

**Testimony of Jeanette Quick**  
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**Presented to the Subcommittee on Diversity and Inclusion**  
**Committee on Financial Services**  
**United States House of Representatives**

“Building Opportunity: Addressing the Financial Barriers to Minority- and Women-Owned Businesses’ Involvement in Infrastructure Projects”

February 3, 2022

First, I would like to thank the Chairwoman, Ranking Member, and distinguished members of this Subcommittee for holding this hearing on this important topic. My name is Jeanette Quick and I am Head of Compliance and Public Policy at Gusto, a people platform that empowers small businesses nationwide. We are proud to serve more than 200,000 small businesses and millions of their employees, and we know firsthand how important access to capital is to the success of small businesses.

Gusto is a people platform that is creating a world where work empowers a better life.<sup>1</sup> Our company enables small business owners to easily pay employees and contractors, remit taxes, stay compliant with legal obligations, and keep accurate records. We provide payroll, human resources, health benefits, and financial health benefits to small businesses across the country.

Our work and client base uniquely positions us to understand the needs and pain points of small businesses, and to provide our — and our customers’ — perspective on how best to serve them during this challenging time of surging COVID cases, labor shortages, supply chain constraints, and inflationary pressures.<sup>2</sup>

Throughout the pandemic, Gusto has focused on ensuring that small businesses have access to capital to fund their operations. Gusto facilitated billions in Paycheck Protection Program loans for our small businesses, and has developed multiple partnerships with financial technology companies and community development financial institutions (CDFIs), such as Opportunity Fund and Pacific Community Ventures, to ensure that our customers have access to fair and responsible capital and advisory services. Gusto is connected to more than 80 financial institutions that offer loan products to meet small business needs, including start-up funds, Small Business Administration (SBA) loans, credit cards, and lines of credit. Because of these relationships, we are well-positioned to provide insight into small business financing challenges.

Gusto is also the founder and chair of the Small Business Relief Council, a cross-industry coalition of over 80 companies representing millions of small businesses that developed to enable small businesses to survive and thrive during the pandemic. Gusto leads the consortium, bringing lenders, fintech, payroll providers and accountants together to collaborate on regulatory,

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<sup>1</sup> <https://gusto.com/>

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<https://gusto.com/company-news/how-protecting-workers-health-and-wealth-can-help-business-owners-combat-the-great-resignation>

operational, and risk issues. SBRC spans different components of the small business financial ecosystem, and includes the largest financial services companies, payroll companies, community development financial institutions (CDFIs) accounting firms, fintechs, and software companies.<sup>3</sup> Gusto's experience leading SBRC has given us a holistic perspective of challenges that minority- and women-owned businesses have faced during the pandemic.

Inequities exacerbated by the pandemic reinforced the need for meaningful action to elevate accountability, meaningful action, and tangible results around representation, inclusion, social impact, and equity (RISE). RISE principles are critical to Gusto's mission of building a world where work empowers a better life, and we are committed to making business, product, and advocacy decisions with equity at the core.<sup>4</sup> Gusto believes that a healthy small business ecosystem is one that is fair and inclusive for all businesses, including women- and minority-owned businesses, and we support proposals that ensure equal access to the financial system and inclusive access to federal procurement and infrastructure projects.

My testimony today will focus on obstacles women- and minority-owned businesses face in starting and expanding their businesses, and highlight policies that can help address the disparities and aid in the recovery of all small businesses, especially those from underserved communities.

### **State of Capital Access for Minority- and Women-Owned Small Businesses**

According to Gusto data, action is needed now to help small businesses across the country. Our data shows small business payroll reserves in hard-hit industries are tighter now than they were during the height of early pandemic lockdowns. Since the start of 2022, 26% of businesses—primarily in the personal services sector—have less than one month of payroll in reserves. That's up from 21% this time last year and 23% in March 2020. That number dropped to around 10% as companies started to receive PPP and other funds. Without the aid that helped those businesses weather the early disruption of the pandemic, small businesses have fewer resources and capacity to absorb future shocks.

Minority-owned businesses have historically experienced unequal access to capital and collateral. For example, white-owned startups begin with more than three times the capital of Black-owned startups,<sup>5</sup> and white-owned startups are seven times more likely to obtain loans than Black-owned startups during their founding year.<sup>6</sup> Throughout the pandemic, businesses owned by people of color did not receive equitable access to federal aid, despite being hit harder economically.<sup>7</sup> Women- and minority-owned businesses persistently report having lower levels of access to banks and financial institutions, and as was demonstrated during the pandemic, lack of relationships with traditional lenders led to lower access to PPP loans for these groups.<sup>8</sup>

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<sup>3</sup> <https://gusto.com/company-news/gusto-announces-small-business-relief-council>

<sup>4</sup> <https://gusto.com/company-news/2021-RISE-Report>.

<sup>5</sup> [https://www.nber.org/system/files/working\\_papers/w28154/w28154.pdf](https://www.nber.org/system/files/working_papers/w28154/w28154.pdf)

<sup>6</sup> <https://thehill.com/opinion/finance/571824-minority-owned-businesses-face-an-unequal-recovery-an-underfunded-federal?r=1>

<sup>7</sup> <https://thehill.com/opinion/finance/571824-minority-owned-businesses-face-an-unequal-recovery-an-underfunded-federal?r=1>

<sup>8</sup> <https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2021/sbcs-report-on-firms-owned-by-people-of-color>;  
<https://www.cbsnews.com/news/women-minority-business-owners-paycheck-protection-program-loans/>;

<https://gusto.com/company-news/whats-holding-back-ppp-2-0-a-survey-of-small-businesses>;

Gusto has partnered with the National Association of Women Business Owners (NAWBO) to better understand the experience of women business owners' capital access. When asked about sources of funding, nearly 70% of women business owners said they relied on personal savings while just 15% of women business owners used an SBA-backed loan.<sup>9</sup> Notably, nearly half of the minority business owners in the study responded that they were interested in SBA loans but had not received one due to challenges in the application process – which was more than double the rate of white business owners.<sup>10</sup>

Our research also found that nearly half of all businesses started by women in the past year are minority-owned, who largely started these businesses out of economic need.<sup>11</sup> The COVID pandemic exacerbated the adversity that women entrepreneurs face, and women, in turn, responded by transforming challenge into opportunity. This is further illustrated by the 31% of women business owners that have school-aged children at home, who simultaneously face the demands of keeping their business afloat while providing childcare and education to their children in the midst of unreliable Delta and Omicron spikes.<sup>12</sup> These points illustrate the vital role that women owned businesses play in helping the economy to recover and we should prioritize Federal policies that help them thrive.

Our data shows that the government can and should do a better job of outreach to these communities to ensure they have access to financial products and services that can meet the needs of their businesses. Existing resources – such as the Minority Business Development Agency, Women's Business Centers, and Small Business Development Centers – should be better resourced to facilitate education and connections between banks, CDFIs, and other financial institutions.

Gusto supports additional resources for underserved communities, and is encouraged that legislation is being discussed that would require the Securities and Exchange Commission to expand the scope of its Advocate for Small Business Capital Formation to conduct targeted outreach to women- and minority-owned businesses. This Federal financial education and outreach program could help expand access to capital.

### **Speed Up Government Payments to Small Businesses**

Another challenge that we identified for small businesses that work on federal contracts is the slowness of getting paid by the government for work already completed. In 2020, Gusto was a leader of the PayToday coalition, a group of small business technology companies, which focused on amplifying awareness of outstanding receivables owed to small businesses from governments and businesses.<sup>13</sup> According to coalition data, small businesses are owed around \$900 billion and take on average 28 days to get paid, and even longer for government

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<https://gusto.com/company-news/how-the-pandemics-childcare-crisis-impacted-women-owned-businesses-and-altered-their-future>.

<sup>9</sup> <https://gusto.com/company-news/re-opening-for-business-the-tools-tech-and-policies-women-need-to-succeed>

<sup>10</sup> <https://gusto.com/company-news/re-opening-for-business-the-tools-tech-and-policies-women-need-to-succeed>

<sup>11</sup> <https://gusto.com/company-news/providing-for-those-who-provide-a-report-on-breadwinning-women-business-owners-their-critical-role-in-the-economic-recovery>

<sup>12</sup> <https://gusto.com/company-news/how-the-pandemics-childcare-crisis-impacted-women-owned-businesses-and-altered-their-future>

<sup>13</sup> <https://fundbox.com/blog/coalition-launches-paytoday/>

payments.<sup>14</sup> This leads to a mismatch in capital access between when a small business incurs expenses and receives payments – which can lead to businesses needing bridge loans while waiting to be paid by the government.

A meaningful action the Subcommittee can consider to benefit women- and minority-owned businesses is to require prompt payment to all small businesses that have contracted (or subcontracted) with the government. For example, under the Obama administration, the QuickPay Initiative guaranteed payment in 15 days. That kind of requirement for states distributing infrastructure dollars will ensure businesses are rightfully paid on time without needing to incur new debt.

Delaying payment is most damaging to the businesses with the least access to capital. As we have noted, women- and minority-owned small businesses are often those that have the least access to traditional financial services, startup capital, or personal resources, which makes it even more important that government payments are made on time.

### **Federal Women- and Minority-Owned Business Contracting**

Gusto supports the administration’s goal of ensuring that 15% of all Federal contracts go to small and disadvantaged businesses by 2025. Currently, only 10 percent of federal agencies’ total contracting dollars go to minority-owned businesses.<sup>15</sup> This initiative can help entrepreneurs of color overcome long-standing barriers to entry and boost our economy at a time when recovery remains uncertain.

### **State Small Business Credit Initiative (SSBCI)**

Gusto was encouraged that the American Rescue Plan included \$10 Billion to reauthorize the State Small Business Credit Initiative (SSBCI), and we urged the Treasury Department to ensure that these funds reach small businesses owned by women and minorities.<sup>16</sup> These businesses were disproportionately left out of the PPP program, which makes the expansion of SSBCI all the more important to aid in recovery.<sup>17</sup> Additionally, Federal data shows that minority business owner credit applications fare worse than white-owned businesses and are more reliant on personal funds to meet business needs; SSBCI can help address these disparities by focusing funds on business owners that are the most left out of the financial system.<sup>18</sup>

Gusto supports the proposed bill that would require annual reporting by States on the entities that receive SSBCI contracts, which will bring transparency to the program to evaluate equal access. Additionally, these reporting requirements will ensure that states distribute consistent assistance.

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<sup>14</sup> <https://fundbox.com/blog/coalition-launches-paytoday/>

<sup>15</sup> <https://www.sba.gov/blog/sba-releases-fy-2020-disaggregated-contracting-data>

<sup>16</sup>

<https://gusto.com/company-news/small-business-relief-council-sbrc-letter-to-the-treasury-department-urging-that-the-small-business-credit-initiative-ssbc-prioritize-underserved-businesses>

<sup>17</sup>

<https://www.brookings.edu/research/new-data-shows-small-businesses-in-communities-of-color-had-unequal-access-to-federal-covid-19-relief/>

<sup>18</sup> <https://www.fedsmallbusiness.org/survey/2019/report-on-minority-owned-firms>

## **Minority Business Development Agency (MBDA)**

The MBDA is essential to the recovery of minority-owned businesses, and Gusto advocated for its codification and expanded budget in the Infrastructure Investment and Jobs Act. Since 1969, the MBDA has been the only agency exclusively focused on expanding opportunities for businesses of color. The agency has long enjoyed bipartisan support and will be crucial to assisting entrepreneurs in underserved communities start and expand their businesses through technical training and assistance, import/export counseling and development services.

Gusto is encouraged that the Committee is considering legislation focused on providing equity funding through the MBDA to low-wealth minority business owners. These targeted funds coupled with technical assistance and training from the MBDA will have an amplified impact on businesses and the communities they serve. It is important that there is also consistency in government definitions around “low wealth communities” under the MBDA.

## **Small Business Administration Modernization**

Gusto supports reforming the SBA to better target women- and minority-owned businesses to ensure that they have better access to credit by reducing barriers for SBA lenders and changing program requirements to increase eligibility.

Gusto has recommended<sup>19</sup>:

- SBA should incentivize private lenders to reenter the small business lending market, which will expand access to loans with better terms for underserved borrowers.
- Reduce barriers to SBA lender approval and requirements: Many banks and fintechs have expressed concern that lenders are not writing small 7(a) loans because of the lack of cost benefit, time and paperwork requirement. Streamlining the application process and alleviating the difficulties would encourage more banks to participate in 7(a) lending.
- Use of alternate data and technology to better price a business’s credit risk: Additional data points of reference are useful when determining a company’s credit risk. There is a role for payroll companies, like Gusto, in evaluating a small business’s propensity to be late in meeting payroll and its employee turnover – both measurable indicators.

Many small businesses are prohibited from SBA funding due to requirements for collateral, no previous criminal convictions, strong personal credit, significant documentation, and two verifications of being unable to obtain credit elsewhere. Typically, underrepresented communities and newer entrepreneurs do not have many of these criteria established, making them ineligible to participate. Gusto has suggested the SBA evaluate whether its programs are accessible to all populations on an equal basis and adjust accordingly, and encourage the private market to evaluate its fair lending practices.

## **Broadband Infrastructure**

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<sup>19</sup> <https://www.discoursemagazine.com/economics/2020/11/09/surviving-the-winter/>

The pandemic has fundamentally altered the need for high-speed internet and has become an increasingly crucial tool businesses have relied on as they turn to online platforms to continue their operations since March 2020. A study conducted by Gusto and NAWBO found that 72% of women business owners reported increasing reliance on broadband during the pandemic – and nearly half of business owners noted that better internet would help them expand their businesses.

Unfortunately, there are disparities in accessing reliable, affordable internet for business owners of different races, which has had negative consequences as businesses have shifted online during the pandemic. White, Black and Hispanic business owners report similar rates of lacking access to broadband of 16%, 17%, and 15%, respectively. In comparison, 22% of Asian American or Pacific Islander business owners and 33% of Native American or American Indian owners lack internet. Having access to high speed internet has been essential for small businesses, and we encourage the Subcommittee to consider mechanisms to ensure that broadband access is implemented in the communities that most need it.

### **Employee Retention Tax Credit**

Gusto supports an extension of the Employee Retention Tax Credit (ERTC) into 2022. The ERTC provided a refundable tax credit to help small businesses keep their staff employed during the pandemic. Unfortunately, this program ended as part of the Infrastructure Investment and Jobs Act, and the ERTC only applied to wages paid before October 2021.

Gusto's data suggests that complex rule changes and slow release of guidance related to ERTC requirements resulted in delayed requests for the credit, contributing to a perception that this program was underutilized and not needed by small businesses during the ongoing pandemic.<sup>20</sup> The early elimination of the ERTC further exacerbated the condition of small businesses, and we believe that Congress should extend the credit to provide much-needed stability for small businesses.

Please consider Gusto as a resource in the development of any of future proposals dedicated to helping minority and women entrepreneurs reach their full potential.

We look forward to working with Congress to bolster opportunities for women and minority-owned businesses. Thank you for the opportunity to testify today and I look forward to answering any questions you may have.

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<sup>20</sup> <https://gusto.com/company-news/sbrc-employee-retention-credit-letter>