Access to Capital

Engine

How does public policy impact startup funding?

Most startups rely on a combination of funding methods. Studies show that 65 percent of entrepreneurs rely on personal and family savings for startup capital, and only 0.5 percent of entrepreneurs use venture capital. In order to promote the growth of new startup ecosystems, policymakers need to craft rules that can help entrepreneurs throughout the country access capital.

Key Takeaways:

- Startups are the economy's main net job creators, yet they were effectively excluded from many COVID-19 assistance programs. Going forward, legislators should consider the unique circumstances facing startups when formulating policy.
- Most startups rely on sources of funding outside of traditional venture capital.
- Policies should reduce friction to accessing capital for startups. Legislation should open up capital markets to allow more people to participate in funding startups.

Why does it matter to startups?

Accessing capital is always top of mind for startups. If entrepreneurs are forced to take on credit card debt or turn to family members for seed funding, many innovative companies will simply never get off the ground. Equity Crowdfunding presents a new avenue for startups to raise capital from investors, including those who have historically been unable to fund early stage companies. After the Jumpstart Our Business Startups (JOBS) Act—signed into law in 2012 and fully implemented in 2016—legalized equity crowdfunding, more than 1,000 companies in all 50 states and over 80 industries filed with the Securities and Exchange Commission (SEC) to raise money on online platforms.

Where are we now?

COVID-19 & Capital Access: The government's response to the Coronavirus Disease Pandemic revealed a general lack of understanding about startups' business structures. This caused startups to be excluded from many resources meant to help small businesses and diminished the effectiveness of others. In weighing future fiscal responses, policymakers should consider the unique characteristics of startups to ensure that they are eligible to benefit. This will ensure that startups and other small businesses—our economy's main job creators—are well positioned to thrive.

Crowdfunding: The ability to utilize equity crowdfunding is a positive development for startups. However, for many startups, it carries a prohibitive cost of capital that can exceed $20,000 for even a small raise. Earlier this year, the SEC considered changes that would help dilute these costs over a larger amount of capital. The changes, namely, raising the funding limit, raising the limit on non-accredited investors' contributions, and allowing firms to 'test the waters' before issuing an offering are all steps toward making crowdfunding a cost effective option for startups. To lower the cost of issuing a crowdfunding offering, onerous paperwork requirements will have to be pared back. Doing so will make equity crowdfunding more cost effective for a wider range of entrepreneurs and will open up new investment opportunities to everyday Americans.