ACCESS TO CAPITAL

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 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 in all communities across the country access capital.

KEY TAKEAWAYS:

- Most startups rely on sources of funding outside of traditional venture capital.
- Policies should reduce friction to accessing capital for startups, particularly for underrepresented founders, and open up capital markets to allow more people 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 AND 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.

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 of accredited investor—and SEC plans to potentially increase the financial threshold to qualify—limit the pool of who is eligible to invest in startups. Policymakers should open up more opportunities to become early investors in startups including creating pathways for individuals to become accredited investors and expanding the size of angel funds.

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.