REBUILDING BETTER

ACTIVATING THE START US UP COALITION
IN RESPONSE TO COVID-19
America’s entrepreneurs are at the frontlines in the battle to preserve and restore our economy. While policymakers have prioritized big business for years, these same policymakers are now realizing that huge corporations are not going to be the key to saving our economy; it’s the startups and small businesses that form the heart of every community. As we know, new and small businesses are at extreme risk in this crisis: nearly half don’t have the financial reserves to last more than a few weeks, and more than a quarter are unprofitable.

In response to this crisis, we are focusing on the elements of our broader policy framework, called America’s New Business Plan, to be responsive to what new and small business owners urgently need today to keep their doors open.

Policymakers across the country are having conversations now about how to stabilize the economy, but we’ve seen what happens when entrepreneurs don’t have a prominent seat at the table — we get bureaucratic solutions that privilege big business and policies that continue to leave behind the women, minorities, and rural residents who most need the support.

Comprised of more than 150 entrepreneurship advocates across the country, the Start Us Up coalition is working to elevate the voices of entrepreneurs so policymakers reverse decades of misplaced priorities that have made it far easier for big businesses to grow than for new businesses to start at all. Our goal is not just to restore the economy, but to rebuild better by ensuring all Americans — especially female, minority, immigrant, and rural entrepreneurs who have historically been marginalized by investors and lenders — can turn their ideas into businesses.

What follows is the COVID-19 entrepreneurial roadmap for Start Us Up. These are policy solutions for every level of government that are divided into short-term (“Crisis Response”) and long-term (“Rebuild Better”) actions and organized around the four core needs all entrepreneurs have. Those needs are outlined in America’s New Business Plan: Funding, Opportunity, Knowledge, and Support.
FUNDING
At least 83% of entrepreneurs do not access bank loans or venture capital when launching a business, tilting the scales in favor of those who have the wealth to create new businesses. Those disparities are even more significant now as the majority of business owners lack the financial resources needed to weather the current crisis. We need aggressive action to create equal access to the right kind of capital, especially for female, minority, immigrant, and rural entrepreneurs.

CRISIS RESPONSE
- State and local governments should partner with philanthropic organizations to create funding pools that reduce fees and interest of Community Development Financial Institutions’ (CDFI) short-term lending to businesses not eligible for SBA loans.
- The SBA should consider a set-aside for businesses with fewer than 20 employees, which make up 89% of all businesses in America.

REBUILD BETTER
- Request that Congress make substantial funding available to states for strengthening the private financing of new businesses by expanding capital access through patient capital, innovative investment models and technologies, financing guarantees, user-centered service design, community banking, and other means.
- Establish clear goals for all federal capital access programs, including the number of new entrepreneurs who access capital (disaggregated by race, gender, socioeconomic class, and geography), revenues generated, new jobs created and sustained, and customer experience feedback.

BRIGHT SPOT
In recovery efforts across the country, community organizations are joining local governments and financial institutions to meet the unique needs of new and small businesses.

Launched on March 16, 2020, the Birmingham Strong Fund is an example of how cities are using public funds to leverage private contributions and lend money to local businesses. The emergency loan fund will provide zero-interest, 180-day loans of no more than $25,000 to small businesses with fewer than 50 employees. At the expiration of the loan period, the loans are expected to evolve into a revolving loan program for small businesses housed within the Community Foundation of Greater Birmingham. The explicit purpose of the fund is to provide a bridge loan into the SBA’s Program, stabilizing operations and payroll until additional capital can arrive.

In Kansas City, community foundations have created the KC COVID-19 Small Business Relief Fund — a $5 million program intended to provide immediate relief to local, new, and small businesses experiencing extreme economic disruption and financial strain. Administered by AltCap, a local CDFI, the emergency funds are available to local small businesses that have 20 or fewer full-time equivalent employees. Priority is given to small businesses in retail, food service, arts and entertainment, hospitality, health care not directly involved in the COVID-19 response, fitness, personal service, and transportation.
OPPORTUNITY

In normal times, burdensome red tape makes it expensive and difficult to start and run a business. Now, red tape threatens to put out of business millions of entrepreneurs who can’t navigate the complexities of government assistance programs. As states and municipalities develop localized recovery plans, cutting red tape must be a priority.

CRISIS RESPONSE

- Eliminate business registration and occupational licensing fees until there is full economic recovery.

REBUILD BETTER

- Create a single list of all requirements to start and run a business, and coordinate across agencies to simplify regulatory requirements and processes at the local, state, and federal levels.

- Establish a startup visa that authorizes foreign entrepreneurs to start businesses in the United States.

- Restrict the use of non-competes through outright bans or by shortening the maximum duration of these contracts and narrowing the scope of industries and jobs for which non-competes may be used.

- Replace occupational licensing with less onerous forms of regulation, such as certifications or permits, in industries where public health is not seriously threatened. For instance, in most states, it takes far longer to get a license to run a hair salon than to become an EMT.

KNOWLEDGE

Underserved entrepreneurs have fewer connections to relevant resources than existing business owners do. One of the biggest advantages for a connected entrepreneur is getting support from skilled professionals, such as through strong networks, cooperative platforms, co-working hubs, and high-quality incubators and accelerators. We need to open that access up to more new businesses in a way that is culturally specific.

CRISIS RESPONSE

- Provide technical assistance funding to grow and develop entrepreneur support organizations that better connect underserved entrepreneurs with helpful people and tools.

- The SBA should create a plan to develop and deploy an Entrepreneurship Corp, or “E-Corps,” to provide support to underserved communities that apply for assistance.

REBUILD BETTER

- Develop competitive grants to modernize the 63 Small Business Development Centers (SBDCs), 900 service locations, and 3,000 One-Stop centers to become more user-friendly.

- Create pay-for-success models that provide federal support to organizations that serve entrepreneurs when certain agreed-upon benchmarks are met, such as the number of new businesses created, ease of accessing appropriate capital, increased revenues, new jobs created and sustained, and underserved areas and populations reached.

- Significantly expand the number of entrepreneur support organizations (ESOs) that receive workforce training funding.

- Include entrepreneurship and applicable information and tools in workforce training programs to help tens of thousands of young Americans start their own businesses.
SUPPORT
The lack of a safety net has become apparent across all of society, but it has always been there for new businesses. Assuming the full risk of failure, they are responsible for health care, retirement savings, and other the necessities that they, their families, and their employees depend on.

Placing further strain on new businesses are financial obligations, such as paying off student loans. This crisis highlights the need for a comprehensive safety net that supports entrepreneurial risk-taking, especially for female, minority, immigrant, and rural entrepreneurs.

CRISIS RESPONSE
- Provide tax incentives to new businesses to offset health care costs.
- Forgive student loan debt for entrepreneurs who continually make capped loan payments for a certain period of time through the Pay As You Earn (PAYE) or Income-Based Repayment (IBR) programs.
- Create a federal Student Loan Deferral Plan that allows entrepreneurs faced with significant student loan burdens to apply to defer their student loans for an initial period of one year and for up to five years.

REBUILD BETTER
- Facilitate the development of a system of portable benefits that follow workers as they move across jobs or out of the workforce to start a business.
- Permit entrepreneurs to make “reach-back” contributions to their retirement accounts for a limited number of years, and have the tax deferral apply to the current tax year in which those payments are made. This policy recognizes that entrepreneurs often do not have income in the early years of a new business to put toward retirement, and it gives those who are willing to take the risk of starting a business the ability to catch up on their retirement contributions and save for the future when they are more likely to have the means to do so.
- Provide entrepreneurs who maintain residence in the state an exclusion from state income tax equal to the amount of student loan payments made in a year (up to a capped amount).
Emergency Economic Response Observations: Small Business and Entrepreneurs

- Collaborative statewide response
- Non-employers (https://youreconomy.org)
- Targeted technical assistance
- Cashflow readiness and bankruptcy awareness
- Critical connection between local economic developers and technical assistance providers
Road to Recovery
Policy Proposals for Uncertain Times

• Create tactically deployed grant funding coupled with access to additional financing targeting sole proprietors, independent contractors and businesses with revenue less than $2 million.

• Encourage legislative action to temporarily modify state-based refundable tax credit programs to consider job creation and job retention equally for eligibility purposes.

• Suspend state economic development award contract terms as it relates to job creation, payroll and capital investment for businesses with existing award contracts during and 3 years after COVID-19 public health emergency ends.

• http://www.weda.org/recovery/
Best Practices
Recovery to Resiliency to Growth

• Embrace change
• Build capacity
• Upgrade talent
• Treat e-commerce like R&D
• Do some good, if possible
• Communicate constantly
• Build in resiliency preparation

Reference: Bloomberg Businessweek Article – Sunday Strategist, How a Brooklyn Wine Shop Bucked the CIVID Odds by Kyle Stock
Urgency of Now
Minority-Owners Survive and Thrive Program
Minority-owned businesses are critical to healthy urban communities.

Resources announced to date are insufficient in scale and alignment with the economic realities.

**JOBS**
Create local jobs and hire a higher percentage of Black workers.

**REVENUE**
Gross nearly $700 billion each year and create generational wealth by owning assets.

**STRONGER COMMUNITIES**
Anchors generating traffic, foster pride and strengthen local economies.
Minority entrepreneurs face significant challenges—even under optimal conditions.

- Access to capital
- Business training and coaching
- Contracting and procurement
- Finding the right sponsors and resources
In COVID-19 economic crisis, consumer-serving Minority-owned businesses are the most at risk.

Stem decline and preserve economic development progress by focusing on High-Impact Vital Enterprises ("HIVES")

- Cash reserves and/or access to emergency capital
- Business continuity plans
- Networks and support systems
PILOT PROGRAM IN 10 CITIES


**Identify Priority Commercial Corridors**
(Critical mass will amplify impact. Build on existing assets)

**Select High-Impact Vital Enterprises (HIVES)**
(Choose quickly; straightforward underwriting; coachable)

**Engage HIVEs to evaluate capital and operating need**
(Re-opening plan get resources, navigate programs and negotiate with landlords and suppliers)

**Partner w/HIVEs to develop a business plan for pivoting to the “new normal”**
(6-18 month strategy, digital tools, profitability plan, securing growth capital from impact investors)

**Implementation Team and Track and Evaluate**
(Corporate employee engagement, governments, non-profit, academic)
Return on Investment

80% Survival Rate

Stabilize and Preserve

Jobs and Wealth

Stronger Communities

Strengthen entrepreneurs and revitalize urban communities
Deep Intervention.

*Invest in urban entrepreneurs. Invest in our resilience.*
Thank you.
JumpStart unlocks the full potential of diverse and ambitious entrepreneurs to economically transform entire communities.
CONTEXT FOR OUR WORK

ECOSYSTEM INFLUENCERS:
Entrepreneurs
Investors
Educational Institutions
Centers of Research
Chambers of Commerce
Community Initiatives
Government Stakeholders
Philanthropic Stakeholders
Corporate Innovators

FUNDERS:
Government:
Federal, State, County, City
Philanthropic:
Foundations, Private Individuals
Corporate:
Foundations, Innovation Stakeholders
WHAT WE DO

ECOSYSTEM
- Entrepreneurs
- Investors
- Educational Institutions
- Centers of Research
- Chambers of Commerce
- Community Initiatives
- Government Stakeholders
- Philanthropic Stakeholders
- Corporate Innovators

FUNDERS:
- Government: Federal, State, County, City
- Philanthropic: Foundations, Private Individuals
- Corporate: Foundations, Innovation Stakeholders
OUR VENTURE INVESTING ...

- **Evergreen Funds I & II**: $40M
  - Originally launched in 2004 as Tech Pre-Seed Fund; transitioned to Seed over time

- **Focus Fund**: $10M
  - Launched in 2016 as a Tech Seed Fund focused on funding people of color and women

- **NEXT Fund**: $20M
  - Launched 2016 as for-profit, Series A Co-investment Fund

$60M Total Capital Deployed

124 Companies Funded

$3B+ Revenue Generated

$2.5B+ Follow-on Funding Raised
COVID-19 RESPONSE SINCE APRIL 2\textsuperscript{nd}

• $3.1M in Emergency Capital to Entrepreneurs and Small Businesses
  ◦ $1.5M in venture capital funding for JumpStart tech startup portfolio companies
  ◦ $500K in loan funding for small business clients
  ◦ $1.1M to 9 community Stabilization Funds in collaboration with KeyBank in Ohio and Upstate New York

• 23,000 Hours of Entrepreneurial Support
  ◦ Direct support to 600+ companies
  ◦ COVID-19 Resource Guide
  ◦ Ten COVID-19 educational webinars
  ◦ Nationally renown Entrepreneur-in-Residence hired to support Black and Latinx tech entrepreneurs
COVID-19 Impact on the Startup Ecosystem: 9 US VC Trends to Watch

Highlights from NVCA white paper “Startup Ecosystem Faces Capital Crunch over Coming Months”
U.S. VC Lifecycle

Fundraising
- Slowdown in capital raised by VC investors to deploy to companies
- Emerging VC fund managers likely to feel capital crunch more than established VC firms
- Industry to rely on and manage $120 billion in dry powder

Investment
- Pace of VC investing in startups to slow
- VC investors to prioritize supporting existing portfolio companies, squeeze on capital for investing in new companies
- Nontraditional investors pull back
- Founders from historically underrepresented groups and those in emerging VC ecosystems across the country will face difficulty raising capital

Company Growth
- US economy shut down in short-term
- Concerns for COVID-19 second wave and more economic interruptions
- Company growth against headwinds of global recession

Exit
- Decline in exit activity to delay liquidity for VC investors and LPs
- IPOs tied to public market health
- Strategic acquirers assessing and rebounding from COVID-19, affecting M&A activity
- VC investors will have to stretch their dry powder further to support companies staying private

Returns
- Volume and value of exits to impact returns in short/medium term
- Potential longer-term optimism on returns since previous downturns have generated some of the best returns

Re-investment
- Capital crunch on re-investment results from slowdown of activity and pricing readjustments in other parts of the lifecycle
Turning point for the venture industry: March 2020

Layoffs
March 11th - April 27th ...
300+ U.S. startups have
laid of 35,000+ employees

Another 50,000 layoffs
projected by Summer ...

Decline in VC activity
VC $ invested in April 2020 was...
down 47% vs. March 2020 &
down 43% vs. April 2019

US VC Deal Activity in 2020

Sources: Layoffs.fyi; PitchBook & Geekwire
VC industry in strong position with record $121b dry power to enter downturn but this $ has real limitations

**U.S. VC Assets Under Management (AUM)**

- **Remaining value ($B):**
- **Dry powder ($B):**
- **Total AUM ($B):**

Source: NVCA 2020 Yearbook. Data provided by PitchBook.
Recent investment pace & demand from startups exceeds supply of VC dry powder

U.S. VC Dry Powder vs. Capital Invested ($B)

Source: NVCA 2020 Yearbook. Data provided by PitchBook.
VC $ allocated to new investments + reserves for existing portfolio; LPAs limit investing across funds

U.S. VC Investment – First VC vs. Follow-on ($B)

Source: NVCA 2020 Yearbook. Data provided by PitchBook.
Non-traditional investors comprise significant source of capital for startups; pullback expected

U.S. VC Investment ($B) – Deals with CVC or PE Involvement

Deals with Nontraditional Investor Participation as Proportion of Overall US VC Deals ($)

Sources: NVCA 2020 Yearbook. Data provided by PitchBook.
Q1 PitchBook-NVCA Venture Monitor. *Data as of 3/31/20
LP caution for new commitments to VC asset class; fundraising fell 60% from 2008 to 2009

U.S. VC Fundraising ($B)

Source: NVCA 2020 Yearbook. Data provided by PitchBook.
Decline in exit activity to delay liquidity for VC lifecycle; additional demand on VC dry powder

Number of U.S. VC-backed Exits

IPOs vs. M&As

U.S. VC-backed Exits – Exit Size ($B)

IPOs vs. M&As

VC-backed IPOs accounted for 43% of total U.S. IPOs in 2019

Exit size drop after GFC

Source: NVCA 2020 Yearbook. Data provided by PitchBook.
84% of VC AUM based in CA+MA+NY; SIP & less travel means capital staying closer to home & sticking with known relationships for some VCs

U.S. VC Investment by State by Year-over-year Percent Change & Change in Capital Invested ($M), 2008 vs. 2009

Sources: NVCA 2020 Yearbook. Data provided by PitchBook. PitchBook’s “The Effect of Capital Resources on Dealmaking” report
Greater collaboration: Convening ambitious entrepreneurs and public, private, philanthropic and institutional partners to drive innovation and growth

More capital: Creating more funding options for both tech and non-tech companies

A deeper focus on equity: Rebuilding a more inclusive and self-sustaining economy