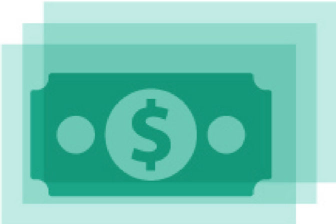
Capital Access

How does policy impact capital access?



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 less than one 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:

- 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 create opportunities for more people, especially women and people of color, to participate in funding startups.
- Policy should encourage investment in startups, including by recognizing the role M&A plays in a startup's lifecycle.

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. Startups have several options outside of bootstrapping when pursuing funding, including venture capital, angel investment, small business loans, grants, and equity crowdfunding. But many of these options pose challenges, including funding limits, inequity, and complex application processes. Others, like the SBIR program, which needs to be regularly reauthorized, are often easier for those with PhDs, and may feel inaccessible to founders. For startups with limited time and resources, any increased barrier to funding could lead to closed doors.

Where are we now?

Equity & Capital Access: Underrepresented founders still represent a tiny fraction of those receiving venture funds. And this inequity extends to other forms of financing as well. Underrepresented founders report being approved for lower loan amounts than their white counterparts and are often quoted significantly higher interest rates. Though gender and racially diverse startups are more likely to be more profitable and successful, funding still primarily benefits white-led companies. And without diversity in the innovation ecosystem, diverse viewpoints fail to be acknowledged, and innovation will lag.

Diversifying Investors: Just as founders of color and women founders are underrepresented in the startup ecosystem, the world of eligible investors similarly lacks needed diversity. The current definition for accredited investor, and consideration by the SEC to possibly increase the financial threshold to qualify, limit the pool of who is eligible to invest in startups. The definition is limiting both in terms of its high income barrier that does not account for cost of living, but also fails to provide another pathway, like a qualifying test, to become an accredited investor. If Congress pursues a pathway to expanding the definition, the investor pool would become more diverse and would lead to more equity and diversity amongst startups funded.

Other issues: While much of Congress has been focused on reigning in big tech, this may be to the detriment of startups and their founders. Efforts to limit mergers and acquisitions instead restrict a common and desirable startup exit pathway, leading to less competition. Other efforts, like an update to the JOBS act, would help to further enhance capital access pathways and could increase opportunities for diverse investors to participate in the ecosystem.