Testimony before the U.S. House Committee on Small Business
"Fueling America's Future: How Investment Empowers Small Business Growth"

Anthony Cimino
Vice President & Head of Policy, Carta, Inc.

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Chairman Williams, Ranking Member Velázquez, and members of the Committee, thank you for the opportunity to testify at today's hearing on the importance of investment in driving small business growth.

I am pleased to testify today as the Head of Public Policy at Carta—a privately held financial technology company that builds the infrastructure of the private market ecosystem.

Carta is an end-to-end platform connecting private capital—equity management and valuations for private companies and their employees; fund accounting and portfolio management for funds; and investor reporting and communications for limited partners. These tools bring transparency, accuracy, and timeliness to private markets. Today we support more than 50,000 private companies with 2.4 million stakeholders and $3 trillion in equity. We provide fund administration services for nearly 7,000 funds and fund vehicles, representing $150 billion in assets under administration. Our platform makes it easier for companies to launch and grow, employees to become owners and optimize the value of their equity, and investors to raise capital and deploy it into the innovation ecosystem.

Our aim is to bolster this ecosystem and—importantly—broaden its reach to more investors, more entrepreneurs, more employees, more companies, and more communities. To do that, we need to build the right infrastructure. Carta works to be a part of that infrastructure. But policy is the foundation of that infrastructure.

For today's hearing, I will focus my remarks on:

- The role of private investment and how it functions
- The importance of broadening the investor ecosystem
- The role of the Small Business Administration (SBA) and Small Business Investment Company (SBIC) program
- Policy recommendations to broaden and bolster the ecosystem:
    - Cement and build the SBA's SBIC program
    - Legislative efforts to broaden the SBIC program's impact
    - Policy to expand and optimize employee ownership

Private capital drives America's innovation engine

Startups, small businesses, and the investors that back them are this nation's economic and innovation engine. This ecosystem creates jobs, expands economic opportunity and growth, and drives innovation, all of which ensure America's competitive edge in the global economy.

The impact is clear:

- *Job creation*: Startups and small businesses create the bulk of net new jobs, accounting for approximately 55% of total job creation from 2013 to 2023.[1] And since 2019, startups and small businesses have created 70% of net new jobs.[2]

- *Economic value*: Small businesses make up 99% of U.S. firms,[3] employ nearly half the U.S. workforce, and contribute nearly half of U.S. economic activity.[4] Further, of all initial public offerings, approximately 50% were backed by private capital—venture capital or private equity—at some point in their economic journey.

- *Innovative edge:* America has driven every major technological innovation in the past 50 years and has started twice as many companies as the rest of the G7 countries combined. A critical factor—the venture capital model.[5]

Private capital model

This impact is fueled by private capital's model. Venture capital and private equity funds raise capital from limited partners to invest in startups and small businesses. These funds provide entrepreneurs patient, risk-forward funding to solve ambitious problems and build businesses. Without private capital, many ideas for companies would remain just that—ideas. That is because most startups are unable to access

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[1] Bureau of Labor Statistics, *The Economics Daily*, Small businesses contributed 55 percent of the total net job creation from 2013 to 2023, *available at* https://www.bls.gov/opub/ted/2024/small-businesses-contributed-55-percent-of-the-total-net-job-creation-from-2013-to-2023.htm

[2] U.S. Department of the Treasury, New U.S. Department of the Treasury Analysis Shows Growth of Small Business and Entrepreneurship During the Biden-Harris Administration, Sept. 3, 2024, *available at* https://home.treasury.gov/news/press-releases/jy2555.

[3] Bureau of Labor Statistics, *supra* note 1.

[4] Business News Daily, Why Small Businesses are Good for Local Economies, Oct. 23, 2023, *available at* https://www.businessnewsdaily.com/1298-small-business-good-for-economy.html.

[5] Will Gornall and Ilya Strebulaev, The Economic Impact of Venture Capital: Evidence from Public Companies (June 2021), *available at* https://ssrn.com/abstract=2681841.

bank loans or traditional financing they would need to start their businesses because they do not have a track record, revenue, or assets to pledge.

Instead, entrepreneurs often turn to friends and family, angel investors, or venture capital, which provide capital in exchange for equity ownership—and a piece of the uncapped potential. One no longer needs to be independently wealthy to finance their vision or bring their ideas into the large incumbent companies at which they work instead of starting their own company. Venture capital broadens opportunity by empowering more entrepreneurs to transform ideas into reality. This is only possible with long-term capital that comes with greater risk tolerance.

But that is merely the start. As the company grows, venture capital and private equity invest throughout a company's lifecycle, helping it raise funding to hire additional talent, develop products, and improve operations. The first check may enable that business to launch, but the additional capital will help that business hire, grow, and mature.

The private capital model democratizes ingenuity, unleashing startups and small businesses across this country.

Broadening Growth

Despite the growth and importance of private capital, it unfortunately remains too concentrated.

- *Regional disparity:* California startups claimed nearly 50% of venture capital deployed in 2024. New York accounted for 10%. And even within those states, the concentration is within specific communities, limiting access to capital for entrepreneurs and small businesses operating outside these hubs.[6]

- *Equitable access*: In 2023, Black founders received only 0.48% of venture capital investment, all-women founder teams received 2%, and Hispanic -founded companies received about 2%.[7]

- *Fewer investors*: The median number of limited partners investing in funds fell drastically between 2022 and 2024. For funds between $25M - $100M in

[6] Kevin Dowd, California rises, Florida falls, and other ways the map of VC funding shifted in 2024, Carta, Mar. 3, 2025, *available at* https://carta.com/data/VC-funding-geography-2024/.
[7] Nasdaq Entrepreneurial Center, Revitalizing Innovation: Models of Equitable Entrepreneurship across the United States, 2024, *available at* https://nasdaqcenter.org/wp-content/uploads/2024/12/Venture-Equity-Report-2024-Revitalizing-Innovation-Oct-7-24-compressed.pdf.

assets under management (AUM), the number of LPs fell by a third (to 37 LPs). For funds between $10M - $25M in AUM fell 20% (to 33 LPs).[8]

Again, our collective charge should not only be to bolster this ecosystem, but to broaden it.

Expanding economic opportunity and innovation

To broaden access to capital, we need to broaden the investor ecosystem. We do this by empowering strong regional and emerging managers with more capital that they can invest into startups and small businesses across the country, especially in overlooked and underserved communities. The SBA has worked effectively to establish public-private partnerships that do just that, in particular through its SBIC program.

Fund managers are not the end goal, but they invest in and drive the startup and small business ecosystem forward. Emerging and regional managers are more likely to invest early, invest locally, and invest in underserved communities. Investors start the regional flywheel. Fund managers identify and invest in entrepreneurs. These entrepreneurs start and build businesses, attracting talent and growing an employee network. These employees gain economic benefits and training, ultimately enriching the regional ecosystems. This creates a more sustainable base in which to invest, turning the economic and innovation flywheel to build regional ecosystems.

The SBA and the SBIC program

The SBA is dedicated to supporting small businesses across the country. Access to capital is the key driver for small business creation and growth. In addition to other programs, the SBA implements the SBIC program, a public-private partnership that taps the expertise of proven fund managers to invest long-term capital and support small businesses.

SBICs are privately owned and managed investment funds that are licensed and regulated by the SBA. To obtain an SBIC license, fund managers must have a track record, demonstrate investment skill and operational experience, and outline their strategy and objectives, as well as their economic model and governance. Once approved for a license, the SBIC must provide key reporting information on a quarterly and annual basis. And to the extent the SBIC falters or does not live up to its standard, the SBA may place it on notice.

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[8] Peter Walker, Michael Young, & Kevin Dowd, VC Fund Performance 2024, Carta, Mar. 24, 2025, *available at* https://carta.com/data/vc-fund-performance-q4-2024-full-report/.

Put simply, this program enables strong, effective investment managers to tap more capital to invest in startups and small businesses, all while being a strong steward of taxpayer resources for this zero-subsidy program. The results are clear: In FY 2024 alone, SBIC funded over 1,100 businesses, totalling $7.2 billion in capital across the country.[9] The profound part: although California companies may have taken 50% of venture funding last year, they received only 10% of funding from SBICs because it was deployed more broadly across the country.

SBICs are making a difference. They are driving capital to regions where it likely would not have been deployed. These funds help entrepreneurs and small businesses access capital. But importantly, these SBICs are often more than an investment. They are strategic and operational partners, helping these businesses capital and with their partnership.

<u>*SBIC expansion*</u>

As the market evolved, so has the SBIC offering. In 2023, the SBA enabled new approaches to better reflect how the private fund model operates and help drive more capital to more parts of the country.

- *Accrual debenture*: The first refinement was the introduction of the Accrual Debenture instrument, which shifts the debt service and interest repayment to the end of the debenture period rather than the normal SBIC structure that requires semi-annual debt service payments. This action helped expand the SBIC program on a practice basis to more venture firms with an operational model where the funds use their capital for equity investment that will appreciate and be realized after a sale at a later date. The SBA's risk management and financial security remains in place, and interest and annual charge payments must be made prior to distributions to limited partners. The timing of the debt services has just shifted to make it more aligned with the current investment model and, therefore, more enticing for more managers who are able to deploy more capital.

- *Reinvestor SBIC*: The second refinement is the Reinvestor SBIC, which enables SBICs to make fund-of-fund investments in other investment funds that have an underserved focus. Although seemingly small, this change will have a strong impact. In the near-term, this drives more capital into more places, especially to emerging managers that may not have had as much capital to invest in startups and small businesses. But over the medium- and

[9] Small Business Investment Company Program: Financing to Business by State, *available at* https://www.sba.gov/document/report-small-business-investment-company-sbic-program-financing-businesses-state.

long-term, these first-time and emerging fund managers who receive Reinvestor SBIC investments will likely become more involved SBICs themselves, creating a longer-term user that continues to support and drive capital into the broader ecosystem.

While it is still early, the accrual and reinvestor programs appear to be off to a good start. Following the introduction of these new programs, in 2024 the number of applications (127) has surged past historical averages (35), and most were first-time applicants (84).[10]

Recounting the importance of the SBA's SBIC program and lauding its recent evolution to better reflect market dynamics may seem backward looking. But it is important to emphasize the good work that has and continues to be done by the SBA and the SBICs themselves.

Policy recommendations

Build on the SBIC program

As policymakers assess how resources are being spent, the SBIC program continues to advance our nation's mission of economic growth and innovation. The SBA's recent enhancements to SBIC program offerings to better reflect market practices and should be cemented and built upon. The increase in interest for the new accrual and reinvestor programs underscores the potential; the challenge will be ensuring the agency has the licensing capacity to meet the demand. The aim should be to drive more resources where they are working, including ensuring that the SBA's SBIC program has proper staffing, continues to refine the operational expertise and process, and continues to market and educate current and potential stakeholders—funds, investors, and companies — about the program and how to leverage it.

Investing in All of America Act

Bolstering this ecosystem is important. Broadening it is critical. Carta supports *H.R. 2066, the Investing in All of America Act*, introduced by Reps. Dan Meuser and Hillary Scholten. This bipartisan legislation incentivizes capital deployment to overlooked and underserved areas by removing investments in rural areas and national security sectors from the SBIC leverage cap. Driving investment into these segments is in the national interest, and doing so through professionally managed SBICs ensures it is done responsibly while protecting taxpayers. The legislation would also tether the leverage levels to reflect inflation. This is not only smart policy

[10] *Id.*

to create flexibility around macroeconomic conditions, but also ensures SBICs can keep pace as company funding levels rise and they themselves grow.

American ingenuity is not limited to certain areas and people. But unfortunately capital—and consequently to a certain extent opportunity—remains concentrated. Policy like the *Investing in All of America Act* would support SBICs in their work to drive capital to overlooked and underserved areas, while also pushing more investment in the critical technologies this nation needs.

Expand ownership and investment incentives

In addition to the great work of the SBA's public-private SBIC partnership, the policy framework can do more to unleash startups and small businesses. One area is broadening the ownership to more employees and making the ownership meaningful.

Broadening employee ownership coupled with a meaningful wage helps companies attract and retain top talent. It creates a more engaged and productive workforce aligned with the long-term vision of the company. In short, it helps companies excel. For the employees, ownership enables them to participate in the profits they help create and have a long-term appreciating asset that has an uncapped upside. And importantly for the community, employee ownership makes it more likely these small businesses will continue to operate and create economic growth even after entrepreneurs retire.

Policy to help broaden ownership is critical, and I commend Ranking Member Velázquez on her ongoing legislative work that would enable employee-owned businesses to have access to the SBA, and others on this Committee for their work to expand employee ownership. We must continue this work of creating an ownership economy.

Part of employee ownership is helping them maximize its value. The tax code is key. As Congress considers tax reform this year, Carta urges it to preserve and expand qualified small business stock (QSBS) treatment. QSBS drives capital and talent to startups and small businesses by enabling long-term shareholders in small businesses that hold those shares for five years to be exempt from capital gains. This helps early-stage companies that are higher risk attract investor capital and talent that could work elsewhere. It also enables employee owners to optimize the equity they received for the risk they took and the work they put in.

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Carta is proud to provide the infrastructure to support our innovators: the founders, investors, and employees who drive the innovation economy. Policy is part of that infrastructure—it affects nearly every aspect of the ecosystem and can drive innovation or bind its growth. It is critical we have the right framework and public-private efforts like the SBA's SBIC program to broaden economic opportunity and American innovation.

I appreciate all the work this Committee is doing on that front, and we look forward to supporting your leadership.

I look forward to your questions.