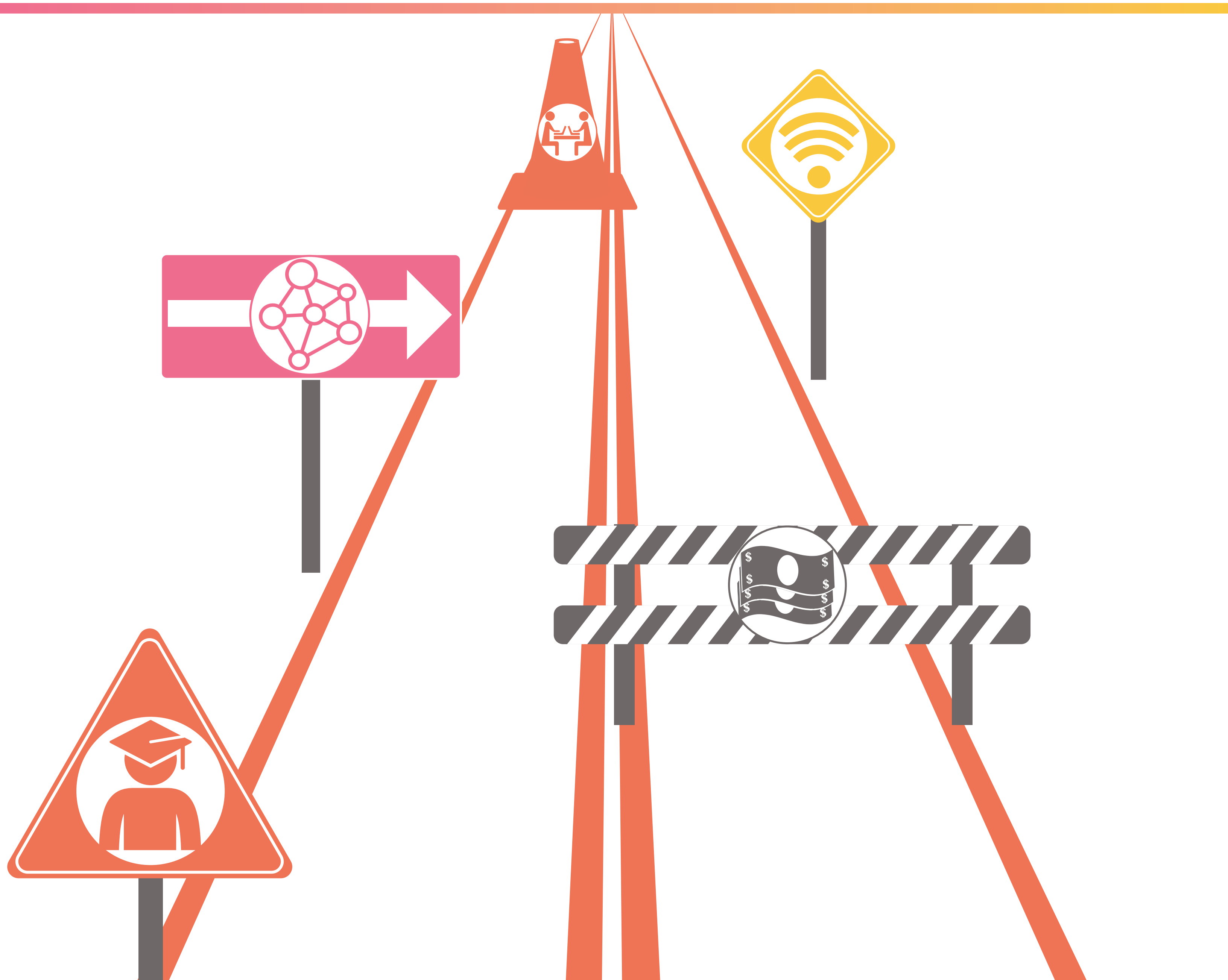
GROWING THE INNOVATION ECONOMY:

A Policy Roadmap for Supporting Startups Everywhere



Startup Spotlights

This report cites several interviews with startup founders and ecosystem leaders throughout the country. Their organization names and locations are shown on the map below. Those interviews were conducted as part of our weekly #StartupsEverywhere series. The full catalog is available at www.engine.is/startupseverywhere.

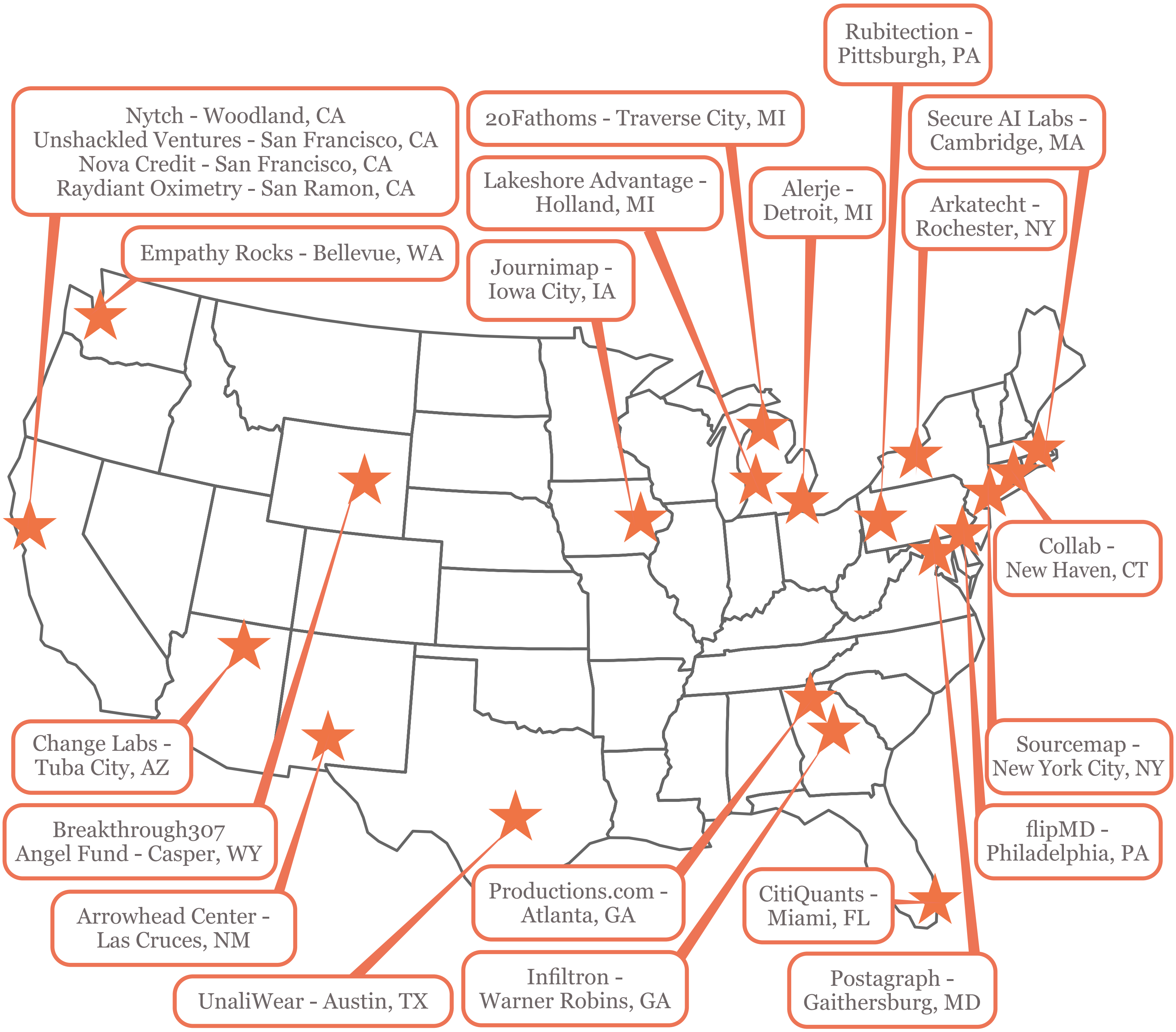


Table of Contents

Introduction

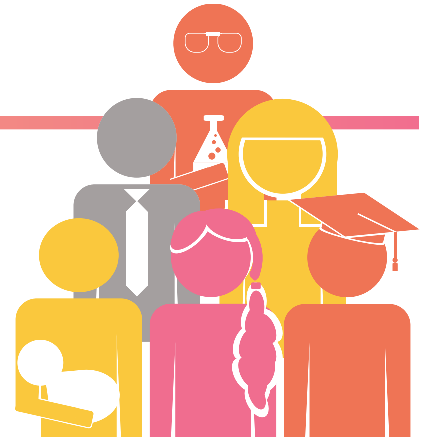
The last two years have been a period of significant uncertainty for all small businesses, including startups. But one certainty has emerged; technology-enabled, high-growth startups in communities across the country serve as a significant source of job creation and are a source of the paychecks of tomorrow. It is critical that policymakers devote energy and resources to ensuring that our nation's innovators have the infrastructure they need to continue to launch, grow, and create jobs.

In response to the pandemic, policymakers enacted new programs and relief efforts, including the Paycheck Protection Program, to support business owners and their employees. But these solutions were limited and aimed at a wide swath of small businesses. They are not enough to support the long term success of the startup ecosystem. The next necessary step is a reimagining of the policy frameworks and infrastructure that innovators and entrepreneurs rely on to launch and grow their businesses.

Over the past two years, Engine has conducted periodic surveys of startups in our network to assess how they have fared—and importantly, what other policy changes would help startups grow that have yet to be implemented. These startups range in size, but are generally technology or technology-enabled new ventures with high-growth potential.[1] The first survey,[2] conducted in April of 2020, indicated what was true for many businesses—64 percent of startups stated that they needed emergency relief to stay afloat. A majority—65 percent of startups surveyed—intended to apply for Small Business Administration (SBA) emergency loans if they qualified, and 47 percent of startups had either already laid off employees or anticipated laying off employees within three months.[3] Engine conducted another survey in October of 2020 to assess where startups were six months down the line. Again, we found many startups were struggling—a plurality (46 percent) of startups surveyed indicated they were in need of emergency assistance to remain open through the end of the year.[4] And of the startups who indicated they previously received emergency relief in the previous six months (54 percent), 61 percent indicated it was not enough to support their business operations during the pandemic.[5]

In March of 2021 we conducted a third survey to assess the state of startups and identify specific barriers to startup formation and growth, as well as relief proposals that would be most beneficial to the startup community.[6] The results of this survey, the preceding surveys, and the conversations we have with startups as a part of our #StartupsEverywhere profile series have informed many of the policy proposals contained within this report and reflect a startup-forward policy agenda. The third survey critically identified a number of barriers to formation and growth, including difficulty accessing capital (including venture capital), lack of access to affordable, quality healthcare, and student loan debt, that have impacted startup growth, and will continue to impact startup growth as the country emerges from the uncertainty of the last two years. The policy solutions in this report would individually go far to reduce the barriers startup founders identify as holding them back and support innovation, and more broadly, the startup ecosystem. But most importantly, policymakers need to listen to startups and make sure that the resources are available to founders where they are at. In doing so, government can hear directly from founders and assess their needs, allowing available resources to more effectively be used in support of our nation's innovation ecosystem.

Access to Human Capital



To support the startup ecosystem, policymakers must pursue policies that enable new startup formation and growth, and uplift the people who found and work at America's startups. Helping entrepreneurs and their early employees requires government to view startups' needs through an expansive lens, including the factors that influence whether someone can even pursue a career in entrepreneurship and innovation to begin with. Those include strengthening STEM and innovation education and networking and mentorship opportunities, addressing barriers like student loan debt, access to healthcare and affordable child care, and removing workforce policies that keep would-be founders and early-stage employees from the innovation space in the U.S. Policymakers must address these "other" factors that impact a person's decision to take the risk of launching or working for a startup.

Mentors & Networks

The ability of a startup founder to build a network and find a mentor is key to success. These relationships can take many forms,[7] including between entrepreneurs and investors, between entrepreneurs and industry advisors, between similarly situated entrepreneurs, and between entrepreneurs and government agency partners. Programs that encourage mentorship opportunities and network building are a critical resource and can be essential to a founder's startup journey.[8] One study indicated that 93 percent of startup founders found mentorship to be a significant component of their success.[9] While many new businesses will fail within the first couple years, another study found that 70 percent of businesses with mentors survived at least five years.[10] And having a mentor, or participating in a mentorship program, also gives founders access to broader networks, which can go on to serve as future sources of funding.

For underrepresented founders, mentorship and network building opportunities can be particularly limited, compounding other obstacles like limited access to capital. For instance, opportunities to find mentors and build networks can be limited by where a founder went to college or socioeconomic factors. And because mentorship programs can be tied to funding—historically, both venture capital funders and startup founders have tended to fund or hire from within networks of people that have similar life views and experiences—without these connections, founders indicate that they struggle to get investments in their companies.[11]

Policy Solutions: Replicate existing support programs. Policymakers should consider building off of existing models to increase pathways for success for startups, supporting innovative solutions and the development of critical technologies and services. Under the Obama administration's "Startup America" Initiative, agencies—including the SBA, Department of Energy, and Department of Veterans Affairs—launched agency mentorship programs to support accelerators, and in turn startups.[12] Some entrepreneurs see success[13] through the SBA's SCORE program, which provides on-demand free and confidential advice for small business owners.[14] Expanding upon these programs to include more long-term support could generate more positive outcomes, allowing a mentor to track startup success as they grow.

Create new government funding streams paired with a mentor and advisors. Other options include existing proposals like the Next Generation Entrepreneurship Corps Act,[15] which would use a national competition to identify skilled entrepreneurs and provide them with support.[16] The competitive fellowship program would prioritize diversity amongst participants, provide a two-year stipend for healthcare, living expenses, and basic startup costs, and provide interest-free student loan deferral for a two year period. Fellows would be partnered with a mentor and would receive support from an advisory board.[17]

Access to Human Capital

Startup Spotlight

Change Labs

Tuba City, AZ
Heather Fleming, Co-Founder

"A lot of business owners or entrepreneurs feel very isolated. There are no words in Navajo for the concept of entrepreneur or business, and people who are engaged in business activity feel like it's another world and separate from our Native American identity. Our incubator is trying to create new narratives and help people connect with their peers."

Startup Spotlight

Secure AI Labs

Cambridge, MA
Anne Kim, Co-Founder

"Founders often really need more business success and mentorship. Starting a business and getting the opportunity to prove your technology works can be harder for underrepresented founders. And it may be harder for underrepresented founders to find mentors. So the government could provide resources or incentivize mentorship to help startups learn to close customers and grow. I think I've benefited most from actual mentors that have taken the time to teach me how to develop my business."

Startup Spotlight

Postagraph

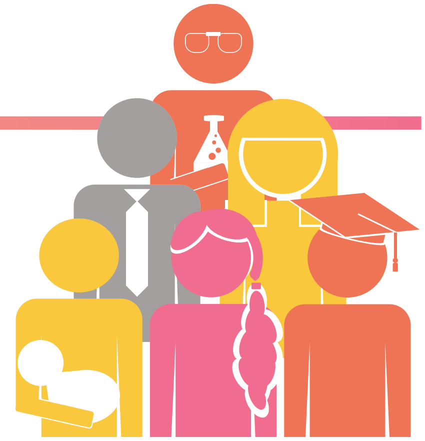
Gaithersburg, MD
Pelumi Olatinpo, CEO

"[A] lot of funding that happens in this area is based on relationships. A lot of white entrepreneurs that are building startups already have those networks and connections. . . . I think a program that adds a lot of incentives for angels to make investments in underserved communities could actually work."

STEM & Innovation Education

Early and robust STEM education is critical, not just for addressing the talent needs of current U.S. startups, but for fostering the next generation of startup founders. Robust STEM education should start early. Children develop ideas for what they can be and achieve at a very young age—exposing children to STEM and innovation as career options while they are young opens their eyes to what may be possible down the road. Though the U.S. is lagging behind much of the world in producing upper-level STEM graduates, students may only be interested in pursuing STEM in college and beyond if they have a strong foundation in their youth.[18] Increased funding to further develop STEM education programs (that are representative and reflective of students) is important.

An emphasis on STEM learning is particularly important in underserved communities where many lack opportunities to enter technology-dependent fields. The nation's innovation ecosystem can only thrive with a high-skilled, diverse talent pool—studies show that gender-diverse and racially-diverse teams outperform and are more likely to be profitable than non-diverse teams.[19] But STEM attrition rates are even greater amongst students of color.[20] Students of color represent 38.5 percent of STEM postsecondary students, but Black and Latino students switch out of STEM degree programs at higher rates than their white peers.[21] Even further, roughly 20 percent of Black STEM PhD holders and 20 percent of women PhD holders leave STEM fields.[22] And this attrition rate is further highlighted when looking at representation generally within the STEM workforce where, of all STEM professionals, only 9 percent are Black and only 7 percent are Latino.[23] Policymakers must explore the causes of this "leaky pipeline," including



identifying the existence of selection bias and the role external factors, like child care responsibilities or lack of mentors, play in the pursuit of STEM careers.

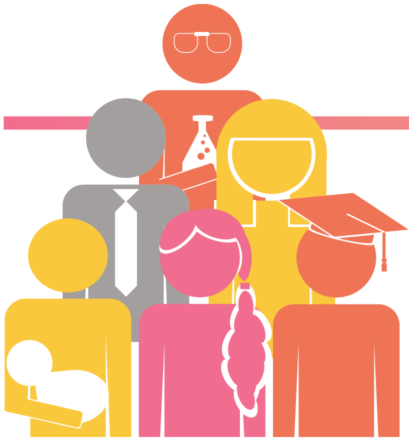
Policy Solutions: Invest in Broad STEM education. Policymakers should invest in programs that encourage students of all ages to explore STEM education. For example, one option from the Day One Project, a policy entrepreneurship platform originally created to arm the administration with meaningful proposals in 2020, is the creation of a Next Generation of STEM Talent Through K–12 Research Programming Initiative, which would provide agency funding to support K-12 research programs that encourage children to pursue STEM careers.[24] The program would also provide support for educators and would emphasize inclusivity, including for rural students without significant mentorship support in place.

Provide support to innovation and entrepreneurship education programs. Policymakers should also look into supporting innovation and entrepreneurship (I&E) education programs, which range from guiding students from an idea to a business or technology launch, to focusing further upstream, by training students to be more innovative and creative.[25] As interdisciplinary programs, they may naturally be more representative of the diversity of a student body and have the benefit of attracting students from outside traditional STEM educational pathways. Policymakers should also consider how government could support the creation of I&E programs at community colleges, land-grant universities and HBCUs, in order to support diversity amongst innovators.

Ensure access to STEM resources for underrepresented students. Government should adequately fund and ensure access to STEM resources and programs for all students, with a particular emphasis on underrepresented students. Studies have found that STEM education is lacking—in particular within high poverty and micropolitan communities and within indigenous communities.[26] A focus on demographic and geographic equity is crucial. And this includes access to educators, extracurricular activities, and entrepreneurial co-curricular activities. These options should be tailored to diverse student bodies and should foster excitement for STEM and innovation careers, including by highlighting contributions of diverse innovators.[27] And government could make investments in institutions like land-grant universities, community colleges, and HBCUs that support a diverse student body.

Increase diversity amongst STEM educators. Policymakers must also critically focus on boosting diversity amongst STEM educators. Educational success can be improved upon and nurtured through a sense of belonging, but the United States' workforce of teachers is predominantly white, meaning, students of color do not see themselves reflected in their educators.[28] Proposals, like those championed by the Day One Project—including using grant programs to support and recruit diverse teachers, and more/better student loan forgiveness so entering the education field is financially possible—could lead to more representation among educators.[29] The federal government should better elevate and incentivize state efforts focused on teacher recruitment and retention, including programs that support a diverse workforce of teachers. Policymakers should consider further support for programs—like the Smithsonian STEM Education Summit and 100Kin10—that specifically seek to increase diversity in STEM and I&E education. Finally, the Department of Education should also begin actively recruiting educators more directly, particularly diverse educators.[30]

Boost support for STEM programs outside the university setting. Government should provide resources for STEM programs for those without a college education, as innovation does not necessarily require a degree.[31] For example, alternative education including immersion programs or "boot camps" can be another successful path to STEM and innovation careers. And expanding funding and resources for apprenticeship programs is another way that policymakers can enable workers that lack significant resources to obtain the skills and qualifications needed for STEM careers.[32]



Access to Human Capital

Startup Spotlight

Infiltron
Warner Robins, GA
Chasity Wright, Founder

"I worked on a bill to provide funding to STEM organizations that focus on students of color across Georgia's education system. That funding has gone to create STEM clubs across the state. We are hosting targeted workshops, and we are seeing more Black and Latino children engaged with science and math throughout the course of their education. If I had a STEM club in elementary school, then I think I would have been an aerospace engineer a lot earlier in my career."

Student Loan Debt

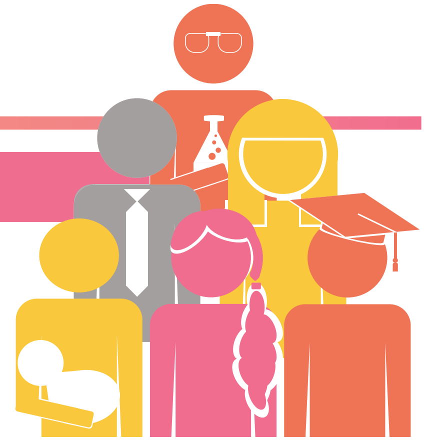
Excessive student loan debt serves as a roadblock on the path to entrepreneurship for younger Americans. According to one 2018 study, while roughly 60 percent of millennials self-identify as entrepreneurs, only 4 percent were actually self-employed.[33] In the mid-1990s, young people were responsible for launching 35 percent of startups.[34] By 2014, that number dropped to just 18 percent.[35] In 2016, the Small Business Administration deemed millennials the least entrepreneurial generation.[36] At the same time, Americans hold roughly $1.75 trillion in student loan debt, with about 48 million Americans owing money for the financing of their education.[37] Between 2004 and 2014, the number of borrowers skyrocketed by 89 percent, as did the debt held by student borrowers (rising 77 percent).[38] Studies indicate that most borrowers will be repaying their loans at least into their forties.[39]

Student loan relief on the part of the federal government would be a meaningful step that could boost new business formation. Not only are student debt-holders likely to be more reluctant to forgo a steady paycheck to pursue entrepreneurship, their loans often limit their means of accessing the capital needed to get a startup off the ground. Indeed, some borrowers have indicated that the presence of student loan debt precluded them from obtaining loans to launch and grow their startups.[40] A limited number of startups receive venture capital but most rely on a combination of other sources, like self-funding, funds from friends and family, and personal or business loans—limits on just one of those alternative channels can stifle a new business.

Experts largely agree that the increase in student loan debt can be tied to a decline in entrepreneurship for debt holders.[41] And while pandemic-era payments pauses are helpful for some, the elimination of some of this debt, particularly amidst the personal economic uncertainty resulting from the pandemic, could help encourage new business formation.

Policy Solutions: Ease the student debt burden to enable more individuals to pursue entrepreneurship. Policymakers should consider proposals to eliminate a modest amount of debt per debt holder or to create a student loan relief program for startup or new business founders. Policymakers could consider an existing proposal to ease student debt for entrepreneurs based off of the public service loan forgiveness program requiring capped payments for 5 years, followed by forgiveness.[42] Policymakers must also consider steps to rectify the situation that led Americans into a student debt crisis—mounting costs of college, coupled with burdensome loan repayment plans that through their design, limit American worker potential.[43] To help reduce mounting tuition prices that lead student borrowers to take on more debt, policymakers should consider the relationship between public funding for public universities and cost of attendance. Increasing public support could help reduce the amount of debt that students take on to further their education.

Access to Human Capital



Health Care Access

Launching a startup is inherently risky, and for founders that do not have an alternative source of income, there is often a limited safety net for both founders and their employees, both during a company's initial stages and if a venture fails. An Engine survey of startups in our network found that 34 percent of respondents indicated that lack of access to affordable, quality health insurance was an initial barrier to startup formation. Studies[44] have demonstrated this relationship between health insurance and new business formation and self-employment—families that experience health challenges are less likely to pursue entrepreneurial activities that would leave them without health insurance.[45] Single women—who are already underrepresented in the innovation ecosystem—who don't have health insurance coverage are less likely to found startups.[46] Meanwhile, access to Medicare has been shown to prompt an uptick in new business formation.[47]

While the Affordable Care Act has had a measurable impact on increasing the number of insured Americans, many still look to the stability and cost-sharing associated with employer-sponsored health plans. Striking out on your own can also mean losing a number of other benefits that provide safety and security in a worker's life.

Policy Solutions: Build a social safety net for founders to encourage entrepreneurship. Policymakers should look into ways to boost entrepreneurship through exploring support to potential founders' safety nets, including better access to affordable health and social benefits. Policymakers could look to the Emergency Portable Benefits for Independent Workers Act which was introduced in response to the pandemic and would establish an emergency portable benefits fund as inspiration for future proposals.[48] And while the CARES Act made unemployment insurance programs available to "nontraditional workers" for the first time ever, the benefit was temporary.[49] Other countries, like France, have toyed with providing extended access to unemployment benefits for individuals who start new businesses and found that the program indeed led to an increase in business creation.[50] By providing similar benefits workers have come to rely on in mainstream corporate America, policymakers could help spur a new generation of entrepreneurs.

Startup Spotlight

Breakthrough307 Angel Fund

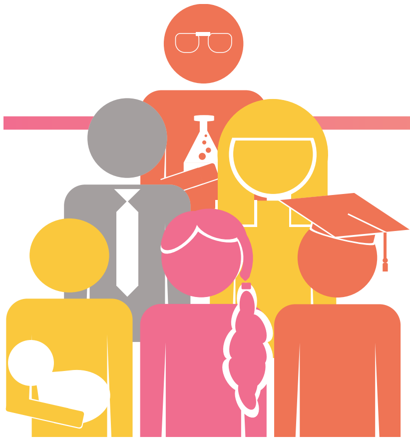
Casper, WY
Jerad Stack, Co-Founder

"[W]e've also got to do something about health care. I talk to a lot of entrepreneurs, and one of the reasons they don't quit their day jobs is because of access to health care. We need to have some flexibility around the ability to maybe have one insurance pool for all the companies in my incubator, for example. Things like that would be helpful and would make sure entrepreneurs aren't just buying one-off policies from the exchange."

Child Care Access

The high cost and limited availability of child care is frequently cited as a barrier for entrepreneurs—especially women—and serves as a contributing factor to the inequities present in the U.S. startup ecosystem. The pandemic has only exacerbated this phenomenon. With many children learning remotely and daycare hours limited or nonexistent, parents have had fewer options for reliable, affordable child care. Even before the pandemic, in 2016, an estimated 2 million parents made career sacrifices because of barriers associated with child care.[51] And while the cost of child care varies wildly across the country, it is generally prohibitively expensive for many, which takes a toll on not just parents, but also their employers and the economy. One study estimated that U.S. businesses lose $12.7 billion annually because of employees' child care challenges.[52] Nationally, the effects of the child care crisis, including lost earnings, productivity,

Access to Human Capital



and revenue are estimated to amount to a drag of roughly $57 billion a year.[53] The child care tax credit—which was temporarily boosted under the CARES Act—is helpful, but the cost of child care remains high and policymakers should take further action to reduce burdens and open up entrepreneurship to mothers.

Policy Solutions: Increase access to affordable childcare for working parents. Policymakers should give particular consideration to efforts to further expand child care subsidies,[54] build on incentives that enable employers to provide child care, and invest in child care in areas that lack enough facilities.[55] Successfully reducing the burdens of child care will keep parents, especially women, in the workforce and enable them to better pursue entrepreneurship as a viable career option. This will lead to a more diverse workforce and pool of startups.

Startup Spotlight

Empathy Rocks

Bellevue, WA
Dr. Grin Lord, Co-Founder

"I have an amazing amount of privilege and job opportunities, and yet I still struggle...I've basically run my startup in the evenings after the kids are asleep, which I think many parents do...As an employee of my startup, I can claim the annual child care tax credit, but where I live, that credit pays for around three months of full-time child care for my 3-year-old."

Startup Spotlight

Arkatecht

Rochester, NY
Yasmin Mattox, Founder

"I found that my professional development and career advancement took a hit right when I became a parent. It became uniquely challenging to balance these experiences as a parent with a growing family, compared to before I was a mother."

Startup Spotlight

flipMD

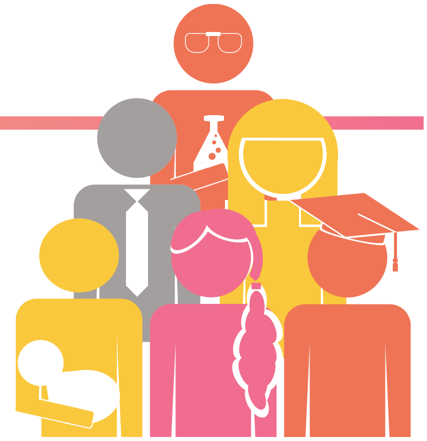
Philadelphia, PA
Lauren Hanson, Founder

"Women are often the primary caretakers of their homes and children, so policy changes to reduce the costs of child care, for example, could do a lot to shift the equation on when women 'get' to be entrepreneurs and become successful. Not having to be responsible for child care and my own company, or not having a third of my income go to child care expenses, would open up a number of possibilities for my business."

Non Compete Agreements

Non-compete agreements often stifle innovation, limit startup formation, and hamper worker mobility and have spread far beyond the original goal of protecting proprietary information. While some states, like California, have for the most part rendered many non-compete agreements unenforceable, many other states allow their enforcement even against workers with no access to proprietary information. Because non-compete agreements generally prohibit employees from starting or joining direct competitors, employees are limited in their ability to move about within their field of interest, and in some cases, to launch startups.

In states like California that do not allow expansive non-compete agreements, trade secrets still remain protected



and innovation thrives.[56] Conversely, other large metropolitan areas that share similarities to California in terms of skilled workers have not seen a similar trajectory to the tech sector of California, likely in part due to non-compete agreements, limiting the flow of ideas.[57]

A 2019 study found that roughly half of all workers earning more than $150 thousand dollars were subject to non-compete agreements.[58] The same study also found that although non-competes can be found across a range of jobs, these agreements are largely concentrated in high-skilled jobs—for example, a significant number of engineers were subject to the restrictive agreements.[59] Fewer than 50 percent of workers subject to non-competes possess access to trade secrets, according to a Treasury Department report.[60] Rather than protecting trade secrets, non-competes typically limit workforce mobility and serve as a barrier to startup formation and growth. Startups rely on the ability to hire talent that can take the skills they have learned in previous careers and use them to launch new ventures and foster innovation at emerging businesses.[61] Doing so is also beneficial for the labor market at large—job churn boosts worker productivity by getting workers matched with the right companies, helping to create booming markets like Silicon Valley.[62]

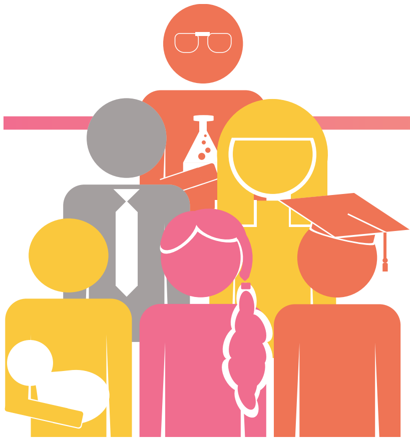
Policy Solutions: Prohibit the use of non-compete agreements. Policymakers at all levels of government should pursue efforts to restrict the issuance and enforcement of non-compete agreements across the United States, enabling worker mobility, new startup formation, and the development of innovation hubs across the nation. Federally, legislation like the Workforce Mobility Act, which would prohibit the use of post-employment non-compete agreements except in a limited number of exceptions, would be a step in the right direction to empower workers to move freely to where their skills are in greatest demand.[63]

Independent Contractors

Startups often rely on independent contractors as a strategic and useful hiring tool as founders try to scale their companies. And while the debate surrounding the use of independent contractors often centers on the gig economy, research bears out the critical role independent contractors play in the startup ecosystem. A study done by the Mercatus Center found that 57 percent of startups identify contract labor as an essential part of their business models.[64] Further, the study found that 79 percent of startups have at least one contractor and that startups rely on independent contractors because they "require flexibility and face limited funding and uncertainty that preclude committing to an employee."[65] Full-time employees can cost up to 20-30 percent more than independent contractors when a startup may not have enough consistent work to justify hiring permanent staff;[66] independent contractors represent a necessary option to allow for the completion of as-needed work while a startup gets off the ground. Independent contractors fill essential roles for new companies including by providing product development, design and marketing services, legal advice, and accounting support.

But the ability to both serve as and hire independent contractors is under scrutiny at both the state and federal level. In California, startups and support organizations feared the effect that AB 5 would have on the Golden State's entrepreneurial community after the law's passage, though some of those concerns were lessened after California voters approved a ballot measure exempting some independent contractors from the law.[67] Federally, Congress has been making efforts to codify California's ABC test through the Protecting the Right to Organize (PRO) Act, notably in a way that does not allow for any exemptions, and the Biden administration moved forward with withdrawing the previous administration's attempts to provide clarity around independent contractor status.[68]

Policy Solutions: Cease efforts to restrict the definition of independent contractor. Efforts to restrict the talent decisions of startups are concerning for startup founders and independent contractors alike. Policymakers should reconsider efforts to expand the scope of "employee," limiting the ability of startups that, particularly in



their nascent stages, rely on independent contractors. Instead of limiting the ability of workers to pursue freelance work, policymakers should instead focus on providing startups with the clarity and tools they need to hire talent on a project-by-project basis, enabling workers and founders to pursue talent decisions based on their needs.

Startup Spotlight

Nytch

Woodland, CA
Grant Lea, Co-Founder

"The reality is that startups are so small and so lean that we can't really hire employees. Founders are the ones who typically don't take a salary. Without the ability to hire independent contractors to fill these voids, most startup ideas would never get off the ground."

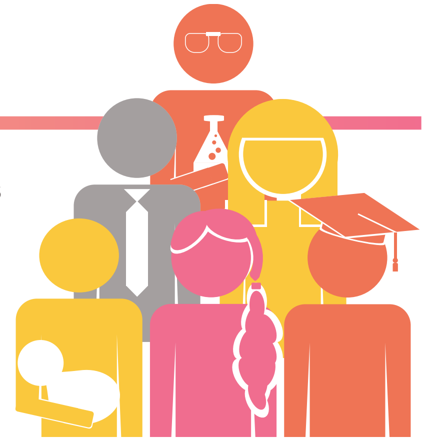
Immigration Reform

Access to talent is critical to the success of U.S. startups, and high-skilled immigrant talent serves a vital role both in filling the gaps in the STEM workforce, but also in generating new, successful startups. While the U.S. generally has a robust workforce, some startups have high-skilled talent needs that cannot always be met with the limited STEM talent pool available in-country.

And despite startup needs, policymakers have yet to advance significant efforts to expand the ability of promising high-skilled immigrant workers to come to, and stay in, the U.S. Instead, many falsely claim immigrant workers take jobs from Americans and stifle wage growth. This could not be further from the truth. According to one study, the presence of high-skilled workers does not stagnate or depress wages, but results in the creation of new U.S. jobs.[69] Furthermore, if the H-1B program were expanded, it could result in the creation of up to 1.3 million new jobs.[70] Evidence suggests that limiting the H-1B visa allocation to 65,000 visas per year has had a depressive effect on job growth, and that if the U.S. government hadn't rejected over 170,000 H-1B petitions in certain fields in the 2007 and 2008 lotteries, over 230,000 jobs for U.S. born workers could have been created in the following two years.[71]

In failing to implement meaningful immigration reform, the U.S. is simply and unfortunately forcing innovators to look to other countries to dedicate their talents and found their innovative companies. And worse, if policymakers further restrict existing programs, evidence proves multinational companies have and will look abroad. According to that study, multinational companies, when faced with H-1B restrictions, responded by hiring in foreign countries, especially India, China, and Canada.[72] And, according to the National Foundation for American Policy, because the H-1B program at best improves job opportunities for U.S. workers, and at worst, does not affect them, it indicates employers are using the program when U.S. workers cannot be hired.[73] Without needed visas, the remaining solution is to hire talent overseas.

The U.S. is also neglecting a critical talent pool represented by Dreamers—those brought to the U.S. as minors, and largely grew up in and were educated in the U.S. Numerous Dreamers attend or have attended university U.S., work for American companies, and even found startups. But Dreamers remain in limbo, both at the hands of the courts—with the fifth circuit ruling DACA unlawful in 2021—and also at the hands of policymakers.[74] While the House passed the American Dream and Promise Act, its path forward remains



uncertain in the Senate, and thousands of potential startup founders and employees may not be able to bring their innovative ideas to fruition in the U.S.[75]

Not only does the startup ecosystem rely on innovative talent from many countries to excel, but many of these job-creating startups are founded by foreign-born entrepreneurs who launched their ventures and were successful in the U.S. not because of our immigration system, but in spite of it. Immigrants found businesses at twice the rate of native-born Americans, including, starting about 30 percent of all new businesses, and more than half of the billion-dollar unicorn startups in the U.S.[76]

Similarly stifling U.S. job growth, the lack of a startup visa squarely puts the U.S. behind dozens of other countries in recruiting and welcoming talented international entrepreneurs.[77] Multiple studies indicate that implementing a startup visa could help create hundreds of thousands, if not millions, of jobs.[78] These estimates say nothing about the potential boosts to innovation, novel products, and services that could be created, or the expected growth of startups that successfully age out of a startup visa program.[79]

Policy Solutions: Enact smart, high-skilled immigration policy to attract entrepreneurs and retain needed talent. In order to achieve an innovation-driven, long lasting recovery, policymakers must ensure that businesses have access to the talent they need in order to thrive and must make the U.S. the destination for immigrant founders who want to launch scalable new businesses. This means implementing a permanent solution for Dreamers so that they do not have to live in constant fear of deportation and can instead focus on contributing to the U.S. and building their lives. Congress must also consider growing the H-1B visa program, reducing barriers to access faced by innovative small businesses and startups, and eliminating the per country caps on green cards. Finally, Congress must commit themselves to creating a startup visa, so that international founders with a certain level of investment and a projected trajectory of growth and U.S. job creation can come to the country, build their companies, and eventually obtain citizenship. While implementation of the International Entrepreneur Rule is a good first step that the Biden administration has undertaken, we need a dedicated startup visa program to truly remain competitive.

Startup Spotlight

Unshackled Ventures

San Francisco, CA
Manan Mehta, Founding Partner

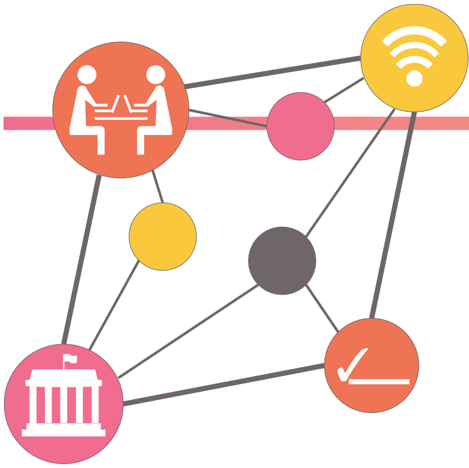
"Full stop, we need a startup visa. This is an issue with bipartisan support. Yet, it gets caught up in the grinding gears of comprehensive immigration reform. I think it's time to recognize that we are educating, employing, and using U.S. taxpayer dollars for immigrant students and others that immigrate here but are constrained by the current system. Let them build and employ more Americans. We have at least two dozen nations right now trying to recruit them out of our country."

Startup Spotlight

Nova Credit

San Francisco, CA
Nicky Goulimis, Co-Founder

"Almost every study shows that immigrants don't take away jobs but, rather, that they create them. As the American economy recovers from COVID, the country needs healthcare workers, investments in emerging technologies, and new businesses. …We hear stories from immigrants we work with who are stuck abroad in this weird limbo, waiting to see if they'll have the option or ability to come to the U.S. Some of them are actually starting to look at other countries, like Canada and Australia, which are able to attract some of this talent away from the U.S."



Entrepreneurial Infrastructure

Entrepreneurs rely on a web of infrastructure to support their companies as they grow. Some resources, like access to quality and reliable broadband are essential. Other issues, like the ability to navigate federal bureaucracy and available programs take valuable time and resources that startup founders and employees may not have. And access to business development resources, like those offered by many incubators and accelerator programs can be life-changing, but these organizations face many of the same time and resource constraints the startups they serve also struggle with. Ultimately, improving our nation's entrepreneurial infrastructure would alleviate some of the unseen burden startups face.

Entrepreneur Support Organizations

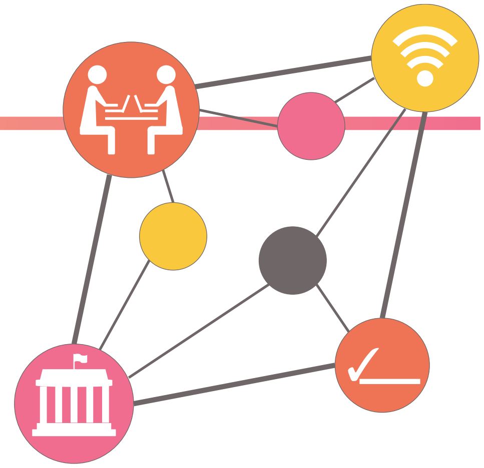
Accelerators and incubators provide founders with incredible opportunities to launch and scale their companies. Both accelerators and incubators also facilitate needed mentorship opportunities, fostering connections between entrepreneurs and their communities with an understanding of the specific needs of their local startup ecosystems.

Incubators provide support to founders and startups in the earlier stages of their ventures with the goal of providing an ideal environment for a startup to plant its roots and begin to grow.[80] Incubators come in all shapes and sizes—some operate as private organizations, while others may be affiliated with government, or with established businesses. Incubators tend to be incredibly knowledgeable about the needs of startups within their local ecosystems. They provide resources for founders on building and growing their startups, programming, and networking opportunities. The co-working environment of an incubator helps to foster connections between like-minded startup founders, which can be crucial for a nascent business owner. And for companies located outside of traditional tech hubs, incubators can be a lifeline for regional innovators who wouldn't have easy access to network building opportunities.

Accelerators are often time-limited programs that provide startups the opportunity to work with mentors to build out their companies. While these programs are typically more selective than an incubator, acceptance into an accelerator program often provides a small amount of initial seed funding, resources and programming, and extensive networking opportunities, usually in exchange for equity.[81] Accelerator programs often culminate in a Demo Day, giving founders access to potential investors and media exposure.

Policy Solutions: **Support incubators and accelerators to boost startup growth.** While there are a number of both private and public sector opportunities to assist startups, policymakers should look to incubators and accelerators to provide a well rounded approach to encouraging startup growth. Policymakers should provide financial support, increase partnership efforts and establish government accelerators or pilot programs to better support the innovation ecosystem. Though the federal government currently has some programs that provide financial support to accelerators—the Growth Accelerator Fund, for example—policymakers should consider increasing funding so that accelerators can better address mentoring and networking gaps for founders, and provide tailored resources to better support underrepresented entrepreneurs in their communities.

Improve existing programs that help support organizations. Policymakers should also consider improvements to existing programs, including the Growth Accelerator Fund. A study of the Growth Accelerator Fund highlighted potential improvements to the program, including better communication about accelerator programs and grant opportunities available, education on successful accelerator models, education materials for potential investors on the value generated by accelerators, and using SBA resources to help startups, support organizations, and investors



better develop regional ecosystems.[82] Policymakers should encourage the SBA to further examine ways it can use the existing Growth Accelerator Fund to better equip the innovation ecosystem to support more promising startups.

Partner with incubators and accelerators in support of government goals. Government agencies should also pursue more partnerships with accelerators that both address a government objective but also nurture scalable ventures. Several government-affiliated programs currently exist or have launched in the past, including the National Geospatial Intelligence Agency, which operates an accelerator in partnership with Capital Innovators that gives selected companies the opportunity to participate in a 13-week accelerator program with $100 thousand in grant funding plus office space, mentorship opportunities, and direct engagement with the agency.[83] Policymakers should consider the establishment of incubator or accelerator programs across different government agencies and industries to give platforms to new businesses, create opportunities to better achieve market access with the government as a potential partner, allow the government to have a hand in fostering novel solutions to its most critical problems, and prioritize innovative technologies that may otherwise take significant time to come to fruition. In doing so, government agencies would have the assurance they need that the companies that emerge from an accelerator are capable of operating in the federal market and equip new tech companies with the tools they need to similarly operate in that market.

Startup Spotlight

Arrowhead Center

Las Cruces, NM
Zetdi Runyan Sloan, Director

"My focus for the last few years has been dedicated to building out a program that is accessible to underserved entrepreneurs. Those are minorities, female, and rurally-located entrepreneurs. We're doing that by building a system-wide network of accelerator programs that are offered virtually. And we're using a shared-economy model—leveraging the resources and expertise of individuals in various rural communities across New Mexico—to provide access to a robust network of experts and technical assistance providers. … They're unique in that the virtual format really opens the door for entrepreneurs who would've otherwise not been able to participate."

Startup Spotlight

Sourcemap

New York City, NY
Leonardo Bonnani, Founder

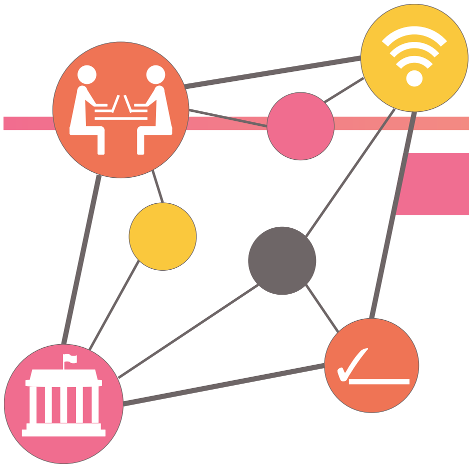
"I think one area is having the government partner with startups on pilots and to innovate solutions to the government's problems. Usually, if a government agency does anything big …, it requires some proof of concept first. … And if the government has to wait around for a big company, like Microsoft, to offer a tech solution at scale, that'll come too late."

Startup Spotlight

Collab

New Haven, CT
Caroline Smith

"We want to build a program to address [barriers to entrepreneurship], including providing child care, transportation, and transportation services for all of our programming. . . We try and build a connection between us and other connected organizations around the city and around the state so those entrepreneurs have a pathway to higher levels of resources—whether it's financial, mentoring, or forming other connections."



Entrepreneurial Infrastructure

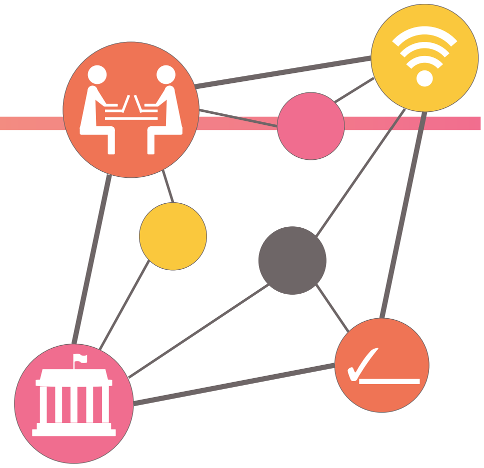
Government Resources

The federal government provides countless resources, programs, and funding possibilities—all with the stated purpose of helping small businesses, including startups, thrive. But these resources aren't always simple for entrepreneurs to locate or access. And for small businesses located far from Washington, D.C., it can be even more challenging to know what assistance is available. In an Engine survey of startups in our network, roughly 59 percent of respondents indicated that lack of awareness, difficulty understanding requirements, and lack of time and resources prevented startups from seeking federal funding and support programs.[84] Although there are a number of programs to accelerate and commercialize innovation, they are scattered across a number of agencies and target varying industries (for example, the National Institutes of Health's NIH Centers for Accelerated Innovation[85] and the NIH I-Corps program[86] and the National Science Foundation's University-based Partnerships for Innovation[87] and Innovation Corps,[88] and America's Seed Fund comprised of the SBIR and STTR programs).[89]

Initiatives like those offered through the Economic Development Administration's (EDA) Office of Innovation and Entrepreneurship, provide support to innovators and communities. For example, the Regional Innovation Strategies program gave grants to support the formation and growth of early stage seed capital funds.[90] And through the Build to Scale program, the EDA manages grant competitions for technology-based economic development initiatives that lead to job growth and economic opportunity.[91] And the Small Business Administration similarly offers a vast number of programs targeted at helping small businesses, startups, and support organizations: the Growth Accelerator Fund Competition awards $50 thousand to accelerators that support startups in their communities; the SBIR and STTR programs fund innovative technologies from America's small businesses engaged in R&D; and Small Business Development Centers provide small businesses with management assistance.[92]

Policy Solutions: Streamline the grantmaking process so startups have better, faster access. Policymakers should explore ways to make these resources easier for startups to locate, with clear application requirements, award information and funding timelines that suit the startup lifecycle, and contact details. Bootstrapped startups may not have the time to conduct extensive searches to identify grants, loans, and support the resources that are available. Ensuring this information is clear and concise, and conducting outreach so that startups know what resources exist could go a long way in helping new companies struggling to grow. And utilizing local ecosystem leaders and support organizations is paramount, as these organizations are critical centralized locations for disseminating information. If support organizations struggle to identify the federal resources available, startups on their own will likely struggle more. And even with federal support, startups have also expressed concern that agencies aren't doing enough to support new, innovative companies, particularly with respect to long approval processes. In these instances, policymakers could explore strategic partnerships with startups and support organizations so that promising companies don't fold while awaiting approval.

Reform and permanently reauthorize the SBIR program. The SBIR program provides critical funds to R&D heavy startups with prospects for commercialization. But the program's lifecycle is ill-suited to the fast pace of many startups, has a complicated application process which differs in and is scattered across many agencies, and lacks the diversity that is reflective in the U.S. startup ecosystem. Incubators and accelerators are generally left out of the benefits of the program, and award amounts can be small compared to needs, with some companies needing multiple awards in order to achieve meaningful progress. The program must also continually be reauthorized, which often happens at the last minute, leaving startups unsure of its long term prospects. Permanent reauthorization would provide certainty for the ecosystem, ensuring this important stream of funding and support from the federal government does not disappear. Government should also conduct better outreach and data collection, to ensure awards are provided to a diverse pool of recipients and experiment



with post-SBIR programs with further and higher funding, so that high-cost research has a better chance of success.[93]

Conduct oversight hearings for programs that support the startup ecosystem. A significant component to improving the navigability of available resources is knowing what is and is not working so that the appropriate change can be made. It is critical that policymakers conduct oversight hearings with startups and support organizations in mind over the wide range of programs across agencies in order to identify successes and failures. Methodologies for successful efforts should be replicated in future programs, and for programs that are currently working well, policymakers should consider funding increases. Policymakers should also consider conducting hearings on regional SBA offices to identify best practices and what changes should be made to better conduct outreach to startups. Many states only have one SBA district office serving an entire population, so identifying best practices to most efficiently and effectively help small business owners is crucial. And having boots on the ground to support the companies to which these resources are targeted is essential in ensuring limited funds are well spent. If only direct funding without support is provided, government resources risk underutilization or misappropriation, which only serves to jeopardize those resources for future businesses in need.

Startup Spotlight

Rubitection

Pittsburgh, PA
Dr. Sanna Gaspard, Founder

"[I]t would be good to have a startup program at the Food and Drug Administration (FDA). … Within six months to a year, a startup could be dead but still be waiting for FDA approval. The government should put more resources in to support startups getting that approval. This would also help U.S. startups to be competitive on the international level. On a global scale, you're competing against companies in, for example, Canada and Asia, where the government invested in supporting them in their early stages. This makes it harder for U.S. startups to compete. And it compounds the access to capital problem too, since investors often invest in companies that are further along, regardless of their geography."

Startup Spotlight

Raydiant Oximetry

San Ramon, CA
Neil P. Ray, Founder

"The funding life cycles for SBIR need improvement. If I have an idea and want to apply for a grant, I can only submit that idea three times a year, and I've got to wait almost a year before it gets funded. That timeline doesn't work for startups that need to act quickly. … An option for lawmakers to consider would be to have some SBIR money awarded to accelerators and incubators, who can then more quickly deploy the capital to innovative startups in their community.

Startup Spotlight

Secure AI Labs

Cambridge, MA
Anne Kim, Co-Founder

"There are a number of government grants out there, which are very helpful to startups in need of resources. … It would be great for the government to have startups come in and help them make processes that work better for them. This would also be really helpful for startups—they would have a testimonial about a successful project with a trusted institution."

Entrepreneurial Infrastructure

Federal Contracting

Both the federal government and innovators could benefit from increased startup participation in the federal contracting process, but a number of barriers stand in the way of innovative companies taking part. In a survey of startups in our network identifying barriers to startup formation, fewer than five percent of startups indicated they had been awarded a federal contract.[94] And fewer than 37 percent of startups surveyed indicated that they were able to bid competitively for federal contracts.[95] Issues, including the lengthy contracting process, difficulty navigating government agencies, and concern that only entrenched companies can succeed, all prevent startups from receiving federal contracts.[96] These barriers also inhibit the federal government from benefiting from novel products and services that startups can provide. Further, underrepresented founders indicate feeling disadvantaged in competing for government contracts, as a large percentage of government contracts at the federal, state, and local levels are awarded to white-owned businesses.[97]

For startups generally, government contracts are lucrative sources of significant revenue. But, it takes a substantial amount of time to secure contracts, and startup lifecycles—particularly without adequate funding—can be short. Though some government agencies are shortening the time taken for the procurement process, it can still take multiple years—too long for many startups who, without steady capital, may not survive that long. And the application process itself requires an incredible time and resource commitment that may not be possible for startups, especially when many entrepreneurs believe incumbent companies with proven records of success have a leg up in the process.

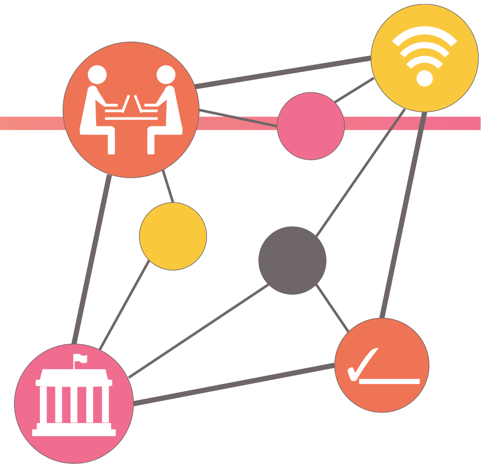
Policy Solutions: Improve access to federal contracts for startups, particularly those launched by underrepresented founders. Policymakers can do a lot to improve a startup's chances for success. In an announcement regarding initiatives to narrow the wealth gap, President Biden unveiled plans to increase contracting with "small disadvantaged businesses" by 50 percent by awarding $100 million in contracts over a period of five years.[98] Likewise, the Biden administration has put forward proposals including funding for technical assistance, so socially and economically disadvantaged companies are better positioned to seek federal contracts. Policymakers should also consider proposals to further shorten procurement times, prioritize making contracting opportunities clear and available for startups to find, such as promoting contracting opportunities—and tools to make it easier to apply for those contracting opportunities—to accelerators and pitch competitions.

Broadband Access

Thanks to the Internet, an entrepreneur located anywhere in the country can launch and grow a startup that reaches users across the world. As broadband access increases and improves, so too do opportunities for innovation. But inequities in broadband access became even more apparent since the pandemic as much of the country took to remote work and learning without reliable broadband access. Without this access, startups are unable to compete with larger, established businesses—and for those in communities without quality broadband access, like more rural areas—the disadvantages that already complicate startup success become even more burdensome. Even for those communities that do have broadband access, cost alone can be a prohibitive factor.

Passed in late 2021, the Infrastructure Investment & Jobs Act has played a pivotal role in improving the

Entrepreneurial Infrastructure



state of broadband development for households and startups across the country.[99] The $2 billion and $14 billion poured into the Digital Equity Act and the Affordable Connectivity Program played a part in ensuring more would-be founders could build their businesses with a dependable Internet connection.[100]

Policy Solutions: Create an updated, accurate picture of broadband coverage. The Federal Communications Commission (FCC) should continue its work toward improving outdated broadband maps so that the FCC has up to date, accurate data. Policymakers need to know where in the country there are underserved communities, such as tribal lands, to effectively and efficiently deploy energy and resources. By closing the information patchwork in broadband maps, the FCC would guarantee that broadband development is applied where it is most needed.

Prevent digital redlining to advance equitable access. Policymakers must also address digital redlining, or the deployment of broadband infrastructure in ways that make high-quality Internet inaccessible in already-disadvantaged communities. Would-be startup founders and employees across the country, and specifically in underserved communities, are being hurt by the lack of accessible, affordable, and reliable Internet access. The newly developed Communications Equity and Diversity Council within the FCC should implement comprehensible rules that make Internet access equitable for all.

Free up spectrum for unlicensed use. Policymakers should continue improving affordable broadband access across the country, including by increasing the amount of unlicensed spectrum that can be used to advance innovation in several ways, including through boosting Wi-Fi capacity. Unlicensed spectrum also allows for many startups to develop technology that operates on high frequency airwaves, such as connected devices.

Startup Spotlight

20Fathoms

Traverse City, MI
Andy Cole, Executive Director

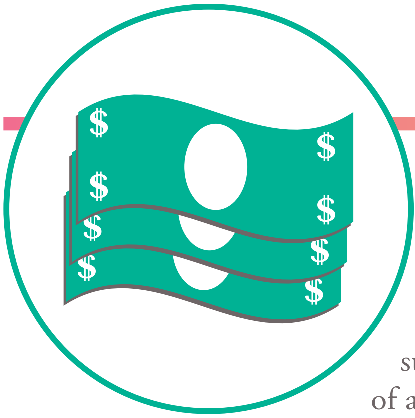
"Internet access is at the top of the list [of biggest challenges startups face in Northern Michigan]. We are fortunate that one of our partners paid to bring fiber Internet to our space. We've had three startups relocate here from outside of the region because of this quality Internet access."

Startup Spotlight

Lakeshore Advantage

Holland, MI
Amanda Chocko, Director of Entrepreneurship

"Increasing broadband access locally and across the state would have a positive impact on startups. It's a big issue in our region, and there's a collective of organizations—including our local municipal utility—working to increase access to Internet services. Attracting more companies to the region, bringing in the talent of the future, and educating our students and tomorrow's startup founders is all reliant on access to high-speed Internet."



Access to Capital

To support the startup ecosystem, policymakers must enable startups to raise money in a nimble way and expand access to capital streams, including, but not limited to venture capital. This is particularly essential for founders of color and women founders, who historically have had diminished access to capital and are more likely to also face other burdens that inhibit success—including limited access to childcare, student loan burdens, and a lack of available mentorship and networking opportunities. Access to capital is the most critical challenge a startup founder faces when looking to scale their company, and government should pursue policies that support the unique role startups play in supporting our innovation ecosystem.

Capital Access Challenges

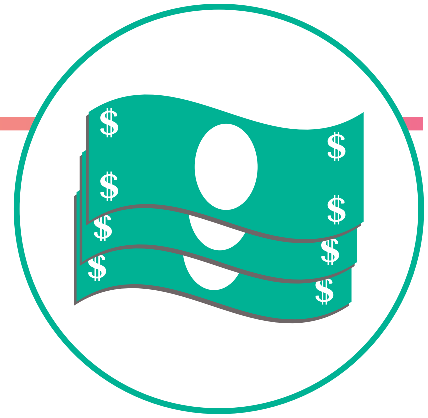
The biggest hurdle most startups face in launching and growing is accessing the requisite capital. The majority of startups are self-funded,[101] through personal or family savings or personal credit. Some receive personal or bank loans, while a small percentage receive angel investment or venture capital.[102] For founders of color, the disparities in accessing sophisticated funding are considerable, but underrepresented founders also have restricted access to other forms of capital. In a recent report on expanding American innovation, Engine highlighted that relative to white men, Black and Latino small business owners rely more on capital from personal and family sources, utilize business loans less, and have higher interest rates.[103] And women-owned small businesses receive less in business loans than small businesses owned by men.[104]

There are a number of factors that affect a startup founder's ability to access capital. For some, particularly underrepresented founders, limited banking relationships play a role. Bank closures in underserved communities, including largely Black communities and rural areas (particularly affecting Latinx and Indigenous peoples), further limit founders' access to the banking system. And even with access, underrepresented founders report unequal treatment by financial institutions, and are often pressured into riskier credit options and high interest rates. Without access to sophisticated networks, it's challenging to break into significant funding sources, like venture capital or angel funding.

The pandemic further highlighted the difficulties surrounding capital access for many startup founders. While many venture-backed startups fared relatively well throughout the pandemic, for those startups that bootstrap, the financial hit from the COVID-19 pandemic was significant. Through a series of surveys of startups in our network, Engine discovered that for the most part, many startups struggled.[105] In April of 2020, at the beginning of the pandemic, 64 percent of survey respondents indicated they needed financial relief, and 65 percent noted they would apply for relief through the SBA.[106] And while at the time, only 14 percent of firms had laid off employees, a further 33 percent anticipated laying off employees within 3 months.[107] In a follow-up survey in October 2020, 54 percent of respondents indicated that they had received financial support, but of those receiving support, 61 percent indicated that it was not enough.[108] A further 46 percent noted that they believed they would need emergency support to keep their doors open through the end of the year.[109]

Perhaps more importantly, startups indicated that policymakers needed to focus on additional, more targeted forms of relief to achieve long term recovery.[110] Government equity investment in startups, expanded forgivable loans, and a startup fund are all important options for the government to consider. Without the advent and growth of new startups, a significant source of post-pandemic employment options could evaporate. And while the Paycheck Protection Program (PPP) was critical and helpful for many businesses, roadblocks in its rollout highlighted a number of lessons to be learned when supporting startups.

Access to Capital



Startup Spotlight

Productions.com

Atlanta, GA
Carolyn Pitt, Founder

"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."

Startup Spotlight

Journimap

Iowa City, IA
John Corrigan, Founder

"When the Paycheck Protection Program (PPP) came out last year, it was fairly clear that Journimap would not be able to receive any help from the program. I don't have a lot of employees and our revenue cycles have been those of an early-stage startup, so these factors are definitely challenges when it comes to accessing PPP. . . [S]tartup-friendly criteria for forgivable loans or additional assistance from PPP or another program would have absolutely allowed me to continue spending with local developers and contractors. Without any further options, though, that didn't happen. … Largely focusing on companies that already have a significant payroll aspect to them—while I understand the logic—cuts off help to early-stage businesses that are bootstrapping their operations."

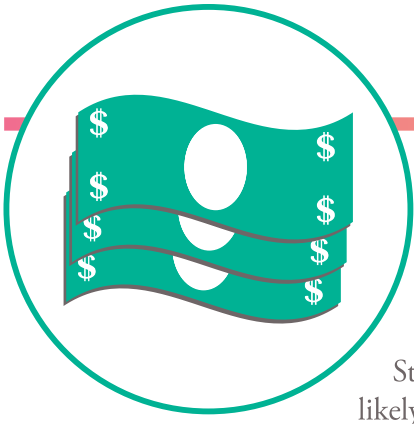
Startup Spotlight

Alerje

Detroit, MI
Javier Evelyn, Founder

"I had to let my entire team go because of the pandemic. Within the next month, though, we won a pitch competition and received a PPP loan. We were one of the few Black-owned companies that I know of to actually receive a PPP loan, which I think had something to do with the fact that we worked with a Black banker. And, last year, we were also the recipient of a Google for Startups Black Founders Fund. Once those things happened, we were able to sit back a bit and think about what we could do immediately to add value to Alerje while we await regulatory approval."

Policy Solutions: Continue to incentivize venture capital to be directed to diverse founders. Policymakers must expand their thinking in improving capital access for startups. Many startups, for example, would benefit from venture capital being awarded to diverse businesses and in diverse areas of the country. Venture capital is incredibly network-dependent—if you don't have inroads, obtaining sophisticated funding is a challenge. While improving the diversity of companies funded by venture capital investors, and the diversity of the investors themselves, largely depends on venture capital funds doing the work, the federal government can step in by incentivizing private investment through venture capital into diverse startups, including through public-private matching programs. The new expansion of the State Small Business Credit Initiative,[111] reauthorized under the American Rescue Plan Act of 2021 is a good step, which provides funds to the states to boost capital access including through public-private partnerships under venture capital programs, with a focus on diverse geography and founders. Policymakers should ensure these efforts are meeting their stated goals.



Access to Capital

Ensure diversity amongst government decision makers. Driving a startup-led recovery also does not mean simply supporting the ecosystem as it exists now, but improving the innovation ecosystem to support founders that have otherwise been excluded. By enabling women founders and founders of color to better pursue entrepreneurship, startups will further boost job growth and economic recovery. Studies show that racially and gender diverse teams are 33 percent and 21 percent more likely to be profitable than their less-diverse peer teams, respectively.[112] And when women-led startups, for example, do receive sophisticated funding, they are not just more likely to be successful but are also more likely to hire more women—a population disproportionately affected by job loss amidst the pandemic.[113] Policymakers must take steps to enable diverse founders to succeed. Outside of venture capital, policymakers should ensure that government decision makers (for example, in the loan and grant making process) are diverse and representative of the U.S. population, which would in turn, ensure that the beneficiaries of these programs are also diverse.

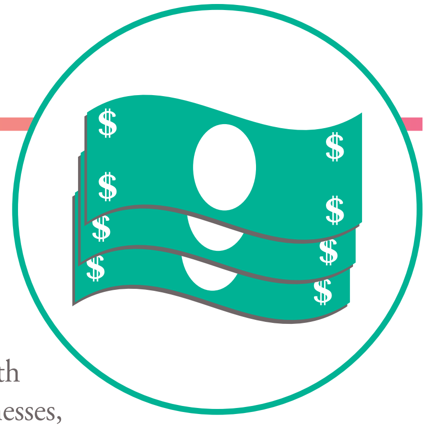
Strengthen the SBIC program to bring more diversity to investments. Policymakers could also consider efforts to open up more investment opportunities. Reforms to the Small Business Investment Company (SBIC) program,[114] which presently has invested over $34 billion in domestic capital into small businesses (primarily growth stage and later stage), is one option.[115] The program allows for private equity fund managers to become licensed as SBICs, giving funds access to government-backed capital to invest in domestic small businesses.[116] While many SBICs are located outside of major tech corridors,[117] policymakers should consider encouraging the SBA to license more small funds as SBICs.[118] Not only will this be more likely to bring in diverse fund managers,[119] but small funds will be more likely to issue smaller investments, which will be more likely to fund truly small, small businesses. Because Black-owned businesses, for example, are more likely to be small (with most being sole-proprietorships),[120] bringing in smaller funds will likely help to bring diversity to the businesses that receive funding. The Small Business Investor Alliance, for example, encourages Congress to adopt a new "MicroSBIC'' License class to bring participation from a more diverse body of entrepreneurs.[121] According to the SBIA, doing so would reduce barriers faced by minorities and women, boost investment in underserved communities, and would promote capital access for smaller businesses, particularly in underserved communities.[122]

Expand the definition of accredited investor to open up investment opportunities to more people. While the Securities and Exchange Commission (SEC) adopted updates to the definition of accredited investor in August 2020, specifically to establish categories for qualification based on professional knowledge or certifications,[123] policymakers should further expand upon the definition—including through lowering the financial thresholds or by directing the SEC to develop a new mechanism to certify accredited investors through an understanding of financial and investing concepts—to include investors that have been historically left out. Policymakers should also consider permitting those with certain educational qualifications or those that have a certain number of years of experience at financial or banking institutions to qualify.

Consider comprehensive updates to the JOBS Act. Policymakers should continue discussions[124] to update the Jumpstart our Business Startups (JOBS) Act through an expansive capital formation package.[125] Doing so could build off of bipartisan success of the 2012 JOBS Act and further dismantle barriers to startup growth through cost reduction and the elimination of overly burdensome regulations, as well as boost access and increase diversity amongst investors.[126]

Pursue tax code updates to unleash capital for startups. Changes to the tax code could also ultimately free up capital for startups, including the Innovation and Growth Now by Investing in Tomorrow's Enterprises (IGNITE) American

Access to Capital



Innovation Act, which would allow pre-revenue startups to monetize net operating losses.[127] Policymakers should also think about expanding the definition of R&D under the tax credit, for example, to include common software development activities like user experience (UX) research and design. Other initiatives, like prioritizing employee retention and supporting the most nascent companies would be helpful, such as through the First Employee credit in the The Providing Real Opportunities for Growth to Rising Entrepreneurs for Sustained Success (PROGRESS) Act.[128] Because some businesses, like those owned by women, have lower annual income, they often are excluded from available tax incentives. The (PROGRESS) Act,[129] however, would provide certain companies with a credit totalling 25 percent of qualifying wages against income or payroll tax liability.[130]

Consider alternatives to the traditional credit score. Other options to boost available capital sources for startup founders, particularly underrepresented founders, include exploring alternatives to the traditional credit score. For many founders with poor credit scores and limited options to improve them, a poor credit score eliminates a common source of initial startup funding. And this metric is often not indicative of a borrower's ability to repay. While failures to make payments negatively reflect on a person's score, the credit score does not take into account most positive payment history, including payment of phone bills or rental payments. For Black Americans, for example—who have been historically prevented in part by the banking system from building wealth,[131] including through historical redlining and ongoing discrepancies in mortgage lending—failure to account for positive payment histories is detrimental. Policymakers should think about alternative credit scoring that takes additional metrics into account. Policymakers should also push the Consumer Financial Protection Bureau to work with existing credit agencies to create and disseminate an alternative so that credit scores more accurately reflect ability to repay.

Consider other loan programs that may benefit startups following the pandemic. Restrictions on the paycheck protection program, including payroll expense requirements, meant many startups could not take advantage of the program. And while startups are in a different position than they were in at the beginning of the pandemic, many still need support. Policymakers could consider implementing a new, long-term low-to-no interest loan program for startups and small businesses, so that they have the flexibility they need to allocate resources where they are most useful.

Startup Spotlight

UnaliWear

Austin, TX
Jean Anne Booth, Founder

"Incentivizing private investment would go a long way. … It does not make sense to spend nine months applying—or even hiring a firm to write an application—only to get $200,000 when you've got a physical product to build. While that first government grant may be followed by another $1 million grant a year or so later, the company's burn rate is over $2 million a year, so even that doesn't help."

Startup Spotlight

CitiQuants

Miami, FL
Philip Peters, Founder

"We should take a second look at the financial tax incentives for angel investors and VC funding for the different stages—including from the seed round through Series A-D funding rounds. Certain markets, particularly tier two and tier three city hubs, attract early-stage capital, but A+ round capital gets more challenging. In the same way the JOBS Act decentralized accredited investor participation, incentives need to be expanded."

Endnotes

1. Survey recipients include startup founders, startup employees, startup investors and entrepreneur support organizations that work closely with startups, like incubators and accelerators. The respondents tend to be (or represent) early-stage technology startups. Respondents represent a wide variety of ecosystems (rural to metropolitan), genders, races, ethnicities, and ages.
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