

The Policy-Startup Feedback Loop: How Tech Entrepreneurs Can Shape Better Grant Programs

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Abstract- *This paper examines the fundamental disconnect between startup realities and public grant program design, calling for a systemic transition to collaborative policymaking. Startups, being pioneering front-line innovators, find themselves facing out-of-date criteria, overbureaucratic paperwork, and ill-timed funding mechanisms that suppress their growth and discourage participation. Through real-time research and global antecedents, including the EU's Horizon programs and street-level startup mobilization campaigns, the article illustrates how startup feedback through surveys, roundtables, open letters, and advice boards can inform superior and more distributive funding regimes. It argues for a cultural revolution: policymakers must engage startups as co-creators, rather than recipients, while startups must own their agency in shaping innovation policy. By incorporating structural feedback loops and adopting co-creation models, the future of grant funding can be more dynamic, fair, and accepting of innovation. It is not only cost-saving this collaborative approach is critical to the upkeep of an active entrepreneurial economy.*

Indexed Terms- *Startup-Centered Grant Design, Co-Creation in Innovation Funding, Feedback-Driven Public Grants, Entrepreneur-Policy Collaboration, Inclusive Startup Funding Models*

I. INTRODUCTION

For startups, access to funds is success or failure. Government grants that aim to stimulate innovation and economic growth are a big part of the landscape. But when the criteria applied to qualify for these grants do not keep step with the change in

entrepreneurship, they end up being a hindrance to the innovation that they aim to generate.

The Trap of Outdated Grant Criteria

Consider, for example, the case of a startup that had a high-potential AI-driven platform aimed at revolutionizing farming practices in Sub-Saharan Africa. For as much innovation and potential as there was, the startup's application for a government grant was turned down. Why? The grant's evaluation criteria laid a lot of weight on traditional parameters such as physical infrastructure and hard assets at the expense of intangible yet vital factors such as digital innovation and scalable software solutions.

This is not an isolated case. Research has proved that grant programs have biases towards funding established firms with tangible assets, thereby excluding startups that develop innovative, intangible assets. These requirements are old-fashioned and fail to account for the value and potential of today's startups, particularly those in technology.

The Need for Grant Programs to be Aligned with Startup Requirements

The relationship between grant programs and startups is mutually symbiotic. Startups require funding to develop and expand innovative solutions, and governments require the innovations to drive economic growth and address societal challenges. When grant programs fail to be attuned to startup realities and needs, this relationship is strained and missed opportunities result for both parties.

For instance, the German 'EXIST – Business Startup Grant' program has proven to be effective by tailoring its criteria to the individual needs of academic

startups, especially technology- and knowledge-based startups. This has resulted in both high survival rates and high job creation in financed startups.

Moving Forward: Developing Grant Criteria for Contemporary Startups

To sustain an effective startup ecosystem, grant programs must adapt to the changing face of entrepreneurship. This includes:

- **Valuing Intangible Assets:** Appraising intellectual property, digital platforms, and novel business models alongside traditional tangible assets.
- **Adaptive Evaluation Metrics:** Embracing qualitative indicators that echo the potential impact and scalability of startup solutions.
- **Inclusive Eligibility Criteria:** Ensuring that early-stage startups, especially in new sectors, have equitable access to investment opportunities.

By updating grant criteria to better mirror the realities of the modern startup environment, governments can better encourage innovation, economic development, and social advancement.

II. THE GAP BETWEEN GRANT DESIGNERS AND STARTUP FOUNDERS: A BARRIER TO INNOVATION

Government grants are intended to catalyze innovation by providing startups with essential funding. However, more frequently than not, there exists an enormous gap between grant designers and tech entrepreneurs, and this leads to misaligned criteria that throttle the exact innovation that these grants are intended to provide.

Misalignment in Grant Design



The majority of grant programs are formulated with little consultation with tech entrepreneurs, resulting in criteria that are out of touch with startup business realities. For instance, some grants include revenue projections that are impossible for early-stage startups, or require exhaustive documentation that burdens small teams. Rigid Key Performance Indicators (KPIs) can also overlook the iterative process of tech development, where pivots are common and critical.

In Europe, startups have pointed out that grant proposals often demand advanced financial reporting and matching funds, which can be exclusionary to new firms. An example highlighted the case of a startup that, despite being awarded a sizable grant, had to abandon the project since it was unable to secure the matching fund requirement.

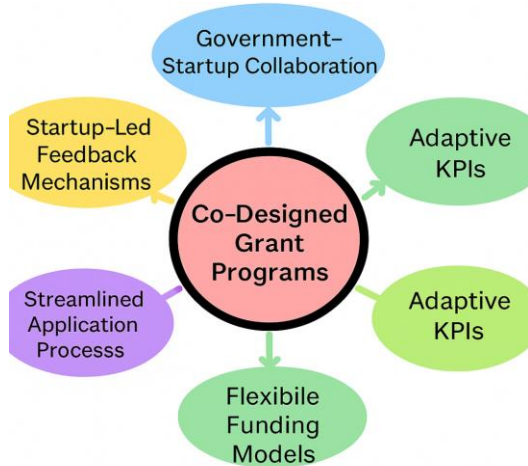
Consequences of the Disconnect

The disconnect between grant requirements and startup needs can have several adverse consequences:

- **Wasted Investment:** Investment can go to startups that are good at managing bureaucracy rather than having the best solutions.
- **Stunted Innovation:** Startups may devote time and resources to meeting grant requirements rather than product development, which slows their innovation.

In Nigeria, up to 51% of startups encounter challenges in accessing capital, among other reasons, because requirements do not capture realities on the ground within the local startup ecosystem.

Bridging the Gap



In order to make grant schemes more effective, tech entrepreneurs should be involved in the design. This can help to render criteria realistic and innovation-friendly. Simplifying application procedures, adapting KPIs to fit startup dynamics, and providing flexibility in funding requirements can make grants more effective and accessible. Through aligning grant schemes to the actual needs and activities of startups, governments can foster a more innovative and dynamic entrepreneurial ecosystem.

III. WHY STARTUP VOICES MATTER TO POLICY DESIGN

Startups are the vanguard of innovation, venturing new ground with limited means. Their own experiences are invaluable windows into the actual-world challenges of obtaining and utilizing grant capital. However, when policy design ignores such voices, it will most likely operate with concepts that are disconnected from reality in startup business, thereby inhibiting innovation and economic growth.



Startups: The Front-line Observers

Startups operate within dynamic environments, in which they keep adapting to market demand and technological change. Such dynamism positions them optimally to notice systemic inefficiencies and limitations within funding processes. For instance, deep-tech ventures have highlighted areas of friction within grant programs, such as complicated application processes and misaligned funding stages, that hamper immediate access to necessary resources. In addition, a study of nascent entrepreneurial ecosystems highlights that effective public policies need to be contextually specific, enablers in character but not appropriating leadership roles from entrepreneurs and other ecosystem stakeholders.

Founders' Common Points of Friction

- Bottlenecks in Applications: Complexity and duration in application procedures can act as a deterrent for startups lacking administrative strength.
- Inept Timing: Disbursement of funds that don't tie in with the critical development stages can kill project momentum.

These challenges underscore the importance of grant initiatives being designed with an advanced understanding of startup operations.

The Benefits of Merging Startup Insights

Engaging startups in policy design enables more effective and more inclusive funding frameworks.

Their practice can inform the development of effective application processes, responsive eligibility criteria, and funding schedules corresponding to startup development patterns. These collaborative designs have been regarded as integral to enabling innovation and economic dynamism. Besides, adopting the data-driven model for targeted support can also make grants more effective, with an open and fairer process of allocation. Through the collection and evaluation of full data about startups, including business models, opportunity in the market, team skill, and funding success in the past, governments can create a richer ecosystem of startups.

IV. WHAT A FEEDBACK LOOP COULD MEAN: MERGING STARTUP VOICES INTO GRANT DESIGN

Effective grant programs are vital to sparking innovation and empowering startups. Without provisions to blend feedback from the very startup leaders whom they aim to serve, the programs themselves can fall out of touch with the evolving needs of the startup environment. With robust feedback loops, it is ensured that grants' designs are responsive, representative, and amiable to innovation facilitation.

Mechanisms to Incorporate Startup Feedback

- Post-Application Feedback Surveys

Utilization of surveyed forms after grant application procedures allows startups to give feedback, highlighting weaknesses and suggesting areas for enhancement. One such instance is the European Union's Horizon Europe programme, which emphasizes the improvement of monitoring and evaluation systems that incorporate feedback to achieve the fullest potential of the programme.

- Roundtable Sessions Between Grant Officers and Startup Founders

Structuring regular roundtable sessions allows for face-to-face communication between grant administrators and entrepreneurs. Such sessions can reveal real-world insights into application

roadblocks, eligibility standards, and other systemic challenges, allowing real-time refinement of grant programs.

- Open Pilot Programs with Real-Time Iteration

Pilot grant program rollout to selected startup batches enables pilots and pilots' parameter tuning. Pilots can feed back information to inform the refinements in order to ensure that final program design perfectly speaks to startup needs. Horizon Europe, for example, has iterative feedback loops to tailor its funding instruments to meet .

Benefits of Feedback Loops for Grant Design

- Enhanced Relevance and Accessibility: Feedback helps grant criteria and procedures become sensitive to the real contexts of startups and thus become more accessible and relevant.
- Higher Participation Rates: If startups believe that their contribution will impact the design of the grants, their participation in the program is higher and thus there is a higher participation rate.
- Improved Progress: Ongoing feedback makes the grant program improve continuously, which leads them to develop in line with the startup ecosystem.

V. STARTUPS DEFINING GRANT POLICIES: BEST PRACTICES AND LESSONS LEARNED

Whereas startup companies often have difficulty entering the grant funding domain, there are instances wherein they have successfully influenced grant policies through different strategies for advocacy. These case studies give an indication of how assertive action can create meaningful changes in funding programs to make them accessible and responsive to the needs of innovative entrepreneurs.

Case Study 1: Cyber Pop-up and UBS's Grant Program

Christine Izuakor, the entrepreneur behind cybersecurity startup Cyber Pop-up, received a \$25,000 grant from UBS's "Democratizing the Friends & Family Round" initiative, which supports

women of color founders. Such was the response to the program, with more than 12,000 applications, that UBS doubled the number of its grant recipients from 30 to 40, awarding \$1 million in total. This illustrated the high level of demand for such funding and the effect that targeted support could have. However, UBS later abandoned the program due to challenges in sustaining such programs under changing legal and popular pressures.

Case Study 2: Engine Advocacy and Policy Influence
Engine Advocacy, a start-up advocacy policy group, has helped guide technology policy debate. Although it has been associated with major technology companies like Google, Engine has also claimed to be an advocate of the interests of small tech start-ups. Its voice being heard in policy debates, such as on Section 230 of the Communications Decency Act, shows how concerted lobbying can inform legislation affecting start-ups.

Lessons Learned

These instances point out some of the most significant tactics for startups seeking to influence grant policies:

- **Collective Advocacy:** Forming or participating in organizations that advocate for startup interests can gain more voice and input in policy discussions.
- **Data-Driven Campaigns:** Presenting quantifiable data supporting the issues affecting startups can persuade policymakers to implement reforms.

By being an active participant in policy discussion and advocacy, startups can help shape grant programs to benefit them better, creating a more conducive environment for innovation.

VI. MOVING FORWARD: A CULTURE SHIFT IN GRANT POLICY DESIGN

As the startup ecosystem evolves, so must the mindset of public grant programs. It is no longer sufficient to get by on static forms, rigid structures, or one-way processes. What is needed instead is a fundamental culture shift one that puts startups and policymakers on an equal level as co-creators of a shared innovation journey.

From Beneficiaries to Collaborators

Startups have been traditionally seen by policymakers as passive recipients of funding. This retrograde thinking limits the potential of grant programs by overlooking the experiential insights startups can provide. To develop funding models that truly catalyze innovation, governments must rethink startups as not just applicants, but as policymaking collaborators in partnership with government.

- **Collaborative Interaction:** Governments in countries like Germany and the Netherlands engage startups in innovation councils and working groups for the co-design of grant instruments in line with real market demands. The Dutch government, for instance, has a strategy of enabling research and innovation ecosystems through the encouragement of public institution, investor, and startup collaboration.
- **Advocacy Networks:** Systemic shaping of collective funding policy reform is done by startups collectively through cooperation within industry associations or consortia. Initiatives like the RAISE project enable co-creation workshops to initiate debate and develop practical solutions for enhancing the European startup ecosystem.
- **Co-creation Models:** Horizon Europe, the European Commission initiative, is an international benchmark, integrating iterative feedback and multi-stakeholder involvement, including startup voices, into grant development and design. This ongoing process ensures that funding instruments remain attuned to innovators' needs.

Startups as Stakeholders, Not Just Applicants

Startups, too, must recognize their role beyond funding applications. They are stakeholders in an ecosystem that thrives on the basis of two-way input and shared responsibility.

- **Policy Engagement:** The founders can engage in advisory councils, provide policy recommendations, and participate in government innovation forums. **Thought Leadership:** Publish articles, write opinion pieces on social media, and

conduct forums, startups can shape the mindset of people and inform policy reform.

- Advocacy Networks: Systemic shaping of collective funding policy reform is done by startups collectively through cooperation within industry associations or consortia. Initiatives like the RAISE project enable co-creation workshops to initiate debate and develop practical solutions for enhancing the European startup ecosystem.

CONCLUSION

The disconnect between startup needs and grant program design is not merely a bureaucratic breakdown it is a structural flaw that jeopardizes the very source of innovation. Startups are adaptive, iterative, and often work on the edge of existing market knowledge. And yet, most grant programs remain in old school models: rigid eligibility rules, inappropriate KPIs, over-documentation, and little to no feedback mechanisms. Such mismatches do more than simply frustrate founders they really deter participation, stifle innovation, and waste public funds to catalyze economic and technological progress But the solution to this issue is not. A trivial exercise of form. The tweaking of procedure. It's a fundamental. The rethinking of how grant programs are conceived. Delivered. Evolved. A. Shift. From. Top-down. One-size-fits-all. Decision-making. To. Co-creative. Policymakers. And. Entrepreneurs. Working. Together. As. Colleagues. To. Craft. The. Future. Of. Public. Funding.

A Dual. Responsibility.

Policy makers must move beyond observing startups as passive recipients or applicants. Startups are first-line observers of what is working and not working within the innovation ecosystem. Their battle-scarred experience offers invaluable information on market timing, product life cycles, resource bottlenecks, and barriers to entry. By applying those learnings and leveraging them, grant programs not only become more applicable they become leading instruments for system innovation.

Meanwhile, startups themselves need to claim their civic space in the funding system. They are not merely policy beneficiaries— they are also shareholders in its design and its impacts. By sitting

on policy advisory boards, providing candid input, penning open letters, and leveraging platforms like ResearchGate, LinkedIn, and X (previously Twitter) to share their stories, founders can influence public conversation and advocate for grant reforms that work for both equity and impact.

Global Signals of Change

Programs such as the European Union's Horizon Europe showcase how pilot tests, systematic feedback mechanisms, and regular communication with stakeholders can build successful, adaptive models for funding. Other global programs Canada's Innovation Superclusters Initiative, for instance, or the OECD Startup Policy Compass further set the evidence for cooperation between government and startups in policy development.

These models show that feedback-based, collaborative systems of grants are not fantasies but realities. And they are better than traditional grant-making for responsiveness, scale, and inclusivity.

The Path Forward

To create a brighter future for startup finance, we must bridge institutional gaps between financiers of innovation and innovators. This requires:

- Placing loops of feedback at the heart of grant management.
- Designing open, iterative pilot programs informed by startup insight.
- Having regular roundtables and consultations between grant officers and founders.
- Making startup feedback an unconditional gold standard in policymaking.

By centring startup voices at the heart of grant design, we can develop funding programs that are faster, more equitable, and much better suited for their purpose.

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