



TESTIMONY PRESENTED TO THE SENATE FINANCE COMMITTEE

SENATE BILL 639 – MARYLAND TECHNOLOGY DEVELOPMENT CORPORATION – INCLUSION FUND – ESTABLISHMENT

POSITION: SUPPORT

FEBRUARY 23, 2021

The Maryland Technology Development Corporation (TEDCO) is dedicated to economic growth through the fostering of an inclusive entrepreneurial and innovation ecosystem. TEDCO discovers, invests in, and helps build great Maryland based technology companies. TEDCO has an obligation, both economic and moral, to create a more equitable entrepreneurial economy by providing investment opportunities and advisory services to not only create and sustain jobs, but also to expand wealth creation. And to expand wealth, we must tap into the creativity and ingenuity of Maryland's diverse population and its entrepreneurial ecosystem.

It is well documented that early-stage ventures founded by individuals from socially and economically disadvantaged groups lack access to funding. A 2017 *Pitchbook* study reveals that of the \$40 billion in venture funds raised that year, less than 3% was used to fund entities started by economically disadvantaged individuals. The study further showed that startups founded by a black man had less than a 1% chance of being funded, whereas for a black woman the chances of funding was 0.2%. Due to the significant and growing wealth gap, economically disadvantaged individuals have fewer opportunities to leverage friends & family and lack the access to personal credit lines to provide pre-seed/startup funding. Therefore, many of these entrepreneurs resort to bank debt, which has less than a 20% chance of being approved and the lack of revenues creates repayment issues.

TEDCO's Builder Fund, established in 2018, is designed to provide pre-seed funding and advisory services to very early-stage technology companies founded by economically disadvantaged entrepreneurs. A measure of success for the program is the ability of participating companies to raise subsequent rounds of capital. In just a few years, the companies that have participated in the Builder fund have gone on to raise over \$7 million in seed and venture investment capital. While this is a great success, a common effect of this success is the dilution of ownership share for the economically disadvantaged founder. Senate Bill 639 would provide

an option for those companies to continue to grow as minority founded and minority led companies. The Report of the Senate President's Workgroup on Equity and Inclusion recommends the creation of an "Inclusion Fund" to "allow companies to raise non-State capital while still supporting them with State funds". TEDCO also offers the Rural Business Innovation Initiative and is soon launching the Urban Business Innovation Initiative – both programs designed to reach underserved communities by providing pre-seed funding and advisory services. With the Inclusion Fund created by Senate Bill 639, TEDCO will have a comprehensive set of tools to address the wealth gap in the entrepreneur ecosystem.

TEDCO respectfully encourages a favorable report on Senate Bill 639.