

Breaking Down Barriers

Overcoming Government Hurdles
for Gap-Closing Founders

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INTRODUCTION LETTER

At the Kapor Center, we believe the strength of America’s innovation economy will ultimately be measured not only by the technologies we create, but by who gets to build them, who benefits from them, and whose problems they are designed to solve. For nearly two decades, our work has focused on expanding access to that innovation economy — investing in entrepreneurs, supporting communities, and helping ensure that technology reflects the diversity and potential of the country it serves.

Across the nation today, a new generation of companies is emerging that embodies that vision. These gap-closing startups are using technology to expand opportunity and improve outcomes for communities that too often have been left out of innovation’s promise. They are tackling some of the country’s most urgent challenges — from child care and housing to food access, healthcare, education, and financial stability. In many cases, these companies are doing what startups do best: bringing new ideas, new tools, and new energy to problems that have persisted for decades.

But solving these challenges at scale requires partnership. The public sector is often the largest provider, regulator, and purchaser of services that affect people’s daily lives. When governments and innovative companies work together effectively, the results can be powerful — expanding access, improving efficiency, and delivering better outcomes for communities.

Yet again and again, founders told us the same story: the biggest barrier to impact is often not a lack of ideas, talent, or even capital. It is the difficulty of navigating the systems designed to deliver public services.

We heard from entrepreneurs across the country who described a public-sector landscape that is often difficult to access and even harder to navigate — shaped by outdated procurement rules, fragmented policies, long timelines, and inconsistent implementation. Through our rigorous research, we found that these barriers were not simply anecdotal but systemic impediments to impact. These barriers do not simply slow innovation; they prevent promising solutions from reaching the communities that need them most.

The consequences are significant. When governments struggle to partner with mission-driven innovators, the country misses opportunities to expand access to childcare, housing, healthcare, financial services, and other essential supports. Individuals and families are left waiting for solutions that already exist. And entrepreneurs who set out to serve the public good face obstacles that too often discourage them from continuing that work.

But this moment also presents an opportunity.

This report is designed to help accelerate that progress. By documenting the experiences of gap-closing startups and identifying the structural barriers they face, we aim to illuminate a path toward a more effective partnership between government and tech-driven innovation. One where public institutions and entrepreneurs work together to solve problems faster, scale solutions further, and ensure that the benefits of innovation reach individuals and families in every community.

The challenges facing our country are too urgent to accept slow, incremental progress. The entrepreneurs building solutions today are ready to move — and communities across America cannot afford to wait.

The task ahead is clear: to make it easier for innovation that serves the public good to reach the people who need it most.

We invite public leaders, entrepreneurs, investors, and advocates to join us in building that path forward. At the end of that path is startup speed, government scale, and true human impact.



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Across the United States, gap-closing startups¹ are increasingly playing a vital role in helping governments deliver public value more equitably and efficiently. These founders build innovative products that support access to services such as healthcare, child care, education, workforce development, affordable housing, and other critical social needs. Yet, while governments desire efficiency, innovation, and impact, many entrepreneurs find it difficult to navigate procurement and partnership systems that were not designed for early-stage, impact-oriented ventures.

2025 SURVEY RESULTS: OVERCOMING GOVERNMENT HURDLES FOR GAP-CLOSING FOUNDERS

To develop a set of recommendations to address these barriers, the Kapor Center gathered survey and interview data from entrepreneurs and investors whose companies work with government agencies across the country. The initiative sought to highlight recurring challenges that entrepreneurs experienced with government systems and to elevate recommendations for reform.

Methodology

The Kapor Center conducted research consisting of a pilot survey and a series of interviews to capture the lived experience of more than 60 entrepreneurs and investors who collectively hold over 3,000 public sector contracts across U.S. jurisdictions. These companies had extensive experience with government agencies as procurement partners and/or gatekeeping entities (for permitting, licensing, regulatory compliance, etc.). These data were used to gather insights from participants across multiple sectors about their experiences partnering with government entities at the state, county, and city levels providing essential services to communities.

Participants

The entrepreneurs and investors who participated in the research represented a range of gap-closing startups at varying stages, sectors, and revenue generated.

¹Gap-closing startups are defined in this report as entrepreneurial ventures that are technology-powered, venture-backed, and mission-driven.

Figure 1. Company stages represented in survey responses



Figure 2. Top sectors represented in survey responses

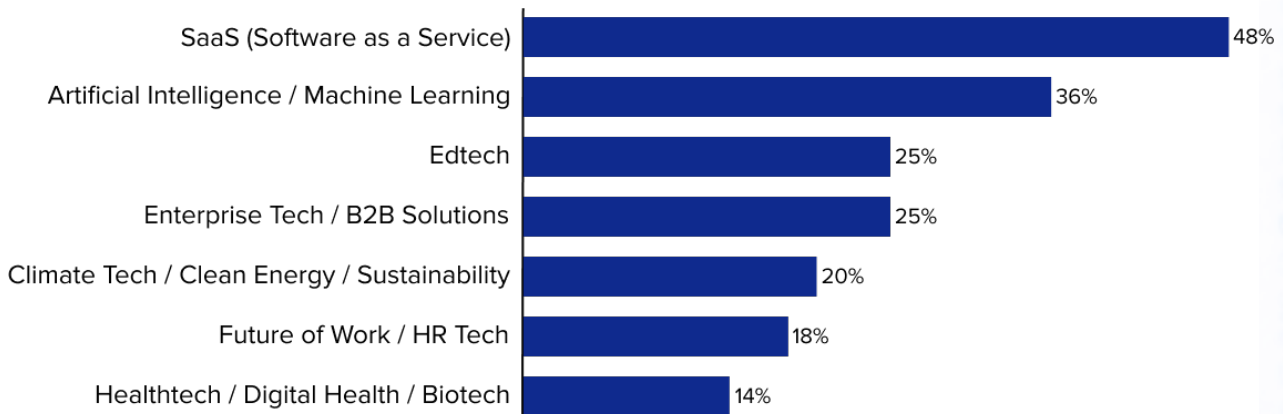


Figure 3. Annual revenue generated by surveyed companies



Findings: Key Barriers Identified

From our survey and interviews, founders made clear that the identified barriers are not abstract; they have tangible operational consequences for companies seeking to support public missions.

Several barriers were identified repeatedly by these CEOs and founders:

Figure 4. Key barriers gap-closing companies faced while engaging with government agencies



1. Slow Contracting Timelines: Protracted and unpredictable procurement processes make it difficult for early-stage companies to sustain operations while awaiting contract execution.

“It can take a year and a half just to enter a city or state market, and that’s if you’re lucky. Most of the time, you’re stuck in a three-month RFP process...” -Transportation Founder

2. Fragmented Communication and Outreach: Government buyers often lack unified and proactive outreach channels to identify, engage, and communicate with innovative firms.

“In any large organization — or government entity — the power to say yes is held by a few people, but the power to say no is widely distributed.”

3. Complex and Non-Standardized Applications: Inconsistent and confusing application requirements create unnecessary administrative burdens.

“We’re not fighting bad intentions — we’re fighting the brutality of bureaucracy.” -Housing Founder

4. Fragmented Licensing and Permitting: Differing local, county, and state requirements divert resources away from service delivery.

“In one state, there is a singular license for the whole state. In another, there are county-by-county license rules.” -Housing Founder

5. Compliance and Certification Burdens: Ongoing compliance requirements designed for large incumbents can disproportionately impact small and mid-sized technology companies.

“This is structural, not ideological. Too many layers...” -Child Care Founder

These barriers are real, and they don’t just separate gap-closing startups from new business, but also our most underserved communities from the change they deserve.



CASE STUDY 1: “THE MICHIGAN CHILD CARE MIRACLE” | WONDERSCHOOL AND THE STATE OF MICHIGAN

Problem: Too Many Children and Families without Child Care

Michigan, like many states across the country, faced a persistent child care crisis characterized by insufficient supply, financial instability among small providers, workforce shortages, and rising costs for families. These challenges disproportionately affected low-income and underserved communities and limited workforce participation for parents.

State leadership recognized that child care functions as essential economic infrastructure. Without reliable, affordable care, parents struggle to participate fully in the workforce, small providers face closure, and children lose access to early learning opportunities. Traditional policy tools alone — such as subsidy expansion — were insufficient without operational capacity to build new supply, stabilize providers, and modernize workforce recruitment.

Solution: Historic Partnership Between a Gap-Closing Startup and the State

Over a four-year period, Lieutenant Governor Garlin Gilchrist and the [State of Michigan partnered with Wonderschool](#), a gap-closing startup focused on expanding access to high-quality child care. Rather than operating as a traditional vendor, Wonderschool was integrated into Michigan’s early childhood strategy to align policy priorities with entrepreneurial tools and on-the-ground implementation.

Key components of the collaboration included:

- 1. New Supply Creation:** Wonderschool supported recruitment, licensing navigation, and business launch assistance for new providers across the state. This included Michigan-specific toolkits, structured training through Wonderschool Academy, and hands-on coaching for prospective providers.

- 2. Business Sustainability Support:** Existing providers received coaching in pricing, compliance, operations, and long-term growth planning, strengthening the financial resilience of small child care businesses.
- 3. Workforce Recruitment Infrastructure:** Through platform-enabled teacher recruitment tools, Michigan modernized early childhood workforce matching and expanded the available talent pool for licensed centers.
- 4. Policy Alignment with Affordability Strategies:** Michigan paired supply expansion with affordability strategies such as the Tri-Share model, ensuring that new capacity translated into usable access for working families.

Impact Delivered: Record Results at Record Speed

[The impact for families and kids](#) delivered in Michigan:

- 12,613 newly available approved teachers are available through the platform
- Nearly 400 new child care programs launched or in licensing pipeline statewide



CASE STUDY 2: MORE CHILDREN CONNECTED TO MORE FAMILY | BINTI AND THE STATE OF MARYLAND

In a landmark effort to safeguard the well-being of youth in foster care, the state of Maryland partnered with Binti, a mission-driven software company, resulting in a dramatic increase in kinship placements. Through this seminal collaboration, Maryland rapidly accelerated its ability to connect vulnerable children with the protective, loving environments of family and close kin. Within just three months, this partnership yielded thousands of potential connections and delivered measurable increases in kin placement rates across the state, fundamentally improving outcomes for youth in care.

Problem: The Urgent Need for Kin Placements for Youth in Foster Care

Maryland faces the critical challenge of ensuring positive, stable living arrangements for its more than 3,000 children and teens in foster care. [Extensive research](#) consistently demonstrates the profound advantage of kinship care: children who are placed with family members or close kin experience higher overall well-being, reduced emotional and psychological trauma, and a significantly higher probability of achieving permanency in a loving home.

However, identifying and vetting these kinship placements at the necessary scale has long been a major systemic hurdle for the state. As caseworkers dedicate valuable time to searching for viable options, children can remain in the instability of foster care for extended periods, ranging from a few months to several years, further compounding their initial trauma. This gap highlighted a critical need for innovative solutions that could expedite and broaden the scope of kin search efforts.

Measurable Placement Outcomes:

The increased connection rates translated directly into higher stability and better outcomes for youth in care:

- **Statewide Increase in Kinship Care:** The portion of youth in care living with kin saw a major **increase of 33%** across the state, ensuring that a substantially larger number of children benefit from the security of family.
- **Jurisdictional Excellence:** Eleven Maryland jurisdictions have achieved the critical milestone of **doubling their kinship placement rates**, establishing new benchmarks for success in child welfare.
- **Impact in High-Need Areas:** Baltimore City, the jurisdiction responsible for the largest population of youth in care, saw an **18% increase** in kin placements, demonstrating the solution's effectiveness where the need is greatest.

Impact Delivered: Rapid, Scalable Results

In the short period between Binti's launch in September 2025 and December 2025, the [collaboration delivered immediate and transformative results](#), proving the immense value of technology in achieving vital child welfare objectives.

Key Activity Metrics:

- **Searches Completed:** Caseworkers have completed more than 4,500 comprehensive searches, demonstrating widespread adoption and utilization of the new tool.
- **Connections Identified:** The searches successfully identified over 4,300 potential connections for foster care placement, dramatically increasing the pool of relatives and close family friends available to support youth.
- **Efficiency Gains:** On average, each search efficiently locates 26 potential connections per child, a significant increase in the speed and efficacy of identifying appropriate placements.

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This initial success underscores the profound value of combining mission-driven technology with dedicated public service. The collaboration between Binti and the Maryland Department of Human Services is not only increasing placement rates but is fundamentally ensuring that more children are connected to the familial support systems proven to mitigate trauma and offer a greater chance of being placed in a loving, permanent home.

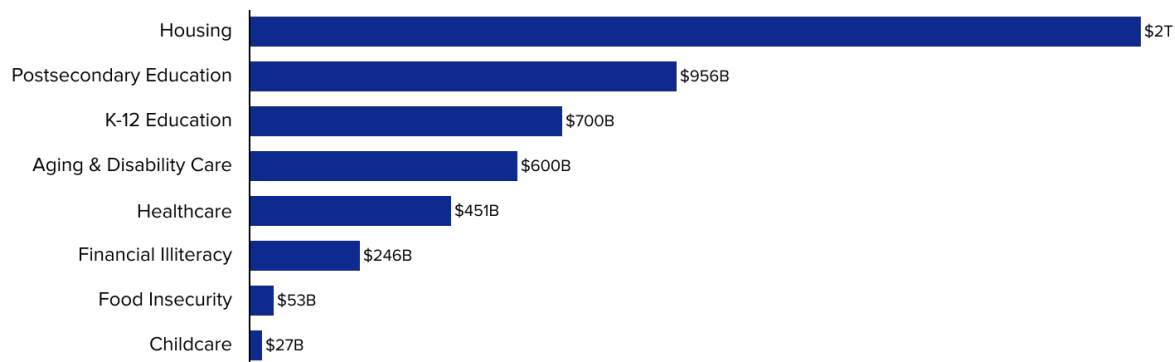
How Can We Get These Types of Partnerships and Impact Everywhere?

The state partnerships that Wonderschool and Binti were able to secure demonstrate what is possible when gap-closing startups partner with state and local governments. If we could repeat this type of impact everywhere, what would that mean for the country?

THE 2% SOLUTION: A \$100B OPPORTUNITY TO IMPROVE AMERICA

The cost of doing nothing is the missed opportunity of replicating impact like Michigan and Maryland across the country for every American. To understand the cost of this missed opportunity, we first look at the problems we will not solve and the gaps that we will not close. These gaps are not only impacting Americans' quality of life but bear an unsustainable cost to the economy. **Based on data from a cross-section of entities, the annual cost in lost economic output exceeds an astounding \$5T.**

Figure 5. The cost of persistent sector gaps to the U.S. economy



If the United States made just a 2% improvement in each of these areas, the impact would be \$100.7B in gains to the US economy.² We have examples of gap-closing startups like Binti producing gains well above that. If America had enough gap-closing startups to tackle each of the problems identified and produce at least a 2% improvement on all the component problems therein, the amount of economic output added to the US economy annually would be:

- Greater than the [annual budget](#) of more than 44 states individually
- Equal to the amount of money it would take to send 6.4M additional [kids to childcare annually](#)³
- Equals the [amount needed to hire 1.5M new STEM teachers](#) in our schools⁴
- [More than 50% of the amount we would need to end poverty](#) in this country

If this large opportunity to improve the lives of every American is before us, why haven't we seized it yet? That question is what we seek to answer.

² See Appendix A for details of the impact of economic improvements to each sector.

³ Calculated using the average annual cost (using the average space-weighted average) for one infant at a daycare center at \$16,000

⁴ Calculated using the median annual base salary, including summer compensation of regular full-time public school Mathematics & Computer Science teachers (at \$67,100)

THE PATHWAY TO SOMETHING BETTER: NEW APPROACHES AND SYSTEMS TO UNLEASH IMPACT THROUGH PARTNERSHIP

In our conversations with entrepreneurs, we identified several clear goals that any set of reforms would have to meet to remove the barriers that stand in the way of the partnerships between gap-closing startups and governments:

- **Increased Speed:** Expedited contracting processes to reduce delays from solicitation to award.
- **More Flexibility:** Greater flexibility in documentation, insurance, and compliance requirements proportionate to contract size.
- **Improved Outreach:** Improved outreach and communication from government agencies.
- **Equitable Access:** More equitable access to bidding opportunities for diverse and mission-driven firms.
- **Focus on Performance over Compliance:** Streamlined compliance costs to allow companies to focus on delivering impact rather than managing paperwork.

Many of the state and local leaders that we have engaged agree on these goals, but the question is where to start. To reach these goals, we propose a three-part framework — Connect, Reimagine, Reform:

CONNECT REIMAGINE REWRITE

CONNECT

GAP-CLOSING STARTUPS TO BUSINESS SUPPORT SERVICES

Nearly every jurisdiction of any size in America has individuals and/or an agency tasked with directly supporting businesses, particularly small ones, in getting customers and growing their business (including government business). These range from the Department of Small Business Services in New York City, to the Department of Commerce in Maryland, to the Small Business Development Center in West Virginia (division of the state's Department of Economic Development), to the Small Business & Entrepreneurship Department of Bexar County, Texas (which includes San Antonio). However, in our conversations with entrepreneurs, very few have engaged with these services in jurisdictions in which they operate. For many, it is because they are unaware of them, and for others, it is unclear how effective the services will be. These resources are already paid for by governments and they could be helping gap-closing startups to a much greater extent than they do right now. Making them more known and potentially more effective is the lowest-hanging fruit to help remove the aforementioned barriers because it is within the full control of the jurisdiction and requires the least time.

REIMAGINE

THE PROCESS OF COMPLIANCE AND PROCUREMENT

From the world of civic technology and customer experience, there are many government processes, including compliance and procurement, that are not optimally designed. Without changing laws or regulations, governments could apply the best lessons on human-centered design to remake these processes to have fewer steps, more clarity, decreased repetition, and better coordination among government actors. This would save time and taxpayer money as well as increase impact for startups, governments, and most importantly, the people they both serve. This part of the framework is also within a jurisdiction's control but requires more time than the previous one.

REWRITE

COMPLIANCE AND PROCUREMENT LAWS AND REGULATIONS

The hardest and most time-intensive part of this framework is to rewrite existing procurement and compliance regulations to protect longstanding values like equality, environmental stewardship, and citizen safety while allowing greater speed and innovation in delivering needed services.

This framework gives every city, county, and state something they can do right now to remove the barriers that stand between them and partnerships with gap-closing startups to produce the impacts we all want and that citizens deserve.

CONCLUSION

The opportunity we have is too big to ignore: persistent gaps in critical sectors like healthcare, housing, and education impose a staggering \$5T annual cost on the U.S. economy, disproportionately impacting underserved communities. Yet, we simultaneously illuminate a powerful, proven path forward, exemplified by the successful collaborations between the State of Michigan and Wonderschool and between the State of Maryland and Binti, demonstrating that mission-driven, gap-closing startups are vital to modernizing and strengthening public services. The primary obstacle is not a lack of innovation or will, but rather the systemic and procedural barriers in government procurement and partnership that prevent these impactful ventures from scaling their impact. Addressing these structural hurdles is not merely an administrative exercise; it is a prerequisite for unlocking a massive national economic and social gain.

We stand at a critical inflection point: either continue to bear the unsustainable cost of the status quo, or embrace the 2% Solution. By implementing the proposed framework — to connect founders to existing business support, reimagine outdated processes, and courageously rewrite restrictive regulations — cities, counties, and states can dismantle the barriers separating our most ambitious gap-closing startups from our most forward-thinking public leaders. That type of partnership at scale offers a projected gain of over \$100.7B annually to the U.S. economy. We call on all leaders, public sector officials, and entrepreneurs to recognize this opportunity, leverage the power of partnership, and move with urgency to secure a better future for all Americans.

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The Impact of Closing Gaps on the U.S. Economy

Projected Annual Gains (Billions USD)

Impact	1% (\$B)	2% (\$B)	10% (\$B)
Housing	\$20.00B	\$40.00B	\$200.00B
Healthcare	\$4.51B	\$9.02B	\$45.10B
Food Insecurity	\$0.53B	\$1.06B	\$5.30B
Child Care	\$0.27B	\$0.55B	\$2.73B
K-12 Education	\$7.00B	\$14.00B	\$70.00B
Postsecondary Education	\$9.56B	\$19.12B	\$95.60B
Aging & Disability Care	\$6.00B	\$12.00B	\$60.00B
Financial Illiteracy	\$2.46B	\$4.92B	\$24.60B
Total National Gains	\$50.33B	\$100.67B	\$503.33B