ACCESS TO CAPITAL

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 funds and family savings. Even the average seed-stage startup only has roughly $55,000 a month to cover all costs. The popular story of a small startup receiving large amounts of money from a venture capital firm is not the reality for most founders; only an estimated 1 percent of startups receive venture capital. The journey is even harder for founders of different backgrounds—including race, gender, sexual orientation, and geographical location—who often face greater barriers across the board in accessing the capital they need, from friends and family rounds, to business loans, to venture capital.

WHAT POLICYMAKERS CAN DO?

Policymakers must continue to improve the regulatory environment in which startups operate to raise capital, balancing valid concerns about investor protections with the need for more investors from all backgrounds participating in—and benefitting from—the startup ecosystem. Policymakers should also address capital access issues with respect to federal funds, including streamlining federal grant processes which can be slow and poorly suited to the startup lifecycle, such as the SBIR program, which helps startups commercialize and needs to be reauthorized this year. Policymakers should undertake efforts to expand the investment community, so that more, and more diverse startups, receive venture and angel investment. This can be done by allowing more people to become accredited investors and expanding the allowed size of angel funds, so that more investors–especially more diverse investors–can participate. Government should specifically prioritize improving access to capital for underrepresented founders, including by ensuring access to Small Business Administration resources, identifying and rectifying discrimination in bank lending, and defending programs aimed at helping underrepresented founders.

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.
- Diversifying the investor pool will allow for more participation in the startup ecosystem and will result in founders from more backgrounds receiving funding.

★ Startup Spotlight ★

MITO Material Solutions

(Indianapolis, Ind.)
Haley Marie Keith, Co-founder & CEO

Mito Material Solutions creates additives that improve the durability and toughness of legacy industrial materials so manufacturers can make lighter, stronger products.

Grant writing is a complex and time-consuming process that makes it hard for startups to participate. Feedback on grant proposals—rather than outright denials—is useful for startups because you know what you need to improve as opposed to being left frustrated and unsure if you do not receive the grant. Also, clarity on expectations for grant compliance-related issues like how the grantor wants you to do accounting related to the grant, would be beneficial.