What policymakers can do:
Policymakers must continue to improve the regulatory environment in which startups operate to raise capital. Through past efforts by the Securities and Exchange Commission including an expansion of the definition of accredited investor, lifting the limit a company can raise through crowdfunding, and increasing the offering limits for Regulation A and Rule 504 were helpful, policymakers should continue to seek out ways to best enable startups to raise capital effectively. Policymakers can also address capital access issues with federal funds, including by streamlining federal grant processes—an at times slow process that is poorly suited to the startup lifecycle—directing federal funds to incubators and accelerators, and supporting organizations that provide valuable support, resources, and programming for startups. Policymakers should specifically prioritize equalizing access to capital for underrepresented founders, including through incentivizing venture capital funds to be allocated to diverse founders, ensuring access to Small Business Administration (SBA) resources, and identifying and rectifying discrimination in bank lending. Policymakers should undertake efforts to bring diversity to the investment community, including through the Small Business Investment Company (SBIC) program, to encourage the SBA to license smaller funds (which are more likely to be diverse) as SBICs and would be more likely to invest in underrepresented founders.

Why it matters to startups:
Access to capital is perhaps the most critical barrier startups face when launching. Most startups launch with a combination of limited amounts of funding, often cobbled together from a mix of personal loans and family savings. Even the average seed stage startup only has roughly $55,000 a month in resources, which, after payroll and expenses, leaves little room to cover extras. Only an estimated 1 percent of startups even receive venture capital, and founders of different backgrounds—including race, gender, and geographical location—often face greater barriers across the board in accessing the capital they need, from friends and family rounds, to business loans, to venture capital.

Key takeaways:
- Most startups rely on a patchwork of funding sources outside of traditional venture capital.
- Policies should make it easier for startups to access capital and open up capital markets to allow more people to participate in funding early-stage companies.
- Difficulties with accessing capital are especially relevant to underrepresented founders, including women and founders of color.

Startup Spotlight

Productions.com
(Atlanta, GA)
Carolyn Pitt, CEO & Founder

Productions.com is a platform that simplifies and diversifies hiring within the production community.

“Accessing capital is one of the hardest things that founders have to do. And research has shown that it’s much harder for women founders to access capital, and even harder yet for founders of color. As a Black woman founder, my experience has borne that out. While the vast majority of venture capital is granted each year to white men, .0006 percent is granted to Black women. But it’s not just venture capital that is more challenging for underrepresented founders to access. Black and Brown founders often don’t have a friends and family round—or they have one that’s substantially smaller than their counterparts—due to the lack of generational wealth. In addition, when we consider securing loans, we often encounter additional barriers and difficulties.”