited family care as an obstacle cited their own primary caregiving responsibilities as an obstacle, a proportion that went even higher—to 77 percent—for women respondents. And 68 percent of founders who cited family care as an obstacle pointed to child care affordability, which was a more prevalent problem for founders of color, with 91 percent of founders of color citing child care affordability as a problem.

Access to Quality, Affordable Healthcare

There is a strong relationship between accessible health insurance and new business formation and self employment.[160] Families that experience health challenges are not as likely to pursue entrepreneurial activities that would leave them without health insurance and single women without health insurance are less likely to be self-employed.[161] Meanwhile in 2011, new business formation slightly increased for those who became Medicare-eligible.[162] Many underrepresented founders in Engine's network have indicated that, were it not for their spouse's healthcare coverage through their employer, entrepreneurship would not have been a possibility.

While the Affordable Care Act ensures that millions of Americans can access health insurance,[163] healthcare costs in the U.S. remain high.[164] High premiums and significant out-of-pocket expenses burden many, including those with employer-sponsored coverage.[165] For underrepresented entrepreneurs, who may be forgoing a salary, unexpected healthcare costs could be catastrophic. For example, healthcare costs can be particularly burdensome for people who identify as LGBTQ+—a 2019 study found that people who identify as LGBT were 40 percent more likely to have forgone needed medical care because of cost, compared to straight, cisgender people.[166] And the healthcare system itself is rife with inequality that affects health outcomes for many disadvantaged populations, including communities of color.[167]

Startup Spotlight

RAVN
New York, New York
Tani Chambers, Founder & CEO

"As a start-up founder, accessing affordable, high-quality healthcare is a real struggle. Unfortunately, the costs can be astronomical, making it unaffordable. And then we're able to acquire proper health coverage, access to top-notch doctors, and comprehensive mental healthcare is a challenge, especially for women wellness services."

A large portion of founders indicated that human capital barriers impeded their ability to launch and grow their company, and 69 percent of these reported lack of healthcare or lack of affordable healthcare as one of those barriers. These healthcare-related barriers were among the most identified barriers across groups, impacting nearly three-quarters of women founders, 71 percent of immigrant founders and two thirds of each founders of color, rural founders, and LGBTQ founders. Founders participating in Innovation for All indicated they are concerned about healthcare for themselves, but also how to provide quality healthcare for their employees.

At a higher level, a strong social safety net fosters a willingness to take risks that is necessary for entrepreneurship.[168] Founders' concerns about benefits extend beyond healthcare, as founding a startup can leave founders without things like disability insurance and unemployment insurance, as well as less expendable income to afford necessities. Founders responding to Engine's survey indicated that concerns about accessing forms of benefits, like disability and unemployment insurance, impacted the launch and growth of their startups.

Startup Spotlight

PILOT Inc
New York, New York
Ben Brooks, Founder & CEO

"High quality, portable employee benefits and other ways to provide lifestyle liquidity for founders, whether it's universal basic income or other solutions would enable more people to found businesses and attract talent to help grow them."

Startup Spotlight

Attane Health
Independence, Missouri
Emily Brown, Founder & CEO

"I do think access to healthcare is a critical issue. You know, not only for founders, but even when you are a business owner, and you're thinking about providing insurance to your employees, the system we have makes it really challenging for small companies to offer really good health care benefits."

- Policymakers must implement loan forgiveness programs to ease the student debt crisis, which is a barrier to entrepreneurship for many. While broad forgiveness is an option, policymakers can and should explore expanded loan forgiveness for qualifying entrepreneurs and startup employees.[169]
- Policymakers should take steps to rein in the cost of a college education—while immediate loan forgiveness is imperative for those who have already graduated, without steps to address the ballooning cost of education, the cycle will repeat.
- Policymakers must immediately pass and implement policies to improve accessibility and affordability of child care. Without more, and more cost effective options, women founders and startup talent will continue to make decisions that slow their entrepreneurial journeys, and many will never get the chance to pursue entrepreneurship altogether.
    - Collect better data on the child care needs of small business owners, including on accessibility and cost.
    - Explore addressing child care as part of the nation's infrastructure needs. Child care is not a luxury, but a necessity, that enables many—especially women—to work and innovate.
        - Consider passing legislation like Sens. Warren and Wyden's Building Child Care for a Better Future Act, so that states, tribes, and territories have the funding they need to build their child care infrastructure in a manner that best suits their inhabitants.[170]
    - Pass a permanently expanded child tax credit so that more founders have the cushion they need to care for their families.
    - Make child care affordability a national priority. Explore, implement, and expand policies to incentivize and enable employers to furnish child care. Further subsidize child care for families in need, including through more funding to the Child Care Development Block Grant Program (CCDBG) and by expanding the program so that it benefits more families. Direct more funds to rural communities who may face greater disparities in the availability of child care facilities.
- Policymakers should continue to explore efforts to make healthcare more accessible and affordable. While the Affordable Care Act enabled more Americans to obtain healthcare than ever before, employer-sponsored healthcare is still the norm, and the cost of insurance remains high for many.
    - Policymakers should explore options for portable benefits that workers can "take with them" from job to job, including startups, that employers (including those employing contractors) pay contributions to. For example, individual benefits accounts could either be administered by the states, or the individual themselves where workers would have the option to select their benefits.[171]

One option is for the Senate to pass the Tax Relief for American Families and Workers Act of 2024.

Connectivity

While the Internet has enabled entrepreneurs from anywhere in the country to launch and grow a business, many underrepresented founders lack access to reliable, affordable broadband access. Broadband is crucial for startups—especially in rural communities, where reaching customers, growing revenue, and more is often more challenging,[172] and for people of color, who already face significant barriers in the startup ecosystem.

A lack of affordable broadband is a significant hurdle for many underrepresented founders, especially in rural areas. And people of color in rural communities are especially at a disadvantage when it comes to the ability to pay for Internet access—in 2019, 11.3 percent of white people in rural America faced poverty versus 30.7 percent of Black people in rural communities, 29.6 percent of Native Americans, and 21.7 percent of Hispanic people.[173] And while the Infrastructure Investment Bill and American Jobs Act is helping more Americans afford Internet access, the Affordable Connectivity Program, which subsidized monthly broadband subscriptions, has run out of funds, and communities are still waiting to see the real impact of the Broadband Equity Access and Deployment Program (BEAD).

Startup Spotlight

CAPTVR3D

Greater Columbia, Missouri
Charisse Smith, Founder & CEO

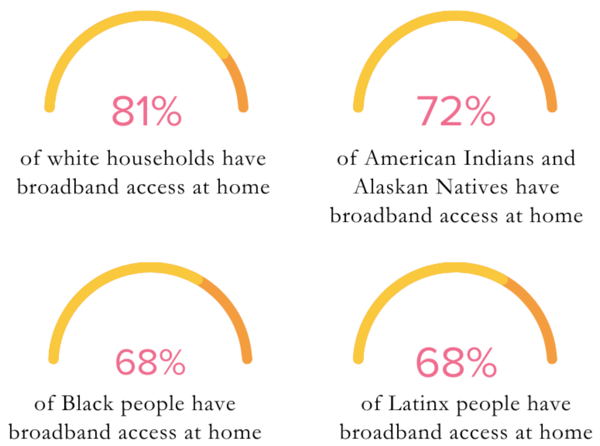
"My biggest problem often is access to internet broadband. What I create takes a lot of bandwidth and sometimes with my clients when I show up to their location, and it doesn't work, it's kind of hard to make a sale."

While federal data collected from Internet service providers indicate that just 4.4 percent of Americans lack broadband access—a number that rises to 17 percent of rural Americans and 21 percent of people living on tribal lands[174]—other studies estimate that more than 50 percent of rural Americans lack broadband access.[175] And even for many who have access, the service isn't adequate enough to run a technology business.

In addition to the disparity rural areas face, people of color also see disparities around broadband access. An estimated 81 percent of white people have broadband at home. But according to 2015 data, only 72 percent of American Indians and Alaskan Natives, 68 percent of Black people and 68 percent of Latinx people have broadband at home.[176] Given that many startups begin out of founders' homes,[177] lack of home broadband access represents yet another barrier underrepresented founders face.

Broadband access and availability compounds issues related to affordability, particularly in areas where systemic inequities already significantly disadvantage people of color.[178] While the FCC has taken steps to accurately map who has access to broadband, many communities still struggle under the digital divide. And while the issue of broadband connectivity is critical for today's founders, it's also essential for the founders of tomorrow—students who need the ability to learn and develop their interests in order to be the next generation of innovators. Without broadband access and digital literacy tools and resources, we risk leaving huge swaths of the next generation of founders behind.

Disparities in Broadband Access Among Racial and Ethnic Groups in the U.S.



SOURCE: FREE PRESS

While most founders who took Engine's survey on barriers in the startup ecosystem indicated they had sufficient access to broadband—11 percent do not—any deficiency in this space is inadequate. Of those respondents lacking sufficient access to broadband, 60 percent are rural founders and 40 percent are founders of color. For those founders, broadband was either too expensive, too unreliable, or unavailable altogether.

Moreover, 20 percent of survey respondents indicated that they also do not have access to the technology tools and/or devices needed to run their startups, especially women founders, showing that the problem is not limited to broadband access itself, but greater access to needed technologies. Affordability of the needed technology was a universal barrier for those 20 percent, but some (44 percent) also cited a skills gap creating a barrier.

Solutions

- The FCC should continue to improve its broadband mapping efforts to identify areas and communities within the country that lack basic connectivity but also those areas and communities that lack access to competitive offerings from multiple Internet service providers.
- The FCC should continue to update its broadband definition to move Internet service providers towards offering the high bandwidth and low latency that many technology products and services require today and will become increasingly necessary in the future.
- Immediately pass legislation to fund the Affordable Connectivity Program so that households across the U.S. can continue to access subsidized Internet services, in support of current entrepreneurs and students—future entrepreneurs.
- Take steps to close the digital divide by continually examining existing government programs to see whether they can be modernized to ensure target populations have the necessary connectivity, resources, and tools to get online. For instance, the FCC should continue to build on attempts to update the E-Rate program—including recent efforts to allow funds to be used for Wi-Fi connectivity on school buses and for Wi-Fi hotspots—to boost connectivity in schools and libraries.
- Government agencies at the federal, state, and local level should work together to ensure federal BEAD funding can quickly go to broadband buildout in underserved communities, including by easing regulatory and permitting requirements, where possible.

> One option is the Affordable Connectivity Program Extension Act, which would provide an additional $7 billion to fund the program.

Compliance challenges

New and growing startups are often limited by their budgets when making all decisions. Navigating issues like tax reporting and regulatory obligations can be especially challenging—many startups do not have the time or resources to track policy changes and others still do not have the financial capability to hire outside specialists.

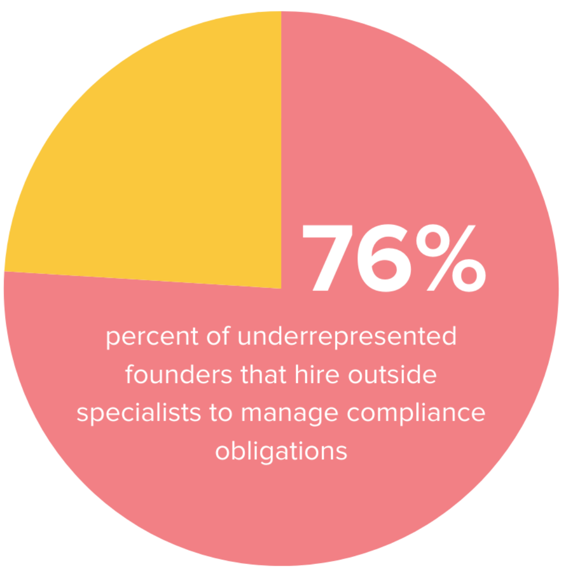
Forty-seven percent of underrepresented founders surveyed by Engine indicated that they struggle to meet compliance expectations with respect to state or federal guidelines, like tax reporting, including 61 percent of Black founders, 43 percent of women founders, 49 percent of founders of color, 48 percent of immigrant founders, and 44 percent (4/9) LGBTQ+ founders surveyed.

The majority of founders surveyed also reported that they needed to hire outside assistance to manage compliance obligations, for example a privacy counsel, tax consultant, etc. Overall, 76 percent of underrepresented founders surveyed hire outside specialists, including 67 percent of immigrant founders, 91 percent of rural founders, and 89 percent (8/9) of LGBTQ+ founders.

Startup Spotlight

PILOT Inc
New York, New York
Ben Brooks, Founder & CEO

"Founders often spend a majority of their time on things that aren't related to why they are building a business, so streamlining regulatory, compliance, and other administrative items helps us keep the main thing, the main thing."



SOURCE: ENGINE INNOVATION FOR ALL SURVEY

A meaningful portion, 49 percent, of founders surveyed cited barriers in accessing needed specialists, including affordability. Of the women and founders of color facing barriers, 95 percent and 90 percent, respectively, cited affordability. And a further 27 percent of surveyed founders indicated that they are unsure of the totality of the compliance requirements they face.

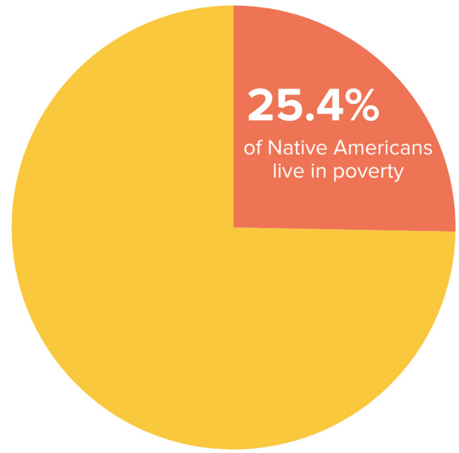
From legal counsel, to financial and tax obligations, to licensing requirements, to intellectual property laws, employment regulations and more—so much affects a startup founder's ability to launch and operate a business, while remaining in compliance with state and federal rules and laws. But most of these things are not top of mind for an innovator with an idea, trying to develop the next great product or service. And industry specific hurdles, for example for healthcare startups who have to contend with the Food and Drug Administration, add another layer of cost and complexity.[179]

Solutions

- Direct funds to state and federal programs that support startup founders in navigating business operations, including pro bono legal work, accounting support, tax support and more.
- When implementing new regulations, study not just the impacts of those regulations on small businesses, but on startups more granularly and the broader effects regulations can have on job creation and startup growth, before implementation. Establishing a National Innovation Council could be helpful here, in determining ecosystem impacts.
- Consider implementing sandboxes in industries with complex regulatory frameworks, so that cash strapped startups with innovative products and services aren't immediately precluded from competing due to regulatory costs and other barriers.

Native American Founders

Entrepreneurs in Native American communities face unique challenges within our startup ecosystem. American Indian and Native Alaskan communities face high levels of poverty—higher than any other minority group at 25.4 percent as of the 2018 census, compared to 8.1 percent for the nation's white population during the same year.[180] Education challenges are also prevalent amongst K-12 Native American students, who are 237 times more likely to drop out of school than white students, and are also significantly more likely to be expelled.[181] Reduced personal wealth impairs founders' and would-be founders' ability to self-fund a business, and lack of schooling can inhibit tech entrepreneurship as a career pathway. These barriers are compounded by other factors, including limited healthcare and impaired broadband access.



Capital access challenges are significant for Native American founders. Native Americans are often underbanked and are more likely to be unbanked than other demographic groups.[182] Native Americans are also more likely to lack any credit history at all, making many financial products out of reach.[183] Contributing to financial services access issues, tribal lands are often less proximate to banks, and residents of remote tribal lands may lack mail-delivery, which can complicate access to debit cards.[184]

According to the 2022 Small Business Credit Survey, Native-owned businesses struggle with credit availability. Many business owners rely on personal credit scores, but reports indicate that Native American owned businesses are more likely to have worse credit scores than non-Native business owners.[185] And difficulty establishing banking relationships, in part because of proximity issues, compounds business owners' challenges, including increasing costs related to financing their companies.[186] One Native American founder in Engine's network indicated that residing on tribal land can further complicate access to capital, stating, "people need to understand that the land that we reside on cannot be leveraged for grants or access to capital in terms of loans."[187] And because of this, Native founders "become victims to predatory loan companies that offer high interest rate loans towards us as small businesses that are starting up."[188]

Founders indicated that for Native American entrepreneurs, capital access doesn't just mean access to funds, but also financial literacy—and support is necessary to improving their entrepreneurship ecosystems. Founders also indicated that within their startup ecosystems, lack of access to mentorship and networks diminishes founders' ability to seek out investment opportunities, including venture capital. And programming and other entrepreneurial support resources are also limited. Access to mentorship and networking is further exacerbated by other forces like a lack of infrastructure, including broadband.

Startup Spotlight

Roanhorse Consulting, LLC
Albuquerque, New Mexico Area
Vanessa Roanhorse, CEO

"We had to start our own apprenticeship program. Because today, in the United States, in Canada, there are less than four Indigenous women in venture in the country. And so through our program, we've graduated 10 Indigenous women to move into venture. If we do that successfully, which we're working towards now, we will have tripled the number of Indigenous women and venture capital."

Startup Spotlight

Bidii Baby Foods, LLC
Shiprock, New Mexico
Zach Ben, Founder & CEO

"I also am with the University of New Mexico Rainforest Innovations. I have a tribal liaison where I am a boots on the ground to be able to identify those barriers and challenges of what creates an entrepreneurial cliff. Is it because of a lack of resources? Is it because of a lack of internet infrastructure? Schools? And some of the data that we pulled out shows second is access to capital. Number one is financial literacy."

Solutions

Virtually all of the policy solutions proposed in this report—from easing barriers to capital formation, to boosting opportunities for STEM education, to better and more affordable healthcare, and increased broadband access would benefit Native American founders and improve their access to the innovation ecosystem. But the barriers faced by Native American founders are complex and are compounded by insufficient government support for their communities. For policy solutions to directly help Native American founders, it is critical that government conduct direct, consistent, and extensive outreach with Native American communities, so that all solutions are directly tailored to unique tribal needs.

Immigrant Founders

Successful Immigrant entrepreneurs dominate the U.S. startup ecosystem; 55 percent of the unicorn startups in the US have at least one immigrant founder,[189] and 65 percent of AI companies founded in the U.S. have immigrants as founders or co-founders.[190] In 2022, 224 immigrant-founded companies collectively provided employment to over 14.8 million individuals, emphasizing their significant role in job creation and economic expansion.[191] Yet, immigrant entrepreneurs face substantial barriers in accessing the U.S. startup ecosystem.

Access to Capital, Networks, and Mentorship

Many immigrant founders lack connections in the U.S. startup ecosystem, making access to the venture capital and angel investors necessary to secure the funding they need to launch and grow far out of reach.[192] While some investors have realized the value and success that often comes from immigrant founded firms—many outperform non-immigrant founded companies—and focus specifically on immigrant-founded startups, immigrant founders across the ecosystem need networks and connections to succeed.

Immigrant founders who responded to Engine's Innovation For All survey, particularly see value in networks and mentorship—85 percent of respondents reported having a mentor—higher than any other demographic group surveyed. Cultivating a network and finding a mentor who can provide guidance on launching and growing a startup and securing investors is helpful, as is the well of experience on how to navigate the U.S. immigration system and its complexities. But network access can still prove challenging when accessing capital for immigrant founders—31 percent of founders who cited networking challenges as a barrier to securing VC funding were immigrants.

Accessing capital through banks is also a challenge for immigrant entrepreneurs. The fall of Silicon Valley Bank posed a threat to the immigrant entrepreneurship community—their lending practices enabled those without social security numbers or who could not meet traditional lending criteria with needed capital and banking services.[193] Given many new immigrants lack a U.S. credit history or extensive connections with U.S. banks, obtaining a traditional bank loan can be challenging.[194]

Startup Spotlight

BH Compliance
Miami Beach, Florida
Susana Sierra, CEO

"The first advice that I give to all the people that want to come here is find a network."

Startup Spotlight

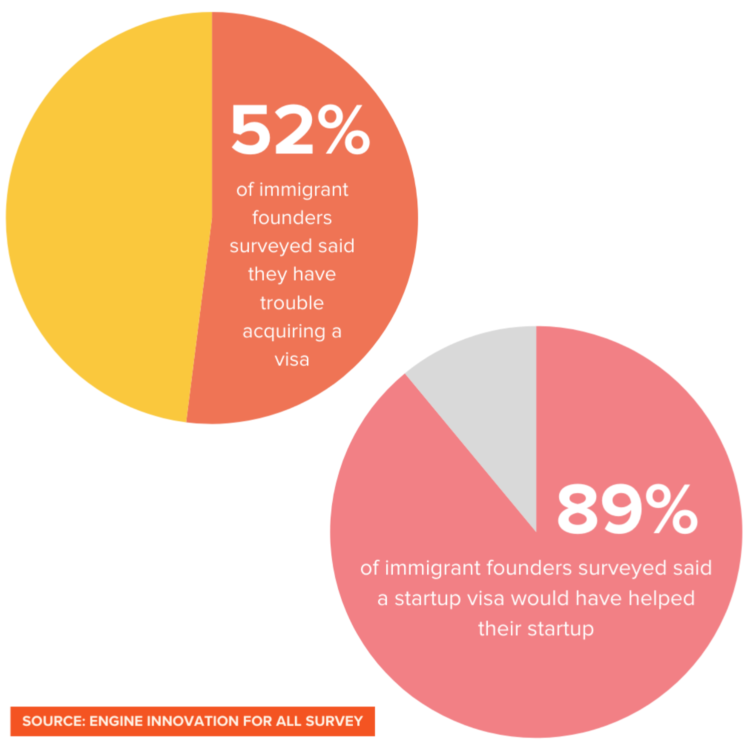
MetaBronx
New York, New York
Alejandra Molina, Founder & CEO

"I think communities are very useful...I was very happy to have found a community of international students that went through similar things."

Startup Spotlight

Lightscline
University Park, Pennsylvania
Ankur Verma, Founder & CEO

The SBIR grant and many other federal funding sources require fifty percent of a company's ownership to be held by a US citizen. My co-founder and I are both on F-1 visas. So that eliminates many federal opportunities for us—we're forced to search for alternate grants like the NSF's Partnerships For Innovation (PFI) program."



SOURCE: ENGINE INNOVATION FOR ALL SURVEY

When asked, 51 percent of immigrant founders indicated that they had pursued a bank loan. But immigrant respondents also highlighted barriers faced when applying for bank loans, including most significantly, limited pre-existing banking relationships, identified by 71 percent of them.

Other founders indicated that their immigration status was a barrier to accessing federal funding, like the SBIR program, forcing founders to devote time and resources to seeking out alternative sources of capital.

Visa Challenges

Challenges navigating the immigration system itself represent a significant barrier for many immigrant founders. A limited number of pathways exist for skilled talent, including entrepreneurs, to live and work in the U.S., and individuals on visas in the U.S. for other career opportunities may be precluded from launching their own companies. Moreover, the U.S. lacks a startup visa, unlike many other countries, and International Entrepreneur Parole is difficult and time consuming to obtain. Other pathways, like the O-1A visa, STEM OPT, and the H-1B visa all have complicating factors, including challenges proving eligibility, limited duration, long application timelines, cost barriers, travel restrictions, and more—-and the pathway to the U.S. for many immigrant founders is not simple and often not linear.

Ultimately, many founders find the pathway to the U.S. is too challenging and they opt to launch their companies in other countries instead. Canada, for example, actively recruits tech founders and talent away from the U.S., advertising a startup friendly environment, using billboards in Silicon Valley.[195] And Canada recently announced their "Tech Talent Strategy" that targets H-1B visa holders in the U.S., offering high skilled talent a new work-permit option allowing permit holders to reside in Canada for up to 3 years with virtually any employer, along with opportunities for family members to pursue education or employment.[196]

Participants in Engine's immigrant founder roundtable indicated that there is very little direction available for immigrant founders to understand what pathways are available to them. They stressed that better dissemination of information would be beneficial for immigrant founders. And while some immigrant founders and potential founders are educated in the U.S., universities are often not equipped to guide foreign graduates through the immigration system.

Startup Spotlight

BH Compliance
Miami Beach, Florida
Susana Sierra, CEO

"[The O-1 visa] process was a really, really long process…I arrived with one kind of visa but I immediately started working on the change of status. And then when I did that change of status, I couldn't go out of the country during that time. And then when I got the change of status, then I needed to fly to another country to have the visa stamped."

Startup Spotlight

Unshackled Ventures
San Francisco, Calif.
Nitin Pachisia, Founding Partner

"There're so many success stories of immigrant founders being successful...The one part, which is not a policy part, is the information part, how do we collectively make better information available—that pathways are available. If you look at our our immigration system, there's a pathway for a lot of different things."

Startup Spotlight

Mavity
New York, New York
Tomás Uribe, Founder & CEO

"I think there's a lot to do from the universities, because it's a direct channel to navigate the immigrant and entrepreneurship systems... And I think the challenge with International Student Services offices across US schools, is that they are simply not equipped enough to really support [immigrants looking to stay in the U.S.]"

Solutions

- Implement a startup visa so that foreign founders can more easily come to the U.S. to launch and grow their startups, similar to programs seen all across the world.
- Improve processing time (and provide goal processing times) for the International Entrepreneur Parole program, so that more founders see the program as a viable option. Currently, the program is barely used, in part because processing can take years. Without the certainty of improved processing times, the program has limited use for startup founders, who do not have years to wait to grow their companies.
- The Administration should continue to revise the O-1A policy manual appendices to be better inclusive of entrepreneurs and their business and startup ecosystem experience, vs. those with academic backgrounds,[197] strengthening founder eligibility.
- Government should work with U.S. universities so that they are equipped with resources to help students on F-1 visas to better understand their options post-graduation.
- Government should broadly conduct better outreach to potential immigrant entrepreneurs, especially those working in critical and emerging technology spaces. Better dissemination of information is crucial, as founders struggle to understand what pathways exist and if they qualify, while others cannot afford costly immigration assistance. Successful immigrant founded startups can originate in countries without significant wealth—we should not effectively exclude promising founders who cannot afford the support to navigate the immigration system.

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