

# Barriers to Capital Flow for Black Female Entrepreneurs

Final Report - March 8, 2021

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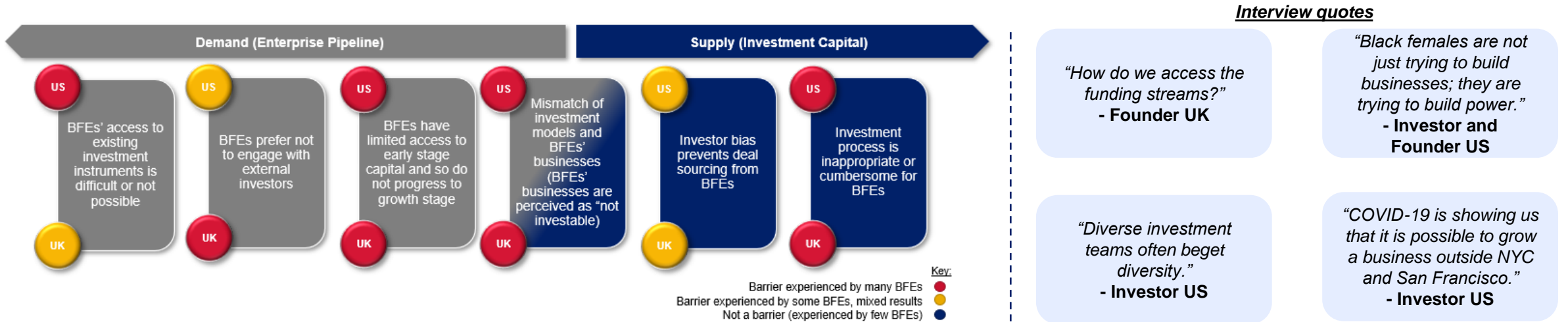
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# Executive Summary and Introduction

# 01

# Executive Summary

Palladium has gathered and tested a broad set of hypotheses for barriers to investment on the demand and supply sides of capital flows, as shown in the graphic below. Building on the body of work already done on this topic, we drew further insights from a literature review, data analysis, and interviews with entrepreneurs and investors, into how these barriers manifest for Black Female Entrepreneurs (“BFEs”), what their potential causes are, and some potential pathways to removing them.



## Recommended Solutions to Address the Barriers

Addressing the spectrum of barriers to investment flow, faced by both BFEs and investors requires market building solutions, which can include:

- **Catalytic capital** for investment providers to expand and scale innovative early-stage funding options, as alternative to “bootstrapping” and “friends & family capital”; as well as first loss capital for diversity focused fund managers and investment to amplify and share the know-how of those investors already paving the way.
- **Pipeline support through capacity building of investors** to build networks they lack to identify a diverse set of business opportunities; and technical assistance for entrepreneurs on vetting investors prior to meeting them, business growth planning, financial forecasting, and preparing for the due diligence processes.
- Purposeful **change in investors' due diligence processes** to serve inclusivity, including reshaping investment evaluation criteria, recruiting diverse staff and implementing risk assessment methodologies based on alternative data sets that separate perceived versus real risks, adjusting for biases.
- **Improvement in data gathering** and on-going management of impact through consolidation of investment data for all MSMEs, disaggregate by gender and race, which will allow for more precise data-driven recommendations and progress tracking.

# Introduction

Palladium Impact Capital are delighted to submit this report for the Foreign, Commonwealth & Development Office of the UK (FCDO) in support of the critical advancement of investment in Black female entrepreneurs. This report seeks to promote and advance inclusive economic growth by investigating barriers constricting Black female entrepreneurs to fully realise their potential across the UK and the US.

## Why this is important

- Despite Black female entrepreneurs being one of the **fastest growing entrepreneur groups** in the US, **they receive a disproportionately small amount of investment**. In 2019, less than 9% of investment went to female founders, and less than 3% went to founders of color in the US<sup>1</sup>. In the UK, only 0.5% of start-ups with Black founders received VC investment<sup>2</sup>.
- Recent studies have shown the importance of diversity in building more equitable societies. Investment rates and current trends suggest Black female entrepreneurs' **fair access to investment resources requires attention**.
- Investment in Black female entrepreneurs represents a **large untapped opportunity to build strong businesses with potential to grow** and to construct a more **diverse and inclusive business ecosystem** to greater benefit of the economy and our society.

## What we aim to accomplish

- Through our research, we aim to **build market understanding of this critical issue by estimating the investment gap** (if any), **identifying the barriers to capital flow and proposing actionable solutions** that can be implemented by FCDO and other stakeholders immediately, in order to **close the gender and ethnic equality gap in investment**.

## Philosophy of our approach

- At Palladium Impact Capital, we firmly believe in the efficacy of investments that enable the inclusion of underserved communities and markets. We are a **group of transaction practitioners that works to facilitate impact investment transactions** for our clients, and therefore **offer first-hand experience** in the challenges of **mobilising capital to underserved businesses**.
- Our **approach incorporates systems change** methodologies, which examine the parts and relationships between different components of the system. This report, however, focuses only on **the investment flow into existing businesses** and **what capital providers and policy makers can do** in order to address the existing investment gap.

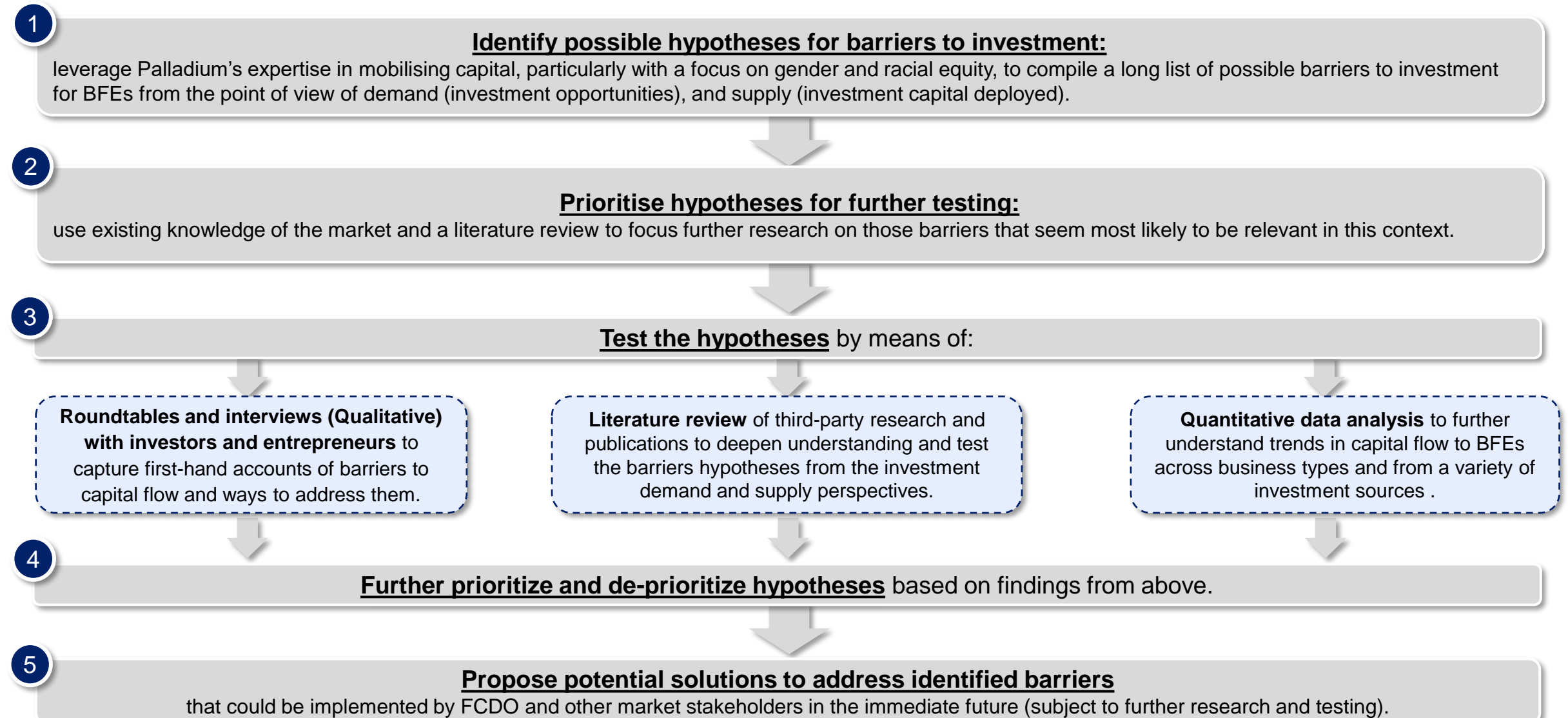
*Please note that the findings in this report are of an indicative nature only. The statements on perceived barriers in this report are summaries of observations derived from the research conducted and do not represent statements of fact or opinions of Palladium or FCDO. Moreover, the report does not seek to make claims related to the underlying causes of the inequities faced by BFEs.*

# Approach and Methodology

# 02

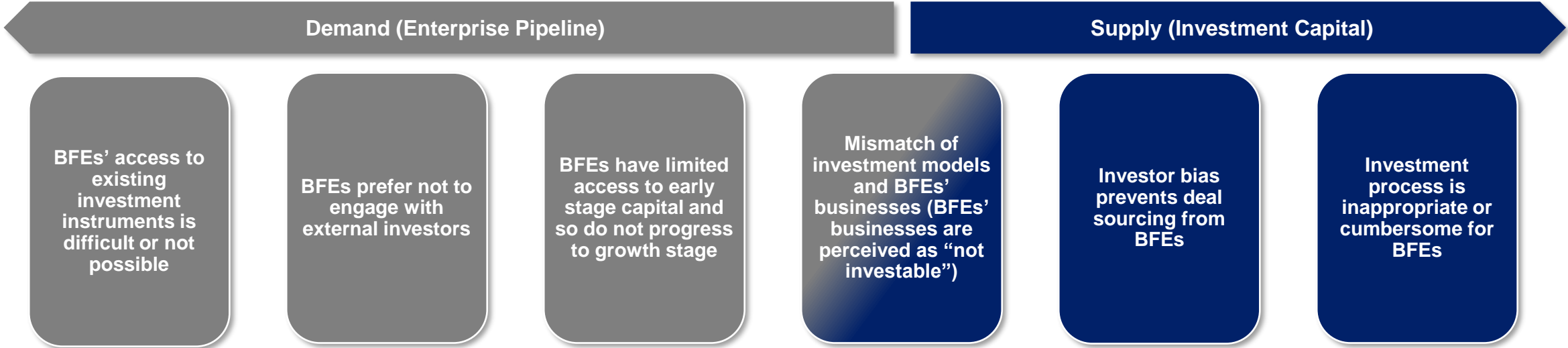
# Approach and Methodology

Our process for driving from the hypothesis to solution includes hypotheses testing through data analysis, literature review, roundtable discussions with Black female entrepreneurs (BFEs) and interviews with a broad set of investors.



# Barriers to Capital Flow for Black Female Entrepreneurs

While gathering hypotheses for barriers to investment and selecting hypotheses for further testing, we considered all barriers common to capital flow issues for any underserved group. We then developed a “tree structure,” organising the top line barriers and elucidating the potential causes of those barriers underneath each. Barriers applicable to the US and/or the UK BFEs are shown below. These barriers include demand side barriers entrepreneurs face and the supply side barriers investors face. Barriers are included if they are judged to be relevant to most investors or Black female entrepreneurs (BFEs). Barriers are also included if they are faced by a significant sub-set of BFEs or investors.



The Market Study section shows the extent to which each barrier may prevent Black female entrepreneurs accessing appropriate capital to grow. The market study research tests both *if it is a barrier in the US and/or UK* and *why this barrier is a problem* for BFEs or investors. We also consider *whether this barrier to accessing capital is worse for BFEs than for MSMEs as a whole*. Evidence for barriers comes from quantitative data analysis, literature review, and qualitative findings.



# A Note on Disproven Hypotheses

Several hypothesized barriers were found not to be applicable to the US and UK markets, and several hypotheses have been disproven in existing literature<sup>1</sup>. These are not major barriers to capital flow for Black female entrepreneurs in the US and UK and will not be the focus of the market study. This does not mean they are not difficulties investors or BFEs face, only that these issues are not viewed as the most critical factors stopping the flow of capital.

## Demand (Enterprise Pipeline)

**Disproven hypothesis** – some barriers listed below are an issue for BFEs and MSMEs in general, but they do not stop BFEs disproportionately from starting and growing a sufficient pipeline of businesses. For example, many entrepreneurs face challenges dedicating time to growing their businesses, and some credit providers specifically note that BFEs in the US are more likely than MSME counterparts to carry university debt and therefore keep full time jobs while starting their business. While this is a problem for BFEs and MSMEs generally, a sufficient number overcome the barrier.

Black women do not start or grow businesses – entrepreneurship is low

Entrepreneurship is uncommon, examples and mentors are unavailable

Poor business environment

- Poor regulatory environment
- Cost of doing business

Low education / literacy / digital literacy

Poverty

- Resource poverty
- Time poverty

## Supply (Investment Capital)

**Not applicable** in the US and UK - while political upheaval and economic instability have occurred, these issues have not generally deterred investment in MSMEs in the target markets of this study

Lack of growth stage capital for MSMEs in general

Violent conflict

Political upheaval

Market volatility

Currency risk

# Key Definitions

A critical step in our approach was to first clearly define the ideas and concepts to be used in our research – beginning with the definitions of entrepreneurs and enterprises

## 1 Black Female Entrepreneur (BFE)

Within the scope of this research, we include any person that self-identifies as a Black female, and who owns, leads, founded, or intends to found a for-profit enterprise.

## 2 Ethnic minority-led (EML) businesses

Where data is sufficiently robust, businesses are defined as 'ethnic minority-led' if  $\geq 50\%$  of their management team are from ethnic minorities, or if a person from an ethnic minority is in sole control of the business.

## 3 Micro, Small and Medium Enterprises (MSMEs)

**UK:** Business with less than USD \$15m in annual sales and between zero to 249 employees.

**US:** Business with less than USD \$15m in annual sales between zero to 499 employees.

## Employer Firms

4 Companies with at least one paid employee.

## 5 Black Female Enterprise (BFEn)

The study focuses on for-profit MSMEs. For the purposes of this study, enterprises are included only when they have at least 1 paid employee ("employer firms").

It is important to note country differences, especially regarding government and market data used in credit gap sizing. In the US, data is available on women-owned enterprises. In the UK, data is available on women-led enterprises. Our report follows these conventions. We acknowledge the differences between women-owned and -led enterprises, and consider this in the market study.

In summary, this study follows the US Census and UK government ethnicity classification and Longitudinal Small Business Survey:

- **US:** an MSME with Black or African American woman/women owning  $\geq 51\%$  of the stock or equity in the business and at least 1 paid employee.
- **UK:** an MSME where woman/women who identify as having African, Caribbean, Black British, African Caribbean or any other Black, African or Caribbean background make up  $\geq 50\%$  of the management team of the business and the business has at least 1 paid employee. **Note:** This broad categorisation reflects the lack of ethnicity data available in relation to gender and business ownership.

## Key Definitions (Cont'd.)

Next, we aligned on the concepts of investment capital and investment supply to be considered for the purposes of this report

### 6 Investment Capital

Investment capital within the scope of our research includes Debt and Equity investment instruments:

- a) Debt such as small business loans, working capital loans, equipment loans, credit debt, and peer-to-peer loans; and
- b) Equity coming from various types of capital providers such as friends and family, angel investors, venture funds, equity funds and other financial institutions and at various stages – Seed, Early Growth (Series A) and Growth Capital (Series B and beyond).

### 7 Investment Supply

Investment capital invested in businesses led by Black female entrepreneurs in the US and the UK.

# Approach and Methodology

We began our research with a data-driven approach to estimate the total size of the investment market and the financing gap that exists for Black female entrepreneurs

## Demand: Investment Opportunity

**Objective:** Estimate total capital demand by Black female entrepreneurs in the US and the UK

### Approach:

#### 1. Estimate number of BFEs

- US: used Census data and the 2018-2019 Annual Business Survey (ABS)<sup>1</sup>.
- UK: used the 2018 Longitudinal Small Business Survey and data indicators from other reports<sup>2,3</sup>

#### 2. Develop BFE segmentation by business size

- US: based on annual company sales provided by the 2018-2019 ABS and IFC MSME definition<sup>4</sup>, determine business is micro, small, or medium.
- UK: applied US market proportions to the UK market as data on annual sales were not available specifically for the UK.

#### 3. Estimate capital demand by segment

- Based on IFC MSME loan size proxies for micro, small and medium businesses, estimated the total capital demand in the US and the UK.

## Supply: Investment Deployed

**Objective:** Estimate total investment supply for Black female entrepreneurs in the US and the UK

### Approach:

#### 1. Estimate total debt and equity supply to SMEs

- Used data from US Federal Reserve, National Venture Capital Association, Credit Union National Association Crunchbase, Bank of England and OECD library to estimate total investment by instrument and capital provider.

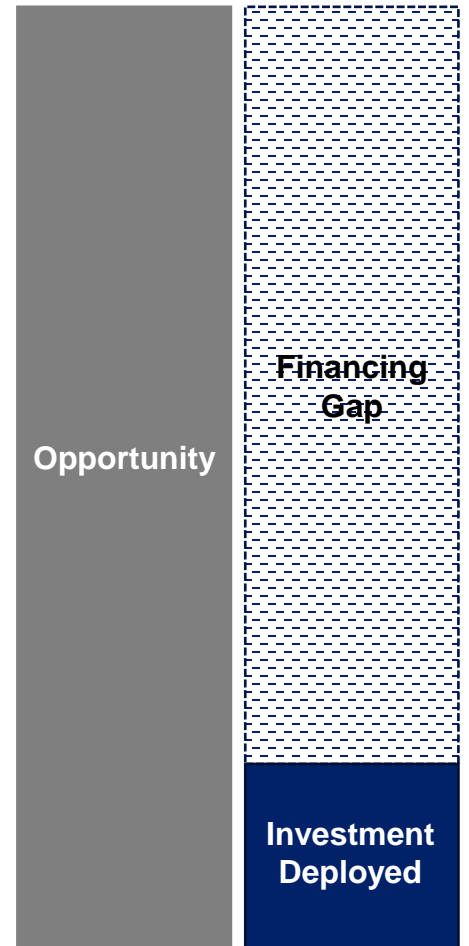
#### 2. Estimate percentage of capital invested in BFEs

- Used limited quantitative data available and qualitative data from literature review, to estimate percentage of capital deployed to BFEs by instrument and capital provider.

#### 3. Infer total investment supply

- Based on the estimates above, aggregated each category to infer total capital supply to BFEs.

*Indicative*



Market Study

03

# Indicative Investment Gap Sizing

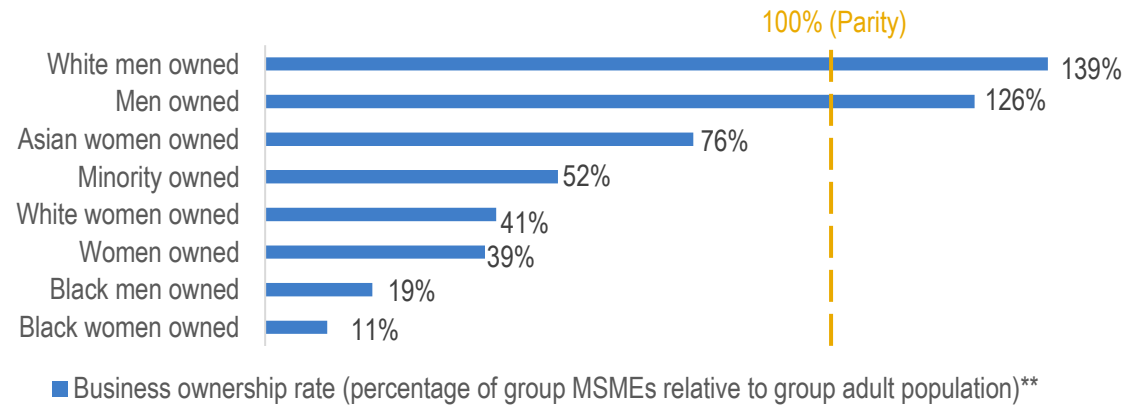
*See Annex 01 for Details of Investment Gap Sizing*

# Capital Demand Sizing – US BFEs representation within MSMEs\*

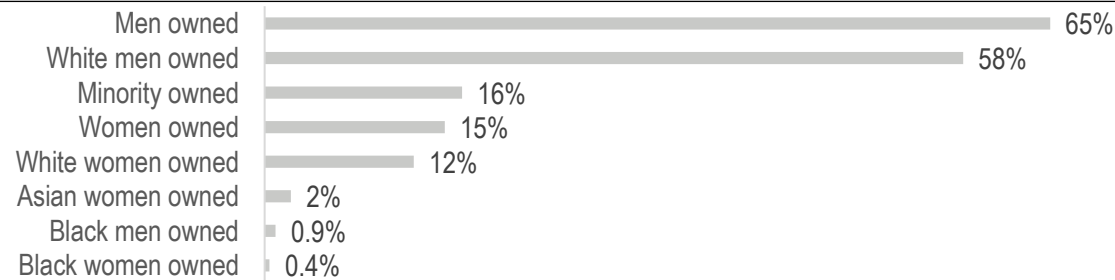
## US Black Female Enterprises compared to other MSME groups

According to the National Advisory Council on Eliminating the Black-White Wealth Gap, Black owned businesses are more likely to be smaller because of inequities in wealth and access to capital. The outcomes for Black women owned businesses are likely to be worse due to the compound effects of structural racism and both racial and gender discriminations. See Annex 01 for additional details on capital demand sizing.

### US representation in business ownership relative to percentage of population



### Group capital demand as a percentage of the total MSME capital demand



- In the US, a majority of capital demand from MSMEs come from White male owned businesses, a group that alone comprises 58% of total capital demand
- This is a stark contrast compared to women owned businesses which account for only 15% of total capital demand. Similarly, minority owned businesses account for 16% of capital demand
- Capital demand from other minority groups represent a much lower proportion of the total capital demand. Asian women account for 2% while Black men owned represent 0.9%, even though they represent higher percentages in population terms
- Across all groups, BFEs are the lowest ranked as they make up 0.4% of total capital demand.

Note: \*In this slide we define MSMEs as firms with at least 1 employee and businesses equally owned by men and women are not included.  
 \*\* Percentage of group MSMEs divided by percentage of group adult population. A percentage under 100% shows an under-representation of the group MSMEs compare to the group adult population, any figure over 100% is an over-representation.

Note: Findings above are derived from Palladium's estimations based on US Census 2019-18 Annual Business Surveys  
 Detailed breakdown and analysis of BFEs with benchmark groups can be found in the Appendix section of this report

# Investment Sizing - US

The funding gap for US Black female entrepreneurs is significant. Using data from the US Census, Palladium segmented Black Female entrepreneurs' businesses by business type. From our analysis, we estimate a total capital demand of \$13.7 billion in 2018 from BFEs. Based on our analysis approximately \$1.9 billion flows to BFEs via debt and equity instruments. See Annex 01 for details.

## Key findings: Capital Demand Sizing

- Total capital demand from US BFEs for 2018 was approximately **\$13.7 billion**
- The bulk of the demand (81%) comes from “medium” sized businesses. Whilst “medium” segment businesses represent a majority of the demand they only represent approximately 13% of US BFEs in number
- 88% of US Black Female Enterprises fall in the “small” (57%) or “micro” (31%) segments
- Black females represent about 7% of the adult US population while US BFEs account for only 0.77% of MSMEs and 0.4% of the capital demand. The data is consistent with literature reviews which indicate that Black female owned businesses are less represented in the MSMEs universe
- When we look at other women owned businesses, US BFEs still rank within the smallest businesses in terms of representation and annual sales. All MSME groups are different, and intersectionality can add a different narrative for a particular group or entrepreneur

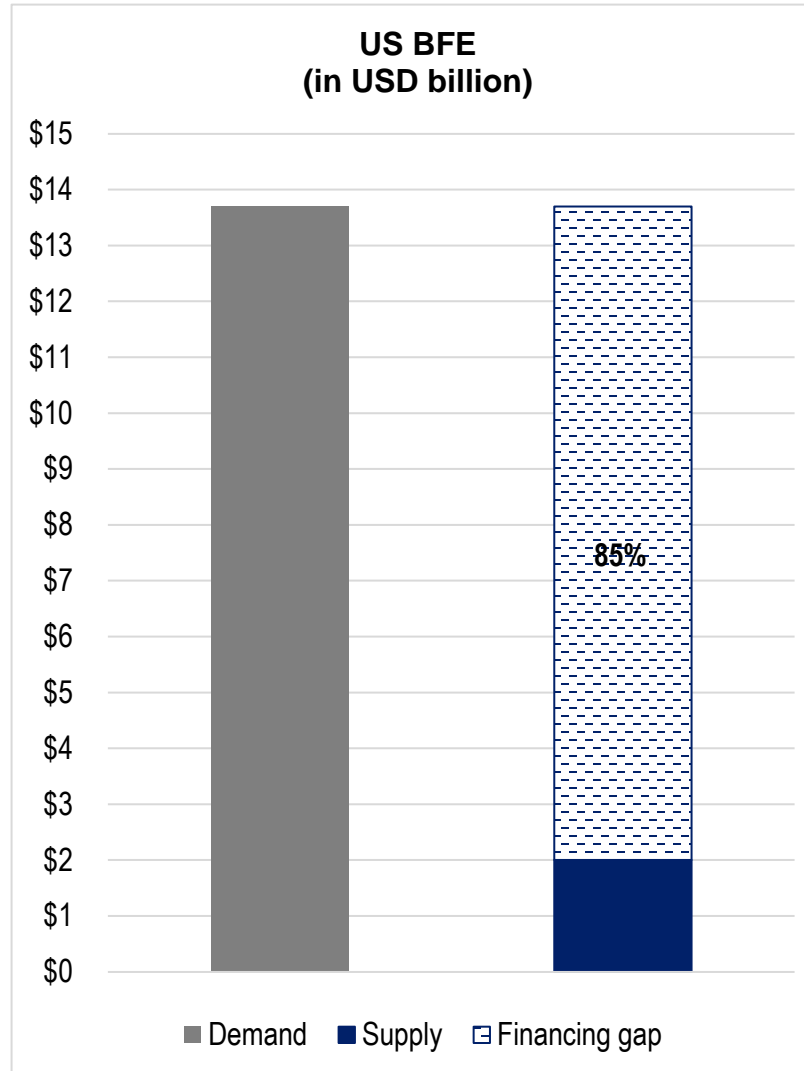
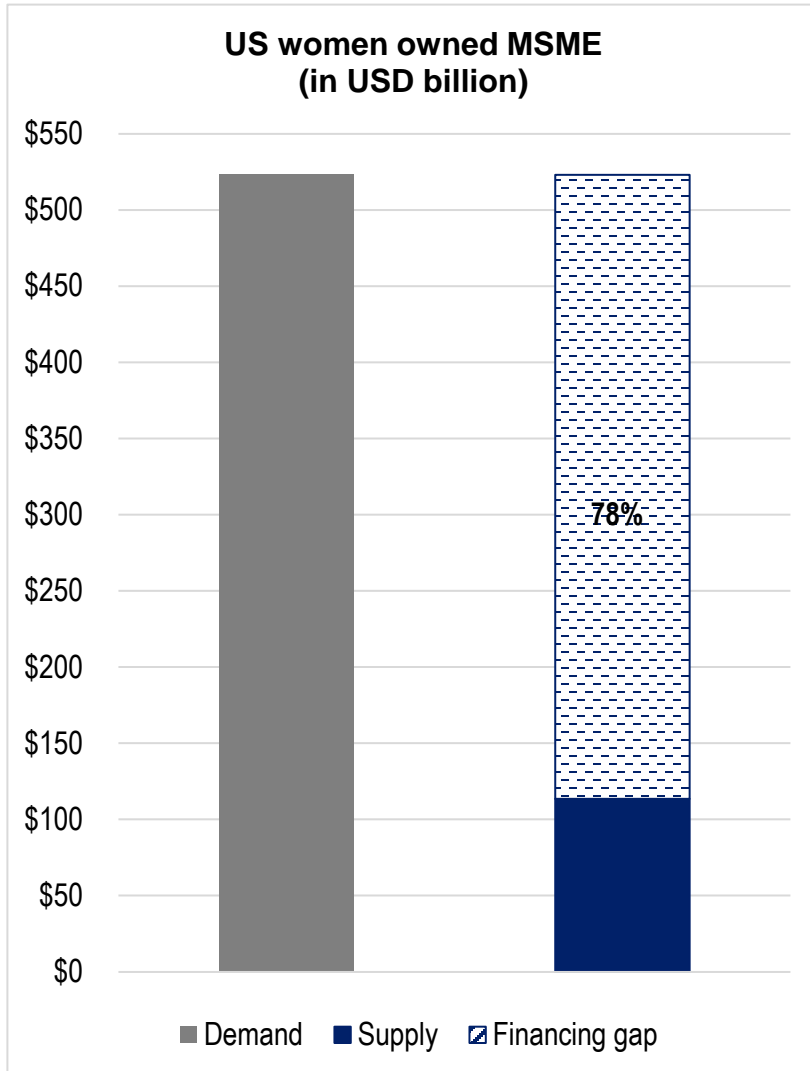
## Key findings: Capital Supply Sizing

- Total capital supply to US BFEs for 2018 was approximately **\$1.9 billion**, only a fraction of total capital supply to MSMEs
- Bank SME loans represent the major source of financing for Black Female Entrepreneurs. This represents 53.5% of total funding to the group
- The alternate lending market is a growing sector for small businesses to raise debt. BFEs, based on our assumptions, raised \$71 million from P2P online sources making up about 0.19% of \$36 billion P2P loans issued in 2018





# Investment Gap - US

BFEs in the US received 15% of their capital need. Our analysis shows the financing gap for US BFEs is wider than that of women entrepreneurs generally, which serves as a benchmark to contextualise the funding gap.



**Benchmarking BFEs against women entrepreneurs in general**

-  US BFE capital demand represents **3%** of US women owned MSME capital demand
-  US BFE capital supply represents **2%** of US women owned MSME capital supply

**Key insights from benchmarking**

- To better understand the funding gap for our target group, Palladium benchmarked the supply-demand gap of US BFEs to that of women entrepreneurs in the US
- BFEs in the US received 15% of capital demanded** to start and grow their enterprises. **This is lower than the parallel 22% in the related US Women benchmark group**, indicating capital flow to BFE is constricted

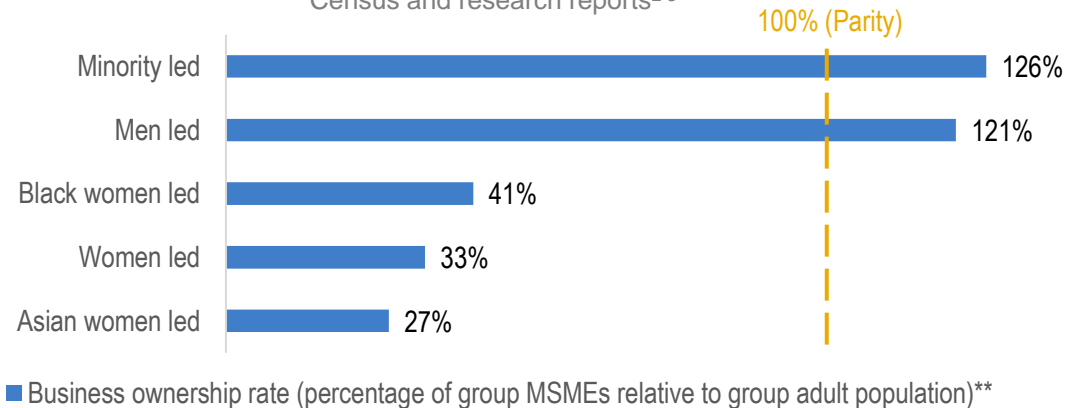
# Capital Demand Sizing – UK BFE<sup>n</sup> representation within MSMEs\*

## UK Black Female Enterprises compared to other MSME groups

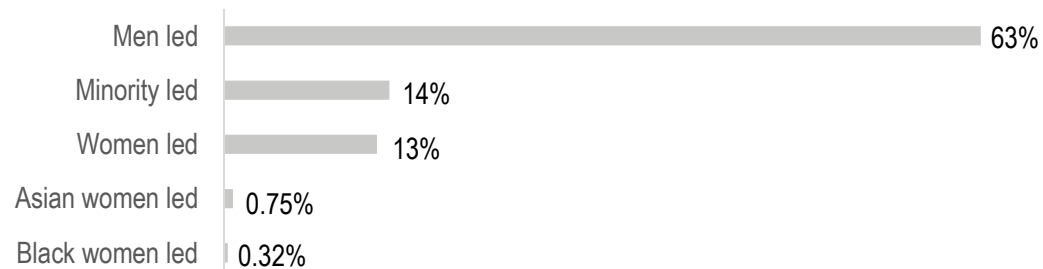
Female entrepreneurship in the UK has progressed less than in the US. According to the Rose Review<sup>1</sup>, only 1 in 3 UK entrepreneurs is a woman and only 8.6% of all women surveyed in the 2017 Global Entrepreneur Monitor planned to start a business compared to 15% of women surveyed in the US. When comparing to other MSME groups, UK BFE<sup>n</sup> were better represented than Asian women led MSMEs and women led MSMEs

### UK representation in business ownership relative to percentage of population

Source: Palladium's estimations based on 2018 UK Longitudinal Small Business Survey, UK 2011 Census and research reports<sup>2,3</sup>



### Group capital demand as a percentage of the total MSME capital demand



- Based on our estimates, UK Black Female Enterprises account for 0.63% of all MSMEs. Black Female Enterprises make up 0.32% of capital demand while Asian women led enterprises demand slightly more than BFEs at 0.75%
- Minority led and women led MSMEs represent 14% and 13% of capital demanded respectively
- Men led MSMEs dominate the capital demand by MSMEs with 63% of total demand

Note: These results are based on Palladium's estimations. Detailed breakdown and analysis of BFE with benchmark groups can be found in the Appendix section of this report

Note: \*In this slide we define MSMEs as firms with at least 1 employee. \*\* Percentage of group MSMEs divided by percentage of group adult population. A percentage under 100% shows an under-representation of the group MSMEs compare to the group adult population, any figure over 100% is an over-representation.

# Investment Sizing - UK

Using our estimated number of UK Black female enterprises, our findings show a total capital demand from UK BFEs of approximately \$2.7 billion in 2018. On the supply side, we estimated \$170.5 million went to BFEs in the UK via debt and equity instruments within the same period. See Annex 01 for details.

## Key findings: Capital Demand Sizing

- Total capital demand from UK BFEs for 2018 was approximately **\$2.7 billion**
- Based on our estimations, UK Black Female Enterprises account for only 0.63% of MSMEs. In the UK women are underrepresented in the MSME universe while men are overrepresented
- Within minority led businesses, 15% are Black led and 54% are Asian led. However, within minority women led businesses, only 39% are led by Asian women while 26% are led by Black women

Note: In the UK, the data around ethnic minority led businesses is less granular. We used the 2018 Longitudinal Small Business Survey and indications (such as the percentage of women led MSMEs out of all Ethnic Minority Led (EML) MSMEs and the percentage of Black women led MSMEs out of all women EML MSMEs) from the most authoritative research reports<sup>1 2</sup> on EML businesses to estimate the number of UK BFEs in 2018

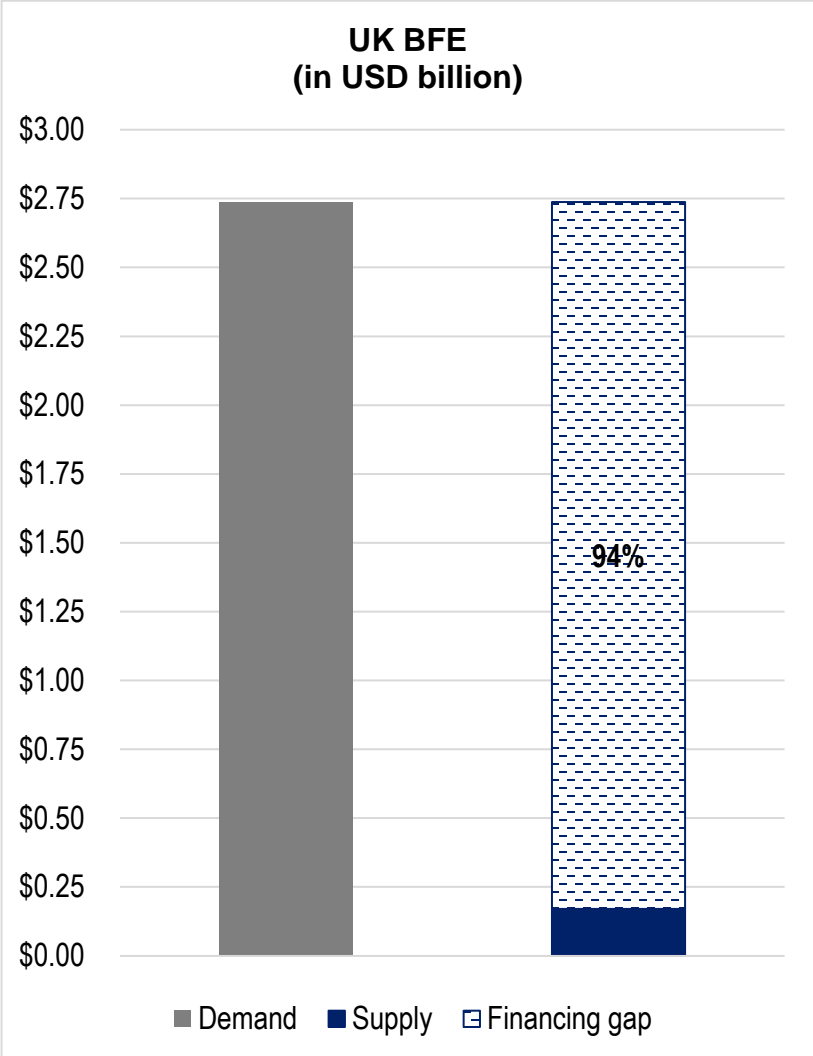
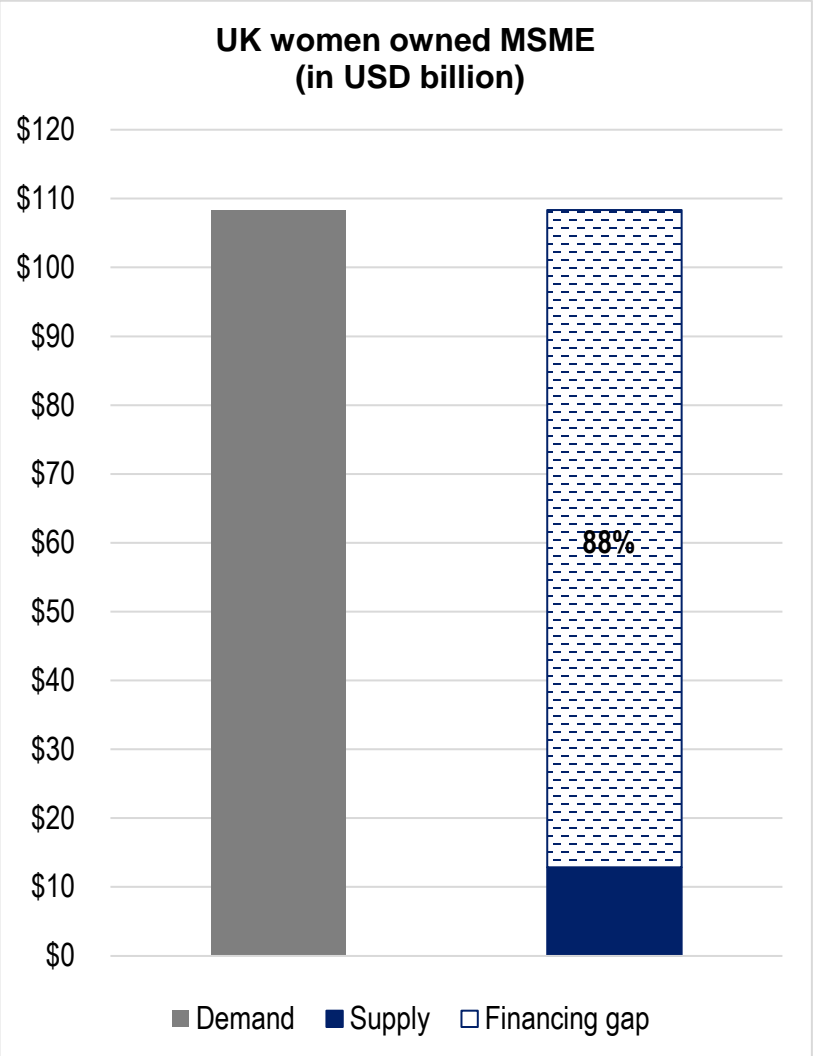
## Key findings: Capital Supply Sizing

- Total capital supply to UK BFEs for 2018 was approximately **\$170.5 million**
- From our analysis, we can infer figures for capital supply to Black female entrepreneurs in the UK is disproportionately low. Although Black people make up only 3.4% of the UK population, this analysis brings to fore the reality on the ground
- Total outstanding SME loans by banks in the UK stood at \$233 billion. Based on our assumptions, we estimate 0.07% of SME bank loans in the UK went to our target group
- Cambridge Centre for Alternative Finance data shows a total of \$3.4 billion in loans were issued through P2P lenders in the UK. We estimate about 0.1% or \$3.7 million went to businesses led by Black females
- The CDFI SME lending market is a relatively small industry in the UK. In 2018, CDFIs made \$114 million loans to SMEs, of which we estimated 2% or \$2.3 million went to BFE

Note: It is important to note that sourcing quality data was a large constraint to our analysis in the UK. *The lack of comprehensive data on ethnic groups impeded our ability to analyse and draw robust conclusions for this market*

# Investment Gap - UK

Our analysis illustrates an extensive financing gap for BFEs in the UK. Capital supply to BFEs is 6% of capital demanded by the group, a lower proportion compared to what flows to the benchmark group of UK women owned MSME. See Annex 01 for details.



**Benchmarking BFEs against women entrepreneurs in general**

- UK BFE capital demand represents **2.5%** of UK women led MSME capital demand
- UK BFE capital supply represents **1.3%** of UK women led MSME capital supply

**Key insights from benchmarking**

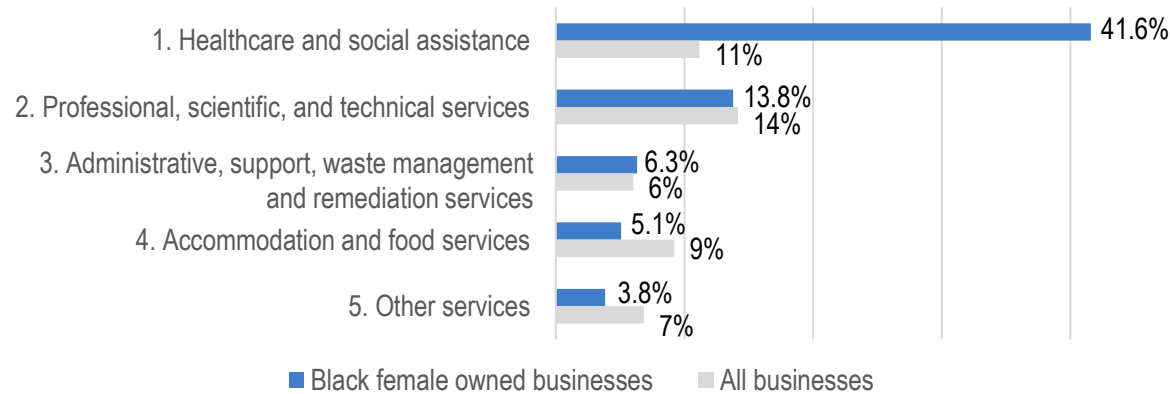
- We benchmarked our target group with women entrepreneurs in the UK to put in context the weight of the gap vis-à-vis similar minority groups
- 6% of capital demanded by UK BFEs was supplied to the group.** This is much lower compared to the 12% supplied to female entrepreneur group
- Please note that data in the UK is limited for our target group hence our analysis relied heavily on assumptions drawn from parallels with the US market*

# US and UK BFE industry comparison

In the US, healthcare and social assistance businesses are overrepresented among Black female led enterprises, while in the UK the lack of data makes it difficult to determine precisely in which industries BFEs operate.

## US Black female owned businesses top 5 industries

Source: US Census 2019 Annual Business Survey using 2017 NAICS industry classification

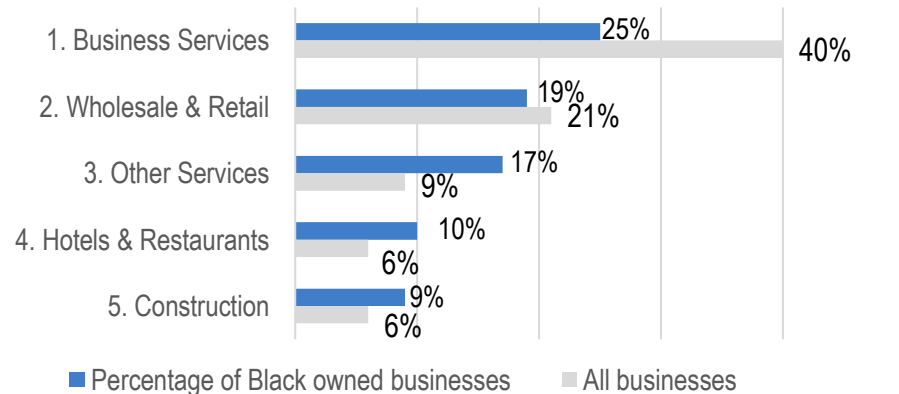


**According to the US Census data, majority of US Black female owned businesses (41.6%) operate in the healthcare and social assistance industry.**

- 70% of US Black female owned businesses are concentrated in the 5 industries represented on the chart, majority being in services.
- Healthcare and social assistance is the primary industry for US Black female owned businesses where they are overrepresented compared to the national average (41.6% vs 11%).

## UK London Black owned businesses top 5 industries

Source: Ready for Business: The contribution of Black businesses to London's economy, Greater London Authority 2004



N= 107

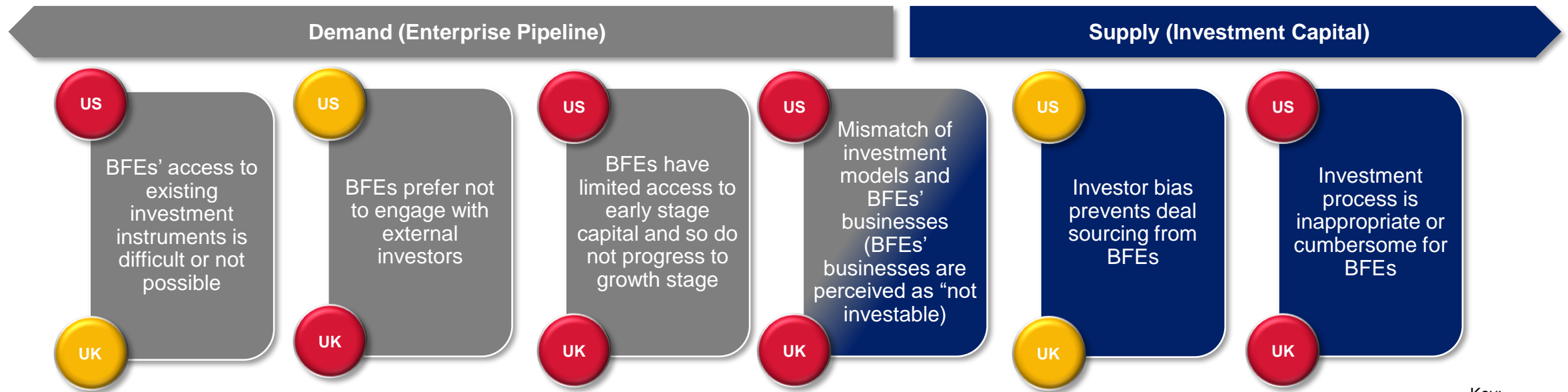
**The UK has no exhaustive data on Black female led enterprise industry breakdown, however using proxies, beauty and business services appear to be prominent.**

- In London, business services is the primary industry for Black owned businesses accounting for 25% of the business surveyed. This aligns with the US 2<sup>nd</sup> and 3<sup>rd</sup> top sectors. However, healthcare and social care was ranking at the bottom for London Black owned businesses (about 2.5%) while in the US it ranks at the top.
- Through interviews and literature review as part of this research, we found most of UK BFE in the following industries: beauty (hair and skincare), social assistance, and food services.

# Analysis of Barriers to Investment Capital Reaching Black Female Entrepreneurs

# Key Barriers to Capital Flow for Black Female Entrepreneurs

Our findings from the literature review and interviews suggest that BFEs have difficulty accessing the most commonly available MSME financing instruments. Meanwhile, some BFEs are not interested in taking outside capital or engaging with investors. The extent to which these two barriers affect BFEs in the US and UK is different, as may be expected by the differing histories and markets of the two countries. In the eyes of some investors, BFEs have limited access to early stage capital in order to progress to “investment-readiness” for growth capital. As with many MSME groups, the mismatch of current common investment models and BFEs’ businesses and needs stands in the way of deal-making. There is mixed experience of outright conscious bias and discrimination, which has been faced by some BFEs and not by others. Nevertheless, unconscious investor bias such as an aversion or inability to assess unfamiliar business models and target markets, persists as a barrier. This can make the investment process even more cumbersome for BFEs than for MSMEs as a whole.

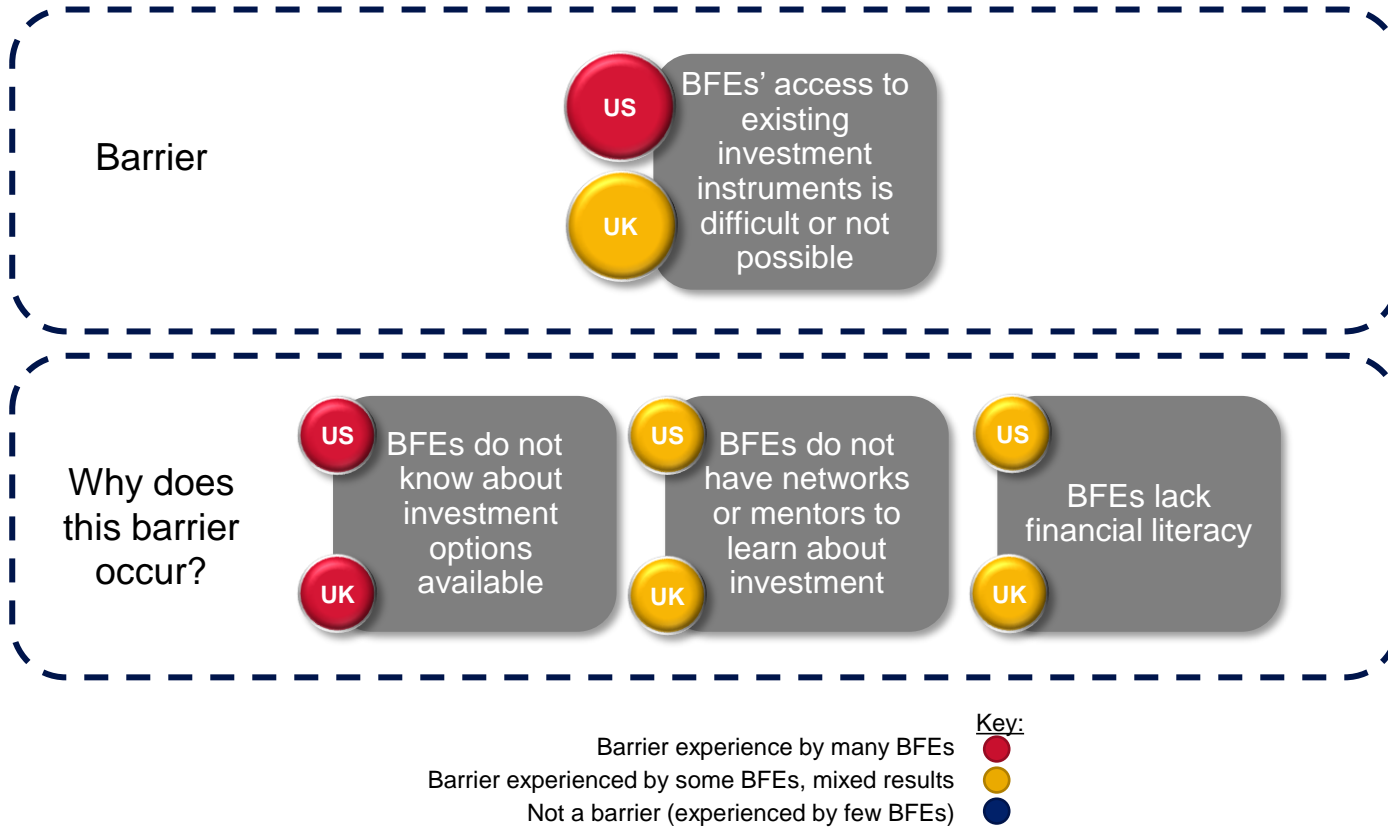
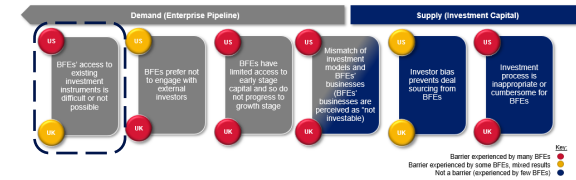


**Key:**  
 Barrier experienced by many BFEs ●  
 Barrier experienced by some BFEs, mixed results ●  
 Not a barrier (experienced by few BFEs) ●



# Many BFEs are not able to access MSME investment instruments

Access is a barrier in the US, while for BFEs in the UK it is especially evident outside Greater London. Barriers to getting a first introduction can occur because an entrepreneur does not know what her options are or does not know how to navigate the investment options and financial requirements of investment. There were mixed results around access to networks and mentors, which ecosystem players have been especially working to address in recent years. While common across MSMEs, for some BFEs these barriers appear compounded by additional social and economic challenges, e.g. income, education, employment, community safety, and social support, thus making access to investment instruments uniquely challenging.



**“How do we access these funding streams?”**  
*Founder, UK*

**“I’ve tried so hard to pitch in front of investors. I’ve tried with the local accelerator to try and get some funding but when you do go out there and pitch to them, they say ‘oh that’s a really good idea lovely fantastic’, but at the end of the day nothing comes back.”**  
*Founder, UK*

**“Companies looking for seed financing generally work through local investor networks first, while later stages generally require large funding vehicles that may not be located nearby. The median distance between a target company and lead investor for late-stage deals in the U.S. notched over 400 miles...while the median distance for seed deals is just under 100 miles.”**  
*Kyle Stanford and Darren Klees*  
*Can Patterns in VC Resources Help Pinpoint Underfunded Ecosystems?, PitchBook, 2019*





# Why BFEs' access to existing investment instruments is often difficult

According to existing market studies, access to investment instruments appears challenging for most MSMEs. BFEs seem to mitigate this by enrolling onto technical assistance programs designed specifically to match investment capital. Access challenges on sector-relevant services appear acute when navigating services such as: investment instruments, investor networks and the various TA programs. The UK appears to have a geographic challenge due to the current financial service focus on London, making it challenging for other regions to access alternative capital providers and TA services.

## Most entrepreneurs don't have access to business support, either because they don't know that it exists, or don't know where to start

- Entrepreneurs site research process into investors and investment instruments available being an arduous task, particularly when leading an enterprise
- BFEs often address this issue by engaging with mentors and attending accelerators. Yet, continued concerns over the quality, effectiveness and legitimacy of programmes is being brought to the fore by founders who have been both successful and unsuccessful.

## As TA services and investment firms are often concentrated in cities, access to their services can be unequal

- There appeared to be challenges with accessing capital providers and TA services outside London in the UK, and outside start-up hub cities in the US
- In the US, 70% of VC funds are concentrated in 3 metro areas<sup>1</sup>
- Black women owned firms are more likely than other MSMEs to draw on friends and kinship networks as well as community-based resources for business guidance because of the lack of access to TA services<sup>2</sup>

## BFEs, with the help of business support services, acquire the investment knowledge to approach investors actively

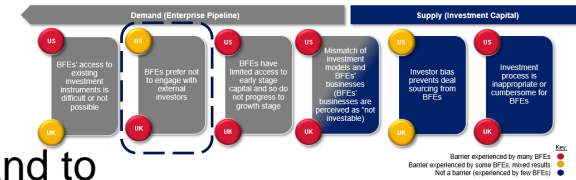
- In recent years, accelerators and other business support services made strides addressing mentorship and financial literacy barriers; in this study financial literacy was not identified as a significant barrier
- BFEs with a strong financial backgrounds still felt that investors were sceptical towards their business strategy and acumen

## BFEs proactively learn as much as they can about investment through their networks or mentors

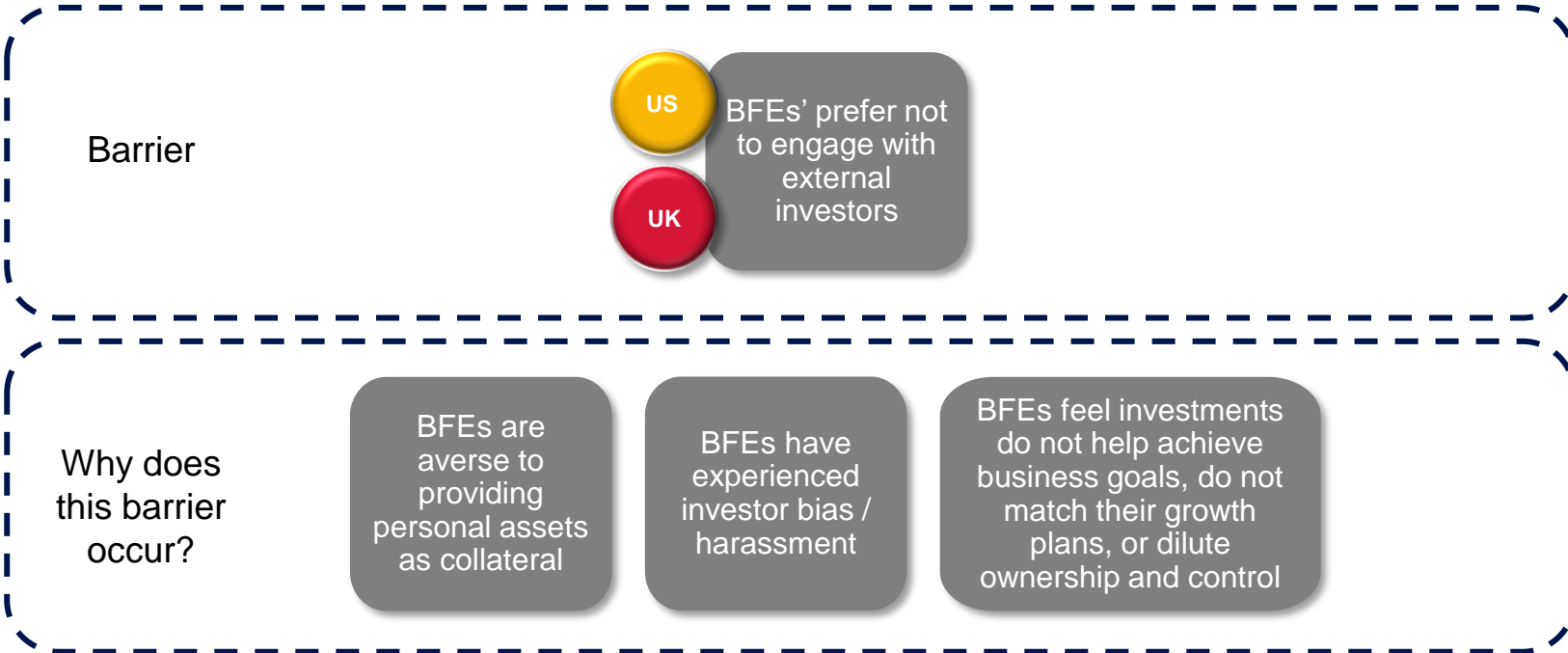
- Getting the knowledge is challenging but not unachievable
- One BFE recognised that *"It took a lot of research, looking at other first-time founders and what they had done"* Founder US
- Investors do not identify additional financial literacy as necessary, but rather focus on pitch practice. *"People are not educated on how to pitch so teach... that's it."* Founder UK

Solutions that partially address the barrier

# Historical interactions discourage BFEs from engaging with investors



Lack of interest in outside investment is a view expressed largely by BFEs within Greater London, and to a lesser extent in the US or more rural locations in the UK. Some BFEs do not seek capital due to poor experience with investors, repeated rejection, the perceived burden and biases in the diligence process, and exploitative terms that reveal a misalignment. This includes investment options often being inappropriate for an entrepreneur’s growth strategy – an external equity investment being highly dilutive to their ownership or moving their business towards an undesirable exit. BFEs also identify high interest debt options with collateral and covenant requirements that are challenging to meet and may stymie enterprise growth, and are burdensome alongside personal debt.



**“Black females are not just trying to build businesses they are trying to build power.”**  
*Investor and Founder, US*

**“They wanted \$5,000 for me to have access to investors....when I googled it, you know to try and get feedback to see who did it before, that’s when I figured out it was a scam.”**  
*Founder, US*

**“They will try to find an issue to not invest.”**  
*Founder, UK*

**Key:**  
 Barrier experience by many BFEs (Red circle)  
 Barrier experienced by some BFEs, mixed results (Yellow circle)  
 Not a barrier (experienced by few BFEs) (Blue circle)



# Why some BFEs prefer not to engage with external investors

Access to collateral appears particularly present as a barrier for BFEs when applying for debt financing. In contrast, when in a position to provide collateral, the literature suggests BFEs are hesitant due to personal circumstances which differ between the UK and US. Meanwhile, many BFEs regard VC capital as incompatible with their business aspirations and expectations. BFEs appeared more likely to rely on personal funds to finance business needs at early stage.

## UK BFEs are often discouraged about investment or feel they were not taken seriously so they prefer not to engage with external investors

- The discouragement is the fruit of multiple unsuccessful experiences, especially where BFEs sensed bias from investors
- As a result, in the UK many BFEs fund growth through profits to avoid rejection and being beholden to damaging terms
- BFEs may not be interested in equity because they do not want to dilute ownership in a company they fought to build without outside help

## MSMEs are averse to providing personal property as collateral, often required by early stage debt investors.

- Due to systemic injustices and discrimination, Black and female entrepreneurs have lacked access to property and opportunity to build wealth. For BFEs there is a stronger aversion to providing personal property as collateral to financial institutions
- Personal debt burdens can make both BFEs and debt providers nervous about business debt. This is especially problematic in the US where education debt is common among Black women, one of the most highly educated groups in the country

## Investors often fail to assess MSME's risk and success prospects properly – discouraging BFE interest

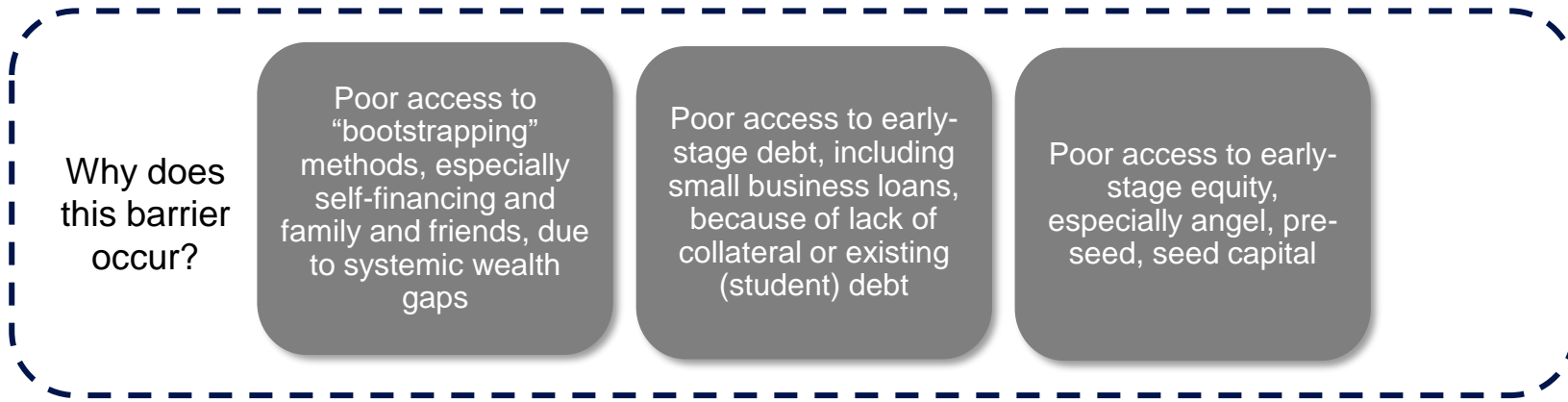
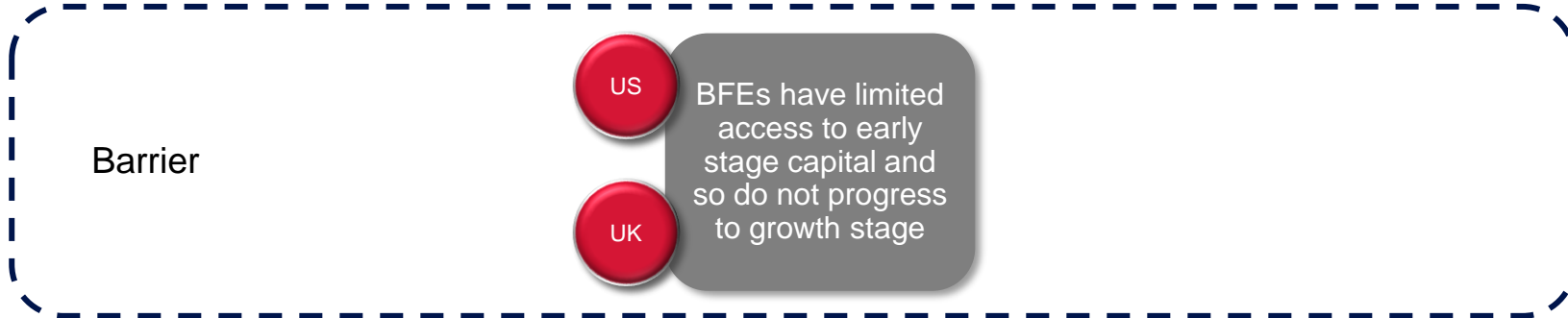
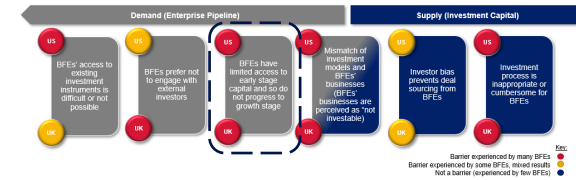
- Bank credit assessment models are often not suited for MSMEs, given previously mentioned barriers of access to seed capital and collateral, BFEs have less chance to access business loans without burdensome collateral and covenant requirements (e.g. personal property as collateral)
- Equity investors' perception of risk involved with BFEs are often not aligned, whereas investors may interpret BFEs' growth plans and market opportunities as risky, rather than their business stage
- 83% of investment firms did not have women on investment committees. This leaves investment decisions to men who may not understand female founders and the industries or markets they operate in<sup>1</sup>

## BFEs find alternative finance solutions more convenient and less time consuming compared to bank debt or VC investment

- Crowdfunding is prized among BFEs because its a simpler process compared to traditional equity and has diverse investors
- Alternative credit scoring based on non-traditional risk data enables investors to more accurately access real versus perceived risk for BFEs' companies (and any MSME), in some cases circumventing bias

# BFEs have limited ability to “bootstrap” or access early stage capital

Access to early stage capital was cited as a barrier for most BFEs trying to scale their business and seek growth capital. BFEs in both the US and UK face systemic barriers to “bootstrapping” and accessing early stage capital common among other entrepreneurs who are successful in later rounds of investment.



**Key:**  
 Barrier experience by many BFEs (red circle)  
 Barrier experienced by some BFEs, mixed results (yellow circle)  
 Not a barrier (experienced by few BFEs) (blue circle)

**“You need to have money to get money”**  
*Founder, UK*

**“Average network capital of a Black entrepreneur is \$12K”**  
*Founder, US*

**“Black founders have to show more [start up capital] to secure funding.”**  
*Investor, UK*

**“To keep going you have to keep self-funding and then obviously with the business building and getting sales and revenue you can then start to find extra business. Institutional racism is alive in the county where I live.”**  
*Founder, UK*



# Why BFEs have limited access to early stage capital

Most BFEs lack connection with decision-makers able to invest or help them secure seed capital, and do not have equal opportunity to secure friends and family rounds or invest personal money to “bootstrap” their first years. The lack of generational wealth and the unwritten expectations of a financial history before and during seed capital raising are acute hurdles for most BFEs.

## **BFEs are less likely to have enough wealth to inject capital in their ventures at start and often lack networks of high net worth individuals able to fill the gap**

- According to our research, BFEs are more likely to have lower income and access to less wealth in their family and networks due to systemic injustices
- This disadvantage makes it harder to obtain a small business loan or seed capital as loan providers expect collateral, while equity providers expect traction built on a founder’s own investments, and expect founders to have secured a friend/family round

## **BFEs are more likely not to have relevant networks of capital providers, hence have reduced chance to get in front of investors willing to provide pre-seed and seed capital**

- The VC and angel networks are perceived as selective clubs where the same serial entrepreneurs get funded
- BFEs are less likely to have someone in their networks able to provide a “warm introduction” to investors
- Location of investors matters. Companies looking for seed financing mainly target local investors within 100 miles<sup>1</sup> in the US
- Research shows that 43% of VC funds invested at seed stage in the UK are invested in graduates of elite universities<sup>1</sup>

## **Investors tend to have limited faith in BFEs’ business growth unless the entrepreneur can “demonstrate personal buy-in”**

- Accessing seed capital from VC investors, pre-revenue, was a barrier for BFEs
- For UK BFEs serving mainly Black consumers, progressing to growth stage was difficult because of the lack of understanding and confidence in the growth prospects of this market. However, UK BFEs believe this is less the case in the US where people recognise the potential of targeting Black consumers

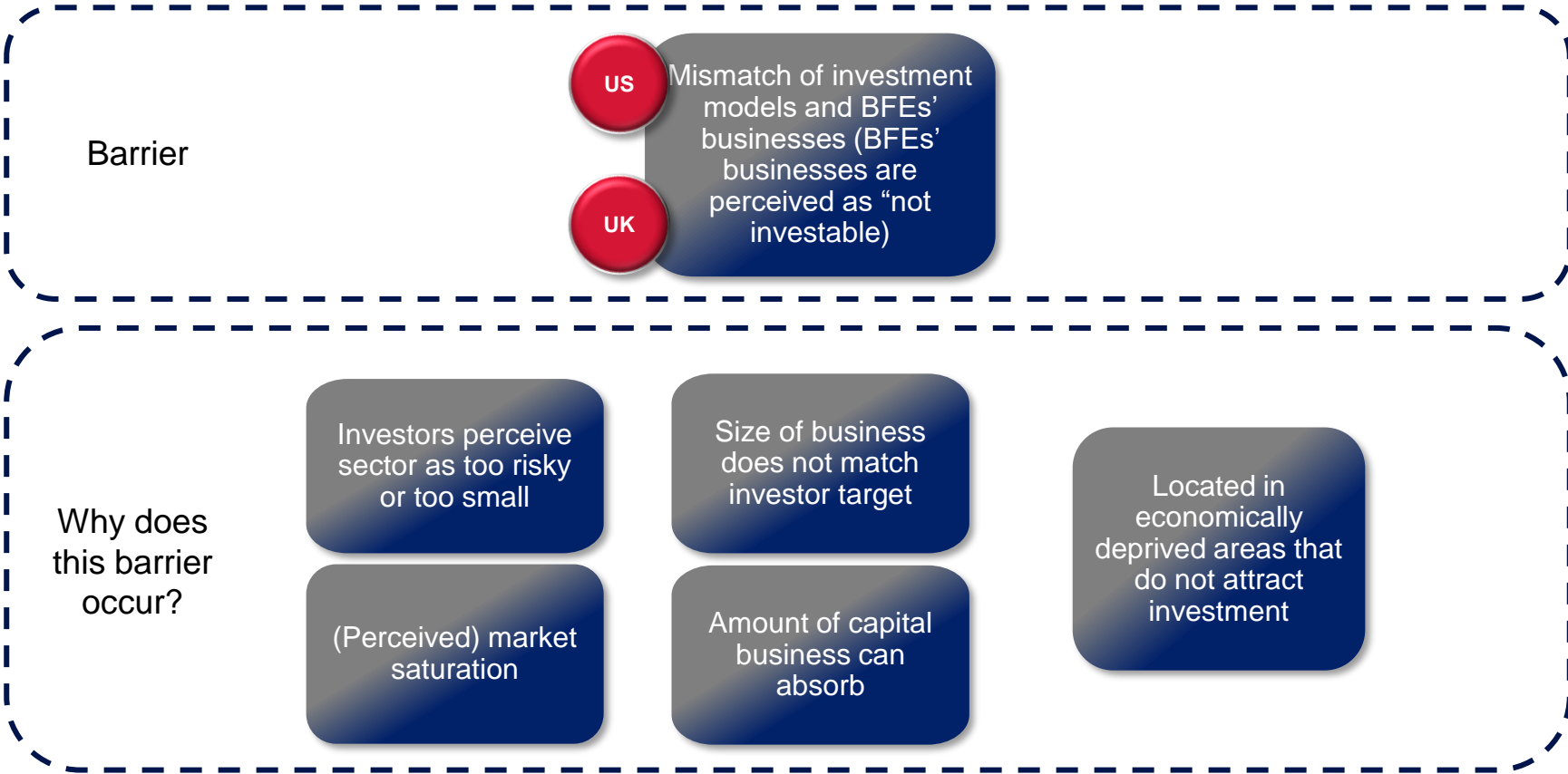
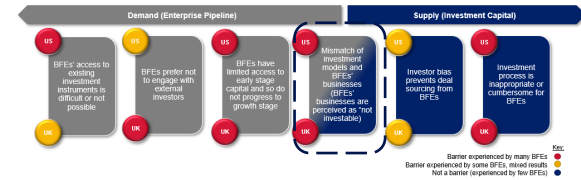
## **Innovative finance approach can be instrumental in unlocking early stage funding to BFE**

- Models such as Runway, an Oakland based company that provides patient, early stage capital to Black businesses, replaces friends & family rounds by better connecting philanthropic and commercial investors
- Tailored business financing solutions and training programs for BFEs have been developed to address systemic wealth barriers, such as CDFI debt with alternative credit scoring models and crowdfunding from diverse personal investors



# Investment models are not aligned with BFEs' business needs

The mismatch between the most commonly available investment models and BFEs' business needs is a barrier to investment in both the US and the UK. Investors in both countries target a narrow profile of business, which excludes many growth-oriented BFE businesses.



**Key:**  
 Barrier experience by many BFEs (Red dot)  
 Barrier experienced by some BFEs, mixed results (Yellow dot)  
 Not a barrier (experienced by few BFEs) (Blue dot)

**“COVID is showing us that it is possible to grow a business outside NYC and San Francisco.”**  
*Investor, US*

**“I have not needed [investment] because of the growth of the company. However, now we are set to scale up considerably we are considering that.”**  
*Founder, UK*

**“The biggest issues are around transparency. We think [about] access to finance, access to bank accounts, access to banking services, access to banking products...if you look on that level – let alone looking at what goes on in the world of VCs, where that is way less transparent...let's put it like that: it enables a culture of exclusion.”**  
*Founder, UK*



# Why investment models and BFEs businesses are mismatched

Most investors rely on “familiar” investment structures and terms that suit the business models and markets they are used to. These models unintentionally exclude BFEs’ businesses in the many cases when they rely on financial performance track records, which BFEs are less likely to have. Meanwhile, investors do not recognise the market opportunities they are missing, and so are not incentivised to diversify their investment models. Some targeted solutions are ready for scale.

## **BFE’s businesses often do not have the credit or financial history that “traditional” investment models rely on**

- Credit history is a key factor in assessing credit worthiness of potential clients for many lenders. Similar to other MSMEs, exacerbated by historical limitation on accumulation of wealth, BFEs in many cases do not meet requirements
- BFEs’ seed rounds are typically smaller than what they target and request from investors
- Common reason investors are not able to invest using debt instruments is entrepreneurs are unable to demonstrate solid cash flow potential of their business

## **Investors do not recognise the market potential of BFEs’ businesses and so are not designing for it**

- Limited experience on the part of investors in segments BFEs operate in, therefore investors may not be able to identify opportunity when not familiar with target market
- Markets BFEs target may be perceived to be small with challenging growth prospects
- Research shows that Black women are one of the best educated entrepreneur groups, yet have the least personal capital and carry education loan debt

## **Most capital providers have models and incentive structures that are misaligned with MSMEs needs**

- VC models are driven by need for exits - pushing founders to raise more equity and dilute their ownership
- Missing middle: CDFIs are suited to address microbusinesses but lack capacity for larger loans to SMEs, while banks overlook the MSME segment; many BFEs believe that banks are not suited to respond to MSME’s loan size request
- BFEs require alternative solutions that provide patient capital, structured exits and structures designed around cash flows and specific business needs

## **Some solutions to mismatched investment models are well-known and tested - these need to be scaled**

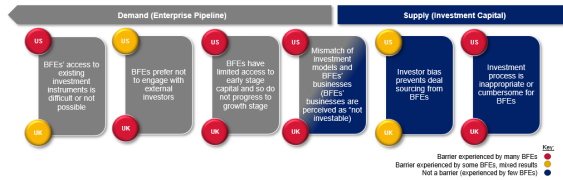
### **Building capacity through community based institutions**

- One approach some large FIs in the US employ in addressing this barrier, is by partnering with CDFIs who know and understand the needs of their respective communities. The large banks make investments in local CDFIs who on-lend to Black and minority founders. CDFIs are able to efficiently deploy capital from the banks leveraging their capacity in assessing businesses led by minorities

### **Targeted programmes from D&I-focused investors fill in gaps in larger-scale (government) programmes**

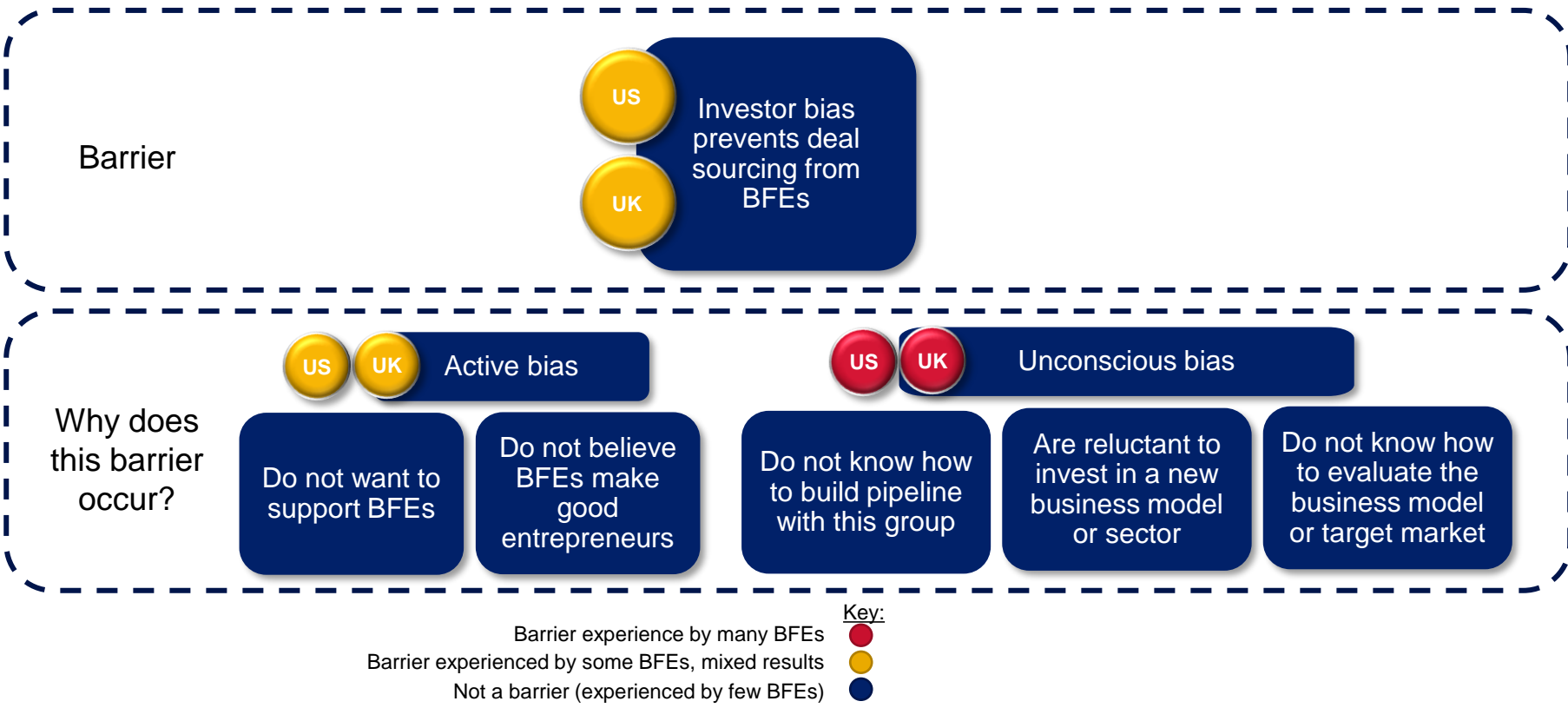
- Example: a diversity-focused investor serving rural areas structures debt products to serve minority businesses side-lined by programmes like PPP, and is currently designing an equity product for the mid-market pipeline (US)
- Sole proprietorships are the most common business type for BFEs, and CDFIs are experienced in assessing them (even if seed capital providers are less so)

# Investors harbour unconscious bias due to lack of knowledge



Some BFEs have experienced active bias from investors, and some have not.

However, many BFEs and investors identify issues of unconscious bias: specifically, the lack of investor willingness or ability to evaluate business models of BFEs as a key barrier. While this can be a barrier for many MSMEs, both BFEs and investors feel businesses targeting Black/female markets are difficult for investors to evaluate when they are not familiar with the potential scale of their markets and which business models could be successful. Investors also identify lack of knowledge of how to build pipeline with BFEs as a barrier; this is an area where solutions exist and can be scaled.



**“Address bias from start, then policy can follow.”**  
Investor, US

**“Elevate and collaborate with those already working in the space.”**  
Investor, US

**“Lenders’ internalized bias can make them believe the status quo is fine.”**  
Investor, UK

***“I’m excited investors are on this journey. It might make some of us uncomfortable, but we are doing it anyway.”***  
Investor, Outside US/UK





# How unconscious investor bias prevents deal sourcing from BFEs

Warm introductions and referrals are some of the common ways investors build pipeline, however, BFEs miss out on such opportunities as they are not in the same social circles and networks as investors and non-minority business owners. Investors focused on diversity are able to build diversity into their pipeline by reaching out to minority business owners in geographies and sectors they operate in.

## Investors build pipeline using various strategies, many of which can side-line BFEs

- Network referrals are crucial in making warm introductions to investors. Black women founders are not privy to these networks which are dominated by White males
- Events create a casual atmosphere for investors and founders with similar interests to meet and build relationships before meeting in boardrooms

## Investment committees are dominated by White men; this is reflected in the type of founders that get through the door

- To recruit talented founders, we need diversity in investment committees and in investment teams
- Black investors working at VCs can feel pressure when investing in Black founders, but other staff do not. This stems from the possibility of taking blame if the investment fails and reinforces biases

## Even after attending renowned accelerators, when pitching many BFEs experienced investor biases and lack of knowledge

- Investors' lack of exposure to diversity can lead them to perceive higher risk and to ask a different set of questions of women and minorities
- BFEs with financial acumen and proven expertise in their field interviewed during our research still felt their skills were not valued and acknowledged

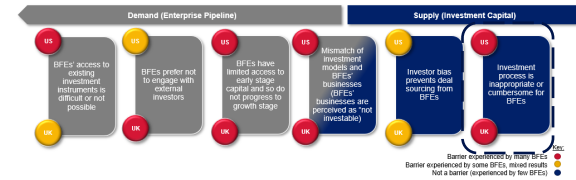
## Some investors express doubt that BFEs have high growth aspirations, as compared with other groups

- VC firms are trying to find the next unicorns ("the next Facebook"), so they tend to favour businesses that would best realise this goal; some investors are not confident BFEs have these growth goals

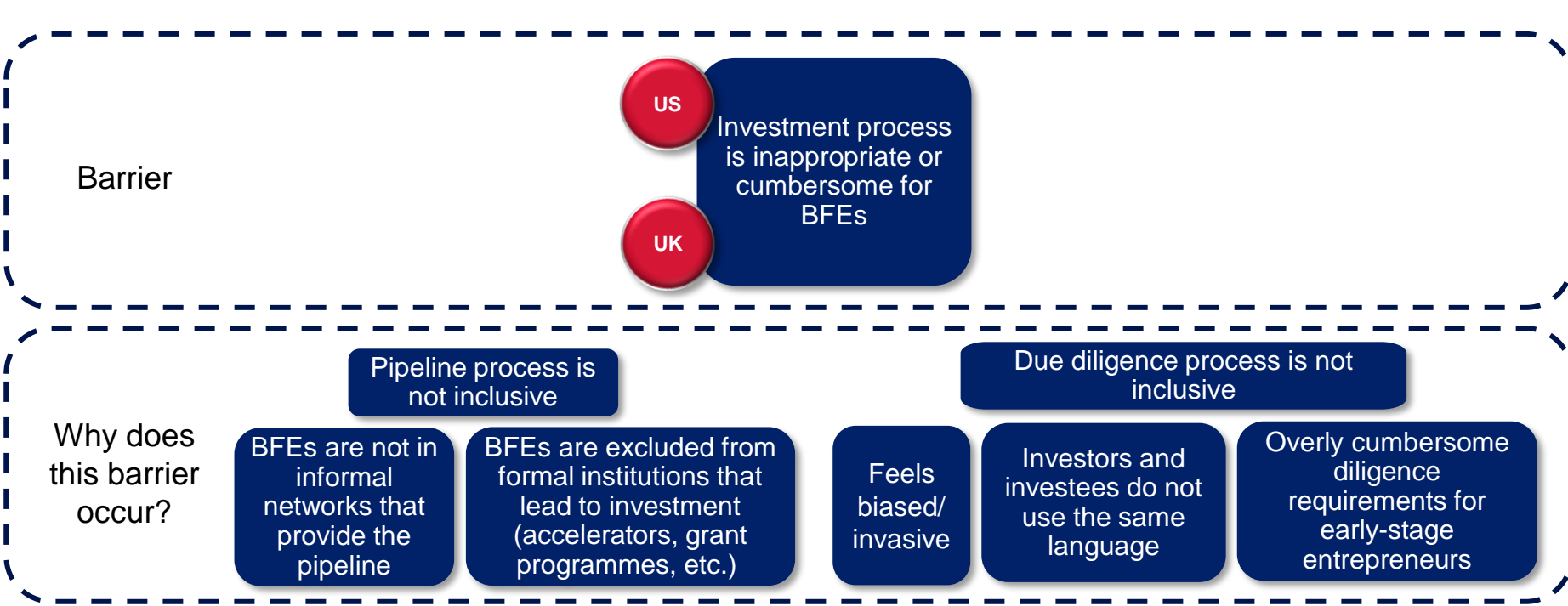
## Some investors are already taking concrete actions to address their own knowledge gaps

- Open conversations about investor bias are supporting new understandings of perceived risks
- Some investors looking to diversity are implementing scouting programmes that are aligned with the vision of the fund and incentivise scouts to build a stronger diverse pipeline (especially in the UK)
- Minority focused funds build pipeline from minority focused accelerators
- Investors keen on reaching diverse founders take pitch competitions out of major tech hubs and into underserved communities and universities (especially in the US)

# Investors' due diligence process is cumbersome



Difficulty and length of the due diligence (DD) process was identified as a barrier by both entrepreneurs and investors. Investors and entrepreneurs do not use the same language which inadvertently creates a gap in communication, proving problematic for investors who require detailed information on entrepreneurs and their businesses before progressing with investments. These requirements can be complex and technical in nature making it difficult for entrepreneurs to navigate. These barriers apply to BFEs as they do to most MSMEs. Additional barriers specific to BFEs can result from pipeline and due diligence processes that are not intentionally inclusive and do not target diverse investee groups.



**Key:**  
 Barrier experience by many BFEs ●  
 Barrier experienced by some BFEs, mixed results ●  
 Not a barrier (experienced by few BFEs) ●

**“The effort to engage in a due diligence process can be a hurdle”**  
*Founder, UK*

**“Firms invest in White men based on potential, but women and people of colour based on performance.”**  
*Founder, US*

**“You can never over-prepare a founder for how complex the investment process will be.”**  
*Investor, UK*



# Why the investment process is inappropriate or cumbersome

The complexity of the investment process was identified as a barrier for BFEs in the US and UK. Information on sources of capital is fragmented, the language used by investors is often highly technical and specific to markets they are used to operating in, making it difficult for entrepreneurs to navigate and compete for capital.

## Credit assessment processes are complex and inherently biased against BFEs

- Reliance on credit score can marginalize BFEs as they may be unable to meet criteria for credit due to business stage and access to collateral. That may be similar to other MSMEs, but is augmented due to historical impact of inequity
- Credit and investment readiness metrics not transparent
- Investors fail to ask themselves the question “does our investment process incorporate people of colour?”

## Investment process is rigorous with no centralised system to assess information on funding

- The investment process is lengthy, taking anywhere from several weeks to several months, and can be lengthier for minority entrepreneurs than entrepreneurs on average
- Female founders are likely to have additional demands on their time due to family care, as compared to male counterparts. These time constraints make meeting lengthy diligence process requirements more challenging
- BFEs generally understand the investment process but in some cases were found to receive less guidance on how to effectively present their investment thesis to potential investors

## To address biases in the investment process, the due diligence process needs to be overhauled to serve the broad range of founders fairly; some investors are testing process changes

### Expectations are higher for Black women led businesses

- Investors must be intentional about their investment process in re-evaluating assumptions about risk and definitions of success
- Some investors work with on-the-ground partner organisations, who deeply understand communities and markets, and can facilitate or perform the diligence process
- Some investors socialise new information with their investment officer teams. Eg research conducted by ICA, an Oakland-based CDFI, showed women of colour were not riskier borrowers than other demographics, yet women of colour received lower amounts of credit and were charged higher interest rates <sup>1</sup>

### Demystify investment process to enhance outcomes for BFEs

- Investment teams that are diverse attract diverse founders to their funds
- Due diligence now happening via Zoom can level the playing field for BFEs, as it eliminates the advantage of social gatherings where White founders typically make initial contact with investors
- Some investors work to outline the stages of due diligence and investment processes and the associated requirements, to enable BFEs (and any MSME) to plan ahead

1. CNote: Where We Are and Where We're Going – A Look at the Wisdom Fund, 2021

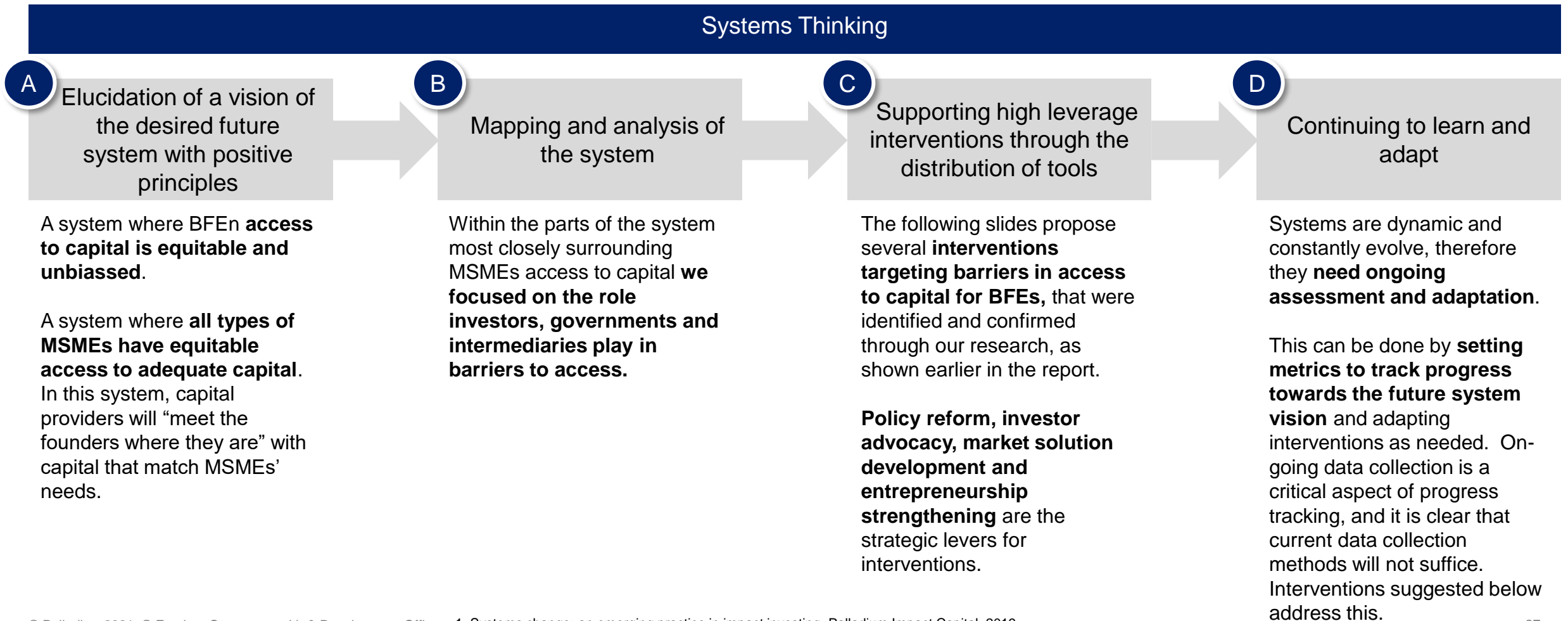
# Solutions and Recommendations

# 04

# Adopting a systems change approach to address barriers

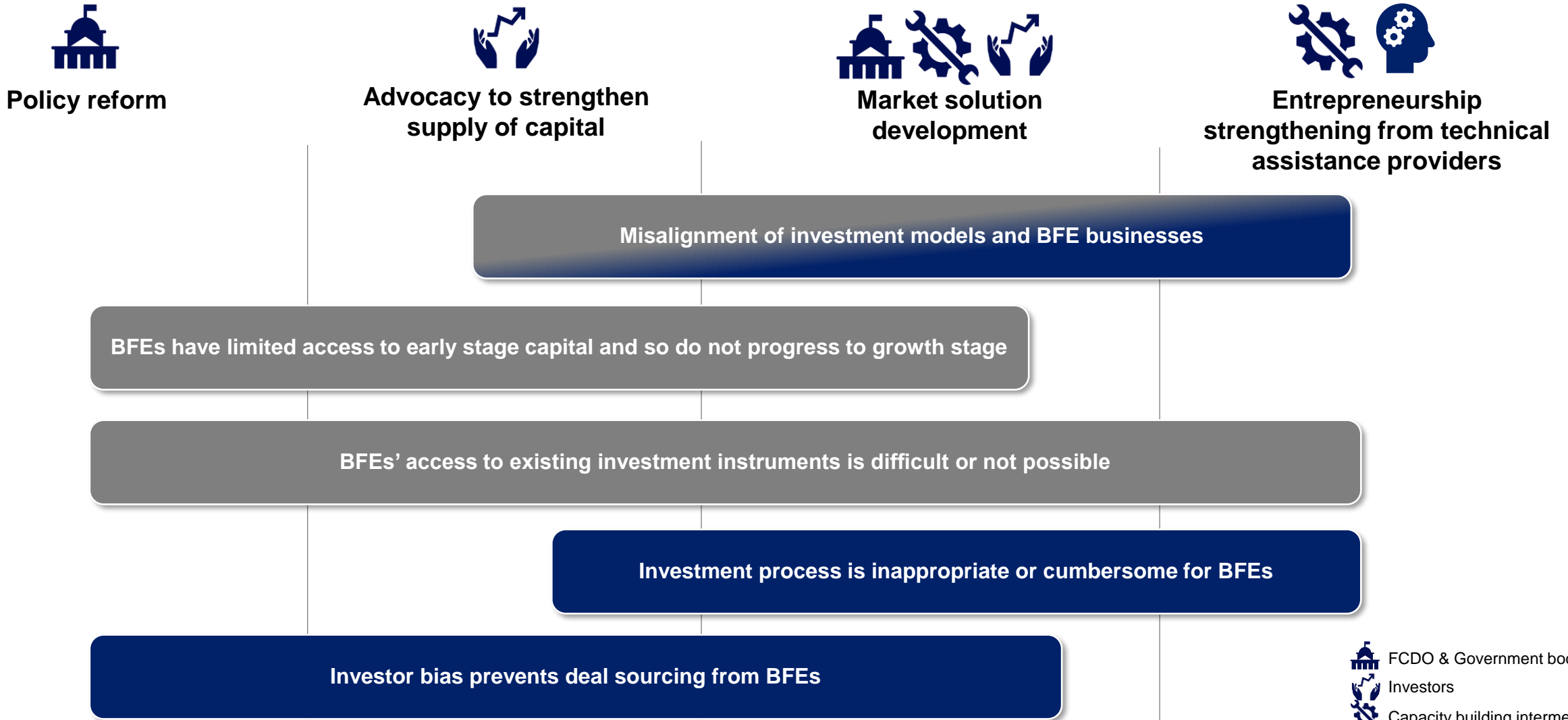
Systems thinking<sup>1</sup> is a holistic approach to analysis that looks at how and why systems behave the way they do. The assessment of barriers has analysed relationships and resulting behaviours, and how those elements change over time.

BFEEn access to capital is a subset of a wider ecosystem, influenced by many important factors outside of the scope of this report. In this section we focus on interventions that can be implemented by investors, governments and intermediaries in order to move us toward the vision of the desired future system.



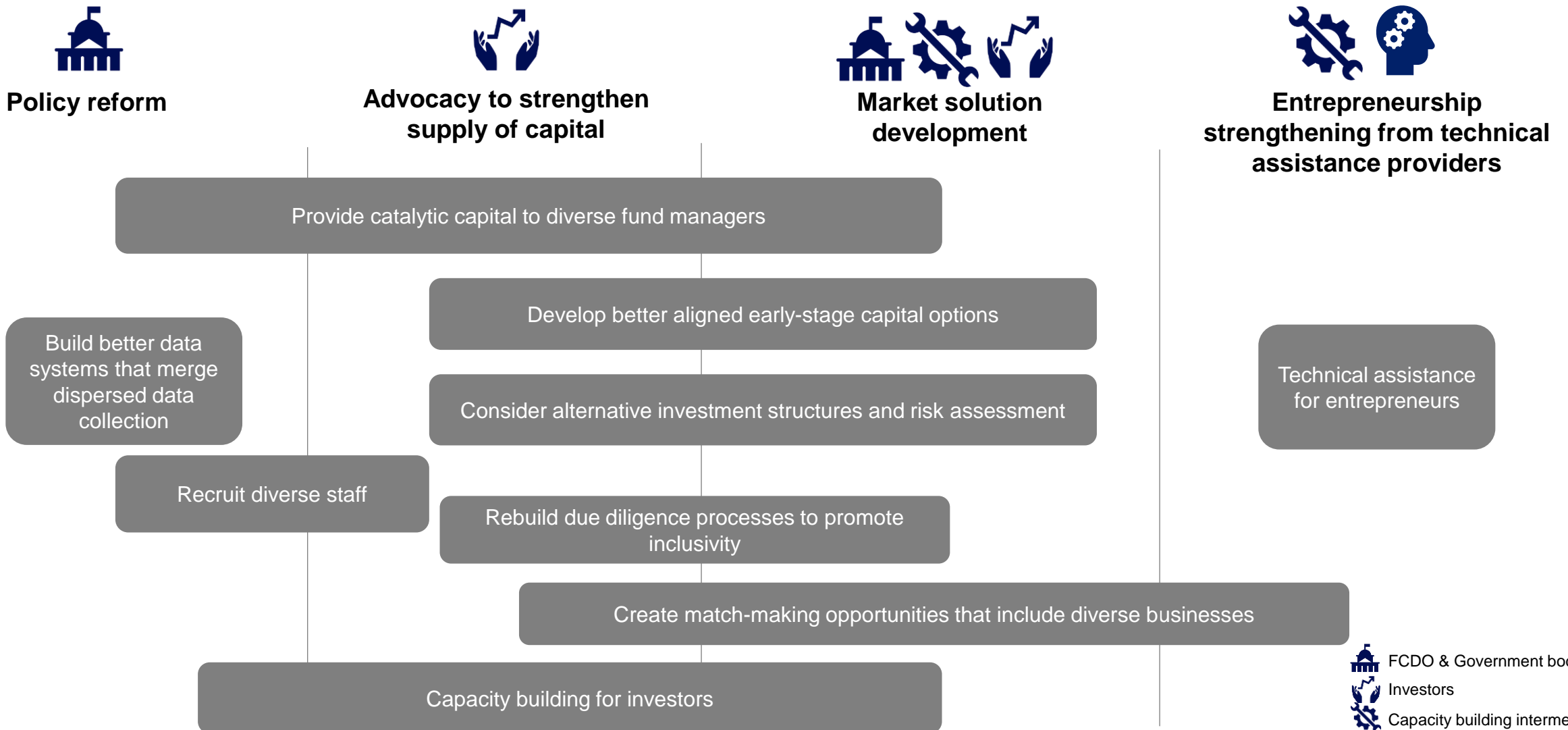
# Adopting a systems change approach to address barriers





Addressing barriers requires changes across various systems that influence capital moving from investors to enterprises. Key barriers BFEs encounter can be mapped to the types of solutions that can result in behaviour change.



# Creating actionable solutions to drive systems change

Sustainable change requires an implementation of solutions across dimensions of the system. These can be in the form of interventions or tools spearheaded by various stakeholders with the ability to drive systems change across an area.



-  FCDO & Government bodies
-  Investors
-  Capacity building intermediaries
-  Technical assistance providers



# Solutions and Recommendations Overview

Addressing the spectrum of barriers to investment flow, faced by both BFEs and investors, requires market-building solutions.

1

## Catalytic capital at the fund level

- Capital for investment providers to expand and scale innovative early stage options that can include grants, seed equity, patient debt, convertible notes, and mezzanine debt (revenue share options), providing alternatives to bootstrapping and friends & family rounds.
- Catalytic capital for first time fund managers, and investment to amplify and share the know-how of those already paving the way.
- Early and involved anchor investors with capital for TA support as needed for new fund managers, to signal confidence and leverage further investment.

2

## Pipeline support through capacity building of investors and technical assistance for entrepreneurs

- Capacity building programmes for investors to build networks they lack to recognize a diverse set of business opportunities.
- LPs must make their high expectations clear on diversity at the GP level, and evaluate fund managers' "process metrics" to ensure inclusive practices.
- Technical assistance for entrepreneurs on vetting investors prior to meeting them, business growth planning, financial forecasting, and due diligence processes.
- Leverage partners to create border match-making opportunities that include BFEs.

3

## Purposeful change in investors' investment processes

- Rebuild investment processes and requirements to enable greater inclusivity.
- Open conversations about investor bias are supporting new understandings of perceived risks.
- Recruit diverse staff, implement scouting programmes that are aligned with the fund vision to develop more diverse portfolios.
- Implement risk assessment based alternative data sets that enable separation of perceived versus real risk and can support investment structures that are better aligned with BFE needs.

4

## Data improvement and on-going management of impact

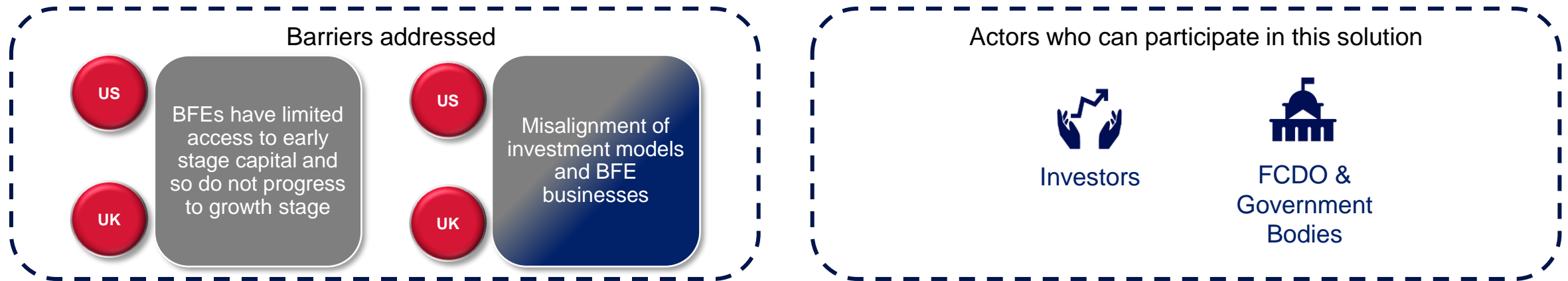
- The business case for investing in diverse leadership teams (both at fund manager and SME level) has been made, but detailed data about how and when capital reaches BFEs is incomplete, especially in the UK.
- Initiatives consolidating investment data for all MSMEs, disaggregate by gender and race, will allow for data-driven decisions that better target the recommendations outlined here.
- A number of data building activities are currently underway - these should be supported, rather than duplicated at the government level.



## 1

# Catalytic capital at seed stage – supporting alternatives to “bootstrapping” and friends & family capital

Access to seed and early stage capital was identified as one of the key barriers to enterprise success and ability to grow. Although the barrier is present for many MSMEs, it is particularly acute for BFEs according to our study, hence solutions to address this issue are an important aspect to focus on for investors and government bodies.



## Recommendation: Support development of a wide spectrum of early stage capital options, as alternative to “bootstrapping” and friends & family capital

- **Blended finance: leverage philanthropic capital to validate business models and growth plans:** provide (recoverable) grants at proof of concept stage.
- **Support and scale replicable models for seed equity** that have already been developed, such as crowdfunding, angel networks, and models such as Runway or CNote, in the US, which can be scaled to provide seed investment to a wide range of entrepreneurs.
- **Build targeted seed equity funds:** address the gap in early stage capital by designing and investing in funds targeting seed-stage minority businesses in economically deprived areas to address the regional imbalances in funding for entrepreneurs.
- **Patient debt:** invest in and support debt vehicle structures that can provide patient debt with 5+ year maturities and that can rely on cash flow, rather than collateral in the form of entrepreneur-owned property.
- **Alternative exit structures:** invest using tailored instruments to address early stage business needs and to enable BFEs to retain ownership and control of their businesses. These instruments can include convertible notes, mezzanine debt with revenue share repayment, redeemable equity, and other forms of capital.
- **Utilize existing asset pools** allocated for social and environmental programs, such as amending allowable uses of the UK’s “Dormant Assets”, to **establish seed capital facilities, funding for technical advisors to work with community founder** scouts (funding schemes could encourage wage models rather than commission-based payment for scouts, see Recommendation 2) , or to **incentivise financial institutions to expand their focus** on excluded geographies (such as regions within the North of England), using dedicated credit lines.

1

## Catalytic capital at the fund level – supporting first-time fund managers and amplifying the work and knowledge of investors successfully addressing the barriers

Diverse investors knowledgeable about evaluating BFE business models are paving the way, but many face their own capital challenges as “first time fund managers” – these investors need support in the form of catalytic capital to deploy, as well as to share their know-how and scale investment models that work.



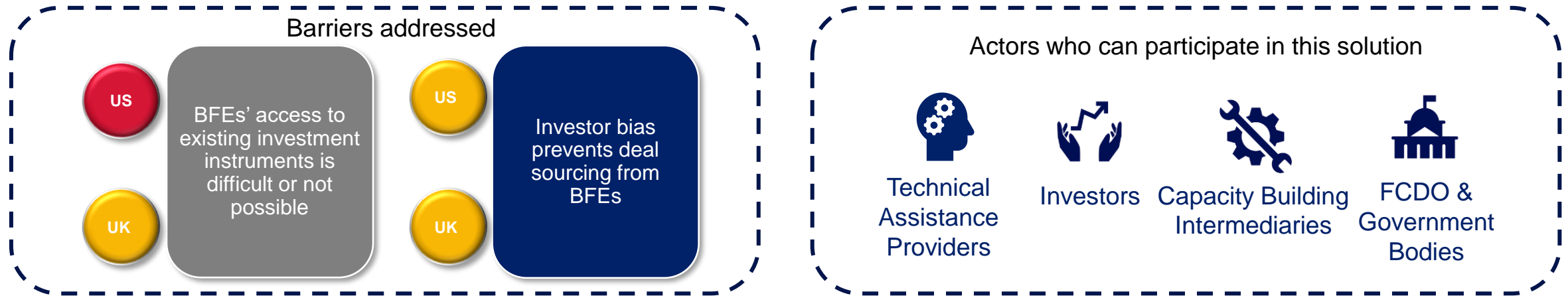
### Recommendation: Actively engage and invest in fund managers focused on BFEs and minority led businesses

- **Seek out and back fund managers with networks beyond known circles** and outside major financial and start-up hubs. Practical steps to re-focus on diverse fund managers can be found in the [Due Diligence 2.0 Commitment](#) for reducing systemic racial inequalities. Signal support through funding investors concentrated in underserved communities, especially inner city and rural areas of the US, and outside of Greater London in the UK.
- **Back existing fund managers working with a diversity focus, amplify their success and know-how.** Many investors have been successfully deploying capital to BFEs for years, their success must be amplified to attract greater amounts of capital to scale their investment models and support their portfolio companies as they grow. Existing programmes such as the British Business Bank’s Future Fund can be scaled. Similar programmes can be started in collaboration with foundations focused on BFEs, BAME, or other diverse entrepreneur groups.
- **Hold financial institutions and General Partners accountable for applying D&I lens in their portfolios.** Government could publish diversity statistics on leadership, investment officer pools, and portfolios.
- **First-loss capital in the form of grants and guarantees** for new fund managers to overcome perceived risks of investing them, enable them to attract greater amounts of private investment and validate their investment approach while taking appropriate amounts of risk across a range of business models in markets previously lacking capital.
- **Innovate and standardize inclusive structures and terms:** Initiatives such as the [Hogan Lovells and 2X Challenge](#) **creation of a legal toolkit of structures and terms** for embedding a gender lens could be supported by government and investors, whose participation can ensure an intersectional approach.

## 2

## Pipeline support through capacity building of investors & TA for entrepreneurs

Match-making appropriate capital with entrepreneurs' needs requires improved capacity on the part of both investors and entrepreneurs. Improvements will address investor bias and lack of market understanding that can prevent recognition of investment opportunities, as well as low access to existing forms of capital for BFEs.



### Recommendation: Capacity building for investors

- **First time fund manager accelerator programmes** that help fund the GP and support the development of more diverse new fund managers. Capria and I&P are example accelerator programmes to consider
- **Capacity building programmes to build investor networks and expertise** to access and recognize a diverse set of business opportunities, including training on alternative risk assessment tools of new segments.
- Dismantling unconscious bias requires a **long-term commitment to building team and team capacity**. To reap benefits, investors must prepare to change long-standing pipeline and investment practices. Government programmes can advance this in a harmonious way across investors, especially where programmes **target early stage investors whose pipeline building (and DD) is relied on by co-investors** (e.g. The Growth Company's - GC Angels Network or Scottish Enterprise's work with VCs, and others). Diversity VC Standard is an assessment and certification process that sets a benchmark for best practices on Diversity & Inclusion (D&I) for VCs – assessments such as this can be applied by VCs and required by capital providers more widely.
- Deliver **townhall sessions** to the investor community highlighting issues around access to finance and investment readiness of Black female businesses. Include diverse entrepreneurs in internal **speaker series** to help break the unconscious bias.
- LPs must make their high expectations on diversity and inclusion clear at the GP level, **and enforce their expectations with a clear set of metrics to evaluate fund managers' inclusivity practices**. Process metrics<sup>1</sup> are a good way to focus on what investors do, as well as how investees react – metrics such as the percentage of documents offered in plain language or percentage of staff receiving anti-bias training.

## 2

## Pipeline support through capacity building of investors & TA for entrepreneurs

Match-making appropriate capital with entrepreneurs' needs requires improved capacity on the part of both investors and entrepreneurs. Improvements will address investor bias and lack of market understanding that can prevent recognition of investment opportunities, as well as low access to existing forms of capital for BFEs.



### Recommendation: Technical assistance for entrepreneurs

- Develop a **centralized resource hub**: a coordinated and consistent ecosystem of business support that helps entrepreneurs, including BFEs, prepare for and access investment, irrespective of location. A rich ecosystem of support exists for MSMEs in some urban areas, yet is typically lacking in more rural locations. Furthermore, programmes seeking to support minority-led businesses are particularly lacking in the UK. *See overleaf for a detailed suggestion.*
- Similar to other MSME entrepreneurs, BFEs can benefit from support in the following areas: financial planning and reporting, accessing new markets, industry expertise, accessing new markets, talent acquisition, term sheet negotiation and investment documentation.
- Technical assistance should also cover **what to expect in a typical due diligence process**, and signs for recognising an intersectional / inclusive investor.
- Technical assistance should focus on educating entrepreneurs on **how to access investor networks** whose interests align with business models of BFEs and **vet investors to ensure alignment** and save time. CASE at Duke University's Smart Impact Capital virtual course is one programme which addresses this alignment topic.

### Recommendation: Create cross border match-making opportunities that include a more diverse set of businesses, including BFEs

- Leverage accelerator programs and investment partners to match US investors to UK BFEs and vice versa. Scottish Enterprise provides an example of successfully doing so for UK entrepreneurs in industries such as health technologies. Scottish Enterprise works with partners to build pipeline and to conduct due diligence. TA should also be provided in preparing to present a business to investors in other national contexts, i.e. adjusting to US investor expectations.
- **Set up open house pitch days** with national and international TA providers and universities who have a racial equity focus.
- Establish Founder referral mechanisms, that encourage a diverse pool of candidates for programs. Consider alternatives to commission compensation schemes to ensure those making referrals are not taken advantage of while being from and serving the very communities these initiatives seek to support.

## Technical assistance for entrepreneurs can be centralised by creating a centralized “SmartHub” of resources for MSMEs

### The challenge:

- Both UK and US Governments have taken exceptional steps to roll out national support services for capacity building of founders, however, these programmes for entrepreneurs to get ‘investor ready’ are typically:
  - Located in cities;
  - Not sector specific;
  - Hard to find (typically access by informal networks such as personal recommendations or social media);
  - Lack a strong investor network to make use of investment readiness gained;
  - Charge a participation fee in cash or company equity.
- These programs fill a critical knowledge and network deficit for some MSME founders in high growth sectors. However, the accelerators offering these programmes typically lose visibility on the entrepreneurs who graduate and their capital raise processes, thus the effectiveness of these programmes on growth and capital raise ability is often difficult to evaluate.
- Centralising a technical assistance process and collecting intersectional data throughout the start-up and investment pipeline process will start to build a clearer and more accurate picture of the most effective interventions to increase BFEs’ ability to raise capital.
- Bridging the gap in resources for MSMEs not located in city hubs can help the UK government achieve its post-COVID priority of “levelling up” deprived areas outside London.

### Recommendation: Creation of a “SmartHub” of technical assistance and business services providers, enabling entrepreneurs to access the right programme and to evaluate effectiveness and inclusiveness of the TA

1. Create a new interface within GOV. site referencing TA services. Institutions offering ‘investor readiness’ or early stage business support register with the SmartHub to create a centralised directory where founders find TA services.
2. TA providers report data useful to entrepreneurs (including BFEs), allowing entrepreneurs to search TA programmes by location, service offering, diversity of cohorts, amount of capital raised by cohorts.
3. To ensure offerings are competitive and focused on improving services continually, work with third parties to create consumer ratings that include ratings about diversity, equity, and justice. These should be open to all MSME consumers who have completed a TA course and the platform should be visible to anyone for making selections as to the best offering for them. Existing similar initiatives can be built upon, including GlassDoor, the Gender Equality Index, As You Sow, and others.
4. Create an incentive structure for entrepreneurs to update on progress of metrics such as capital raised by type and business growth in order to measure effectiveness of programs and tie ratings of TA providers to these results. Incentives may include access to additional TA, mentorship or pro-bono support.



Technical  
Assistance  
Providers



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## Purposeful change in investors' investment processes

Many investors do not have sufficient knowledge and understanding to evaluate BFE business models, target markets, or target geographies.



### Recommendation: Rebuild due diligence processes and requirements to serve inclusivity

- **Expand criteria for assessing investment opportunities.** This includes the skills BFEs possess like the ability to understand the unique market they serve, anticipate demand, and serve customers properly. Assess investment opportunities holistically, taking into consideration the nuance of the peculiar challenges BFE businesses address. Leverage others with knowledge to evaluate appropriately and access the right deals. Investors without direct knowledge of and access to the markets should invest in and support organizations already working in the communities.
- Consider all aspects of due diligence requirements and their impact on diverse founders to re-build a more inclusive process; this process must include incentives for the change and de-risking mechanisms, which we aimed to address through the catalytic capital recommendations.
- Incorporate Diversity & Inclusion training as part of corporate strategy.
- Leveraging catalytic capital as proposed earlier, will provide incentives to implement changes and validate the opportunities

### Recommendation: LPs can evaluate pipeline and due diligence processes differently, to ensure they are aligned with the inclusive intentions of the LP

- Assess what investors do, as well as who their pipeline and investees are, through process metrics <sup>1</sup>, such as:
  - Percentage of documents available in plain language
  - Application support for first-time applicants provided or offered by a values-aligned and vetted intermediary
  - Number of Black female (or other target intersectional group) who are involved in investment decision-making
- Assess how investment strategies are created and influence pipeline building, e.g. measuring resources spent on research and community input on intersectional investment trends at the time of investment strategy creation or updates
- Assess whether the fund manager has been evaluated or done a self-evaluation on gender and/or racial equity in pipeline and due diligence <sup>2</sup>
  - Approaches might include the SEAF Gender Equality Scorecard, MEDA Gender Equality Mainstreaming Framework, EDGE Certification, etc.

## Purposeful change in investors' investment processes

Many investors do not have sufficient knowledge and understanding to evaluate BFE business models, target markets, or target geographies.



### Recommendation: Vet external partners for values-alignment on intersectional approaches to investment

- Many investors work with external partners who contribute to pipeline development and due diligence – from accelerators to law firms, technical assistance providers, investment banks, etc. Vetting these firms for values alignment is just as important as internal change for the investor itself. Consider using tested processes for engaging partners, vetting for gender lens and adding an intersectional approach. The approach might include:
  - Identifying co-investor partners whose pipeline building staff members are trained on intersectional communities (especially if the investor is not)
  - Requesting gender and racial equity reporting on staff at third party service providers in the investor's value chain
  - Publishing partners' gender and racial equity policies and commitments on the investor's website or Annual Report materials

### Recommendation: Recruit diverse staff

- Increase Black representation, at customer facing and decision-making levels of investors and government bodies.
- Introduce apprenticeship models and fellowships that open the door for people of colour to learn about venture capital. This can be done through scouting programs that align the vision of the fund and incentivize scouts to build a stronger diverse pipeline, and in turn, portfolio of investments.
- Recruitment programmes for junior levels should have an emphasis on diversity, particularly from economically or regionally marginalized communities where many excluded BFEs operate.

### Recommendation: Consider alternative data sets to evaluate risk and support investment structures that are better aligned with BFE needs

- Many fintech lenders are already leveraging alternative behavior data to evaluate credit risk of customers in emerging markets; using new behavior data sets, rather than traditional credit history and borrower assets to evaluate risk, can reduce bias and inequities inherent to many of the old models of risk assessment.



## 4

## Data improvement and on-going management of impact

There is limited data available, particularly in the UK, about BFEs and capital flow to them. Intersectional data (combining gender and ethnic/racial background) is especially lacking. This limits the depth of analysis any ecosystem player can make. A consolidated approach to data collection would provide more clarity about BFE business models, capital needs and barriers.



**Recommendation: Join up currently siloed data collection efforts (especially to address the siloing of data on gender of entrepreneurs and ethnicity/race), and support alternative means of data collection to plug data gaps**

- Analysing Companies House data with a gender and ethnicity lens. In the UK, Companies House holds the most comprehensive data on businesses and their ownership, including ownership by gender. However, data on ethnicity is currently not collected.
- Government, together with private sector actors, can conduct a regular study of small businesses with proper categorisation of minority groups to improve data on business growth, equity changes, etc. Several private and public-private partnership initiatives are under way, to analyse company and investment portfolio data using AI to proxy ethnicity/race where this information is not accessible, including the work of Open Network and Extend Ventures with Innovate UK.
- Leading organisations such as UK Finance and the British Business Bank can take the lead in gathering gender and ethnicity data on businesses.
- Review existing Bank of England Open Platform Database recommendations and incorporate ethnicity lens on collection of data about lending.
- Although having precise data on the business case for investing in a diverse portfolio of entrepreneurs is important to scaling meaningful solutions, that business case has already been made, intersectionally and across asset classes. While the ecosystem continues to build evidence, we must acknowledge that requiring very specific business cases with ever more proof has been used to avoid investment into marginalised groups - this same proof requirement is not typically made of historically privileged groups. Counting entrepreneurs is not the only, or even the most impactful, way to measure inclusivity. Efforts should be made to measure what investors do, as well as who entrepreneurs are and what they do. See Recommendation 3 for more detail.

## 4

# Data improvement initiatives – improving public record of businesses by demographic

## Create transparency and consistency around ethnicity and gender data

### The challenge:

The US government currently collects national-level intersectional data in areas that help inform the industry understanding of (1) number and distribution of women and minority entrepreneurs, and (2) some types of early stage capital that reach these entrepreneurs, especially CDFI and bank debt. However, the data is not always as useful as it could be for intersectional analysis, since many data sets only can be “cut” by gender or race/ethnicity, but not both.

**Danger of inaction:** Private sector stakeholders that are keen to use the data to drive change are unable to access national and regional statistics, and investors are not incentivised to educate themselves, leaving valuable data unexploited

### Recommendation: Population specific analysis

Systematically disaggregate population data by both gender and ethnicity to increase chances of better targeted and effective interventions.



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### Recommendation: Leverage third parties for implementation of any new data collection

Bias checks on any new data collection should be carried out. In the UK, this can be done with the support of the Behavioural Insight Team<sup>1</sup>. Leverage data experts to help implement the integration of intersectional data.

### Recommendation: Provide support to capital providers for implementing the new standards

Support capital providers with training, to implement this race/ethnicity and gender disaggregated data approach to ensure data will be consistent and easily transferable to a government centralised system.



### Recommendation: Ethnicity and gender standardisation in the US

1. Continue collection national-level entrepreneurship data using widely recognised standards such as the OMB standards. Potential partners: IRS, National Corporation Directory, SEC, US Department of State registration offices by state, FRB, passport office

# Data improvement initiatives – improving public record of businesses by demographic

## Create transparency and consistency around ethnicity and gender data

### The challenge:

UK Government currently has limited visibility of private sector intervention in relation to access to capital for BFEs. Similarly, the UK Government does not produce business statistics that are systematically disaggregated by both gender and ethnicity. To limit less trustworthy reporting and align with the Smart Data ambition, a gathering exercise is required for a more accurate view of the landscape of businesses and capital received. In gathering primary data on ethnicity, reliability and rigor are built into future intersectional analysis, allowing for more targeted interventions.

**Danger of inaction:** Government misses opportunity to create lean reliable data standards that all stakeholders could follow, leaving valuable data with private sector and research firms unexploited

### Recommendation: Population specific analysis

Using aggregated data limits the opportunity to capture nuances and unique challenges for the various population groups. Systematically disaggregating population data by gender and ethnicity will increase chances of successful interventions.



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### Recommendation: Ethnicity and gender standardisation in the UK

1. Integrate the chosen ethnicity, gender and country of birth descriptors in all public data surveys and datasets on businesses
2. **Harmonise standards** that allow for more national-level collection and gender and racial/ethnic data (which are protected characteristics). **Potential partners:** VAT Return, Annual Returns submitted to Companies House, HMRC, GSS, Passport office, RDU, CDEI, The Equality Data Programme committee
3. **Review legislation that may be unintentionally blocking data collection**
  - Companies Act 2006 and forthcoming similar legislation: consider incorporating a clause specific to data collection of an individual's protected characteristics (as defined under section 4 of the Equality Act 2010) to ensure protection of an individual's rights against discrimination when going through approvals for financial products and services. If ethnicity data could be collected, then targeted interventions to address intersectional capital flow challenges could be identified and improved. Currently, this data cannot be collected as it is not considered required information.
  - Equality Act 2010: Review the categories recognised under Act. To date there are no ethnicity groupings stated within the Act. To ensure all registered business accurately record ethnicity data for disaggregation at government level, consider amending requirements such that companies must align data categorisation on protected characteristics in accordance with the Office for National Statistics. If the relevant intersectional categories such as gender and race/ethnicity were stated in the Act, all industries acting under the UK law would have clarity and thus rigor would be built into data collection.
  - Public Disclosures Act 1998: consider including a mandate for the Financial Conduct Authority (FCA) to review companies' whistleblowing policies to ensure the policy captures complaints related to offences against protected characteristics as defined under the Equality Act 2010.

Annex  
Details of  
Investment Gap  
Sizing

# A1

# Capital Demand Sizing - US

## US Black female entrepreneurs' businesses capital demand estimation by MSME size

Using data derived from the US Census, our preliminary findings show **a total capital demand from US BFEEn of approximately \$13.7 billion**. The bulk of this demand, 81% , comes from medium sized businesses. Whilst medium businesses represent majority of the demand they only represent about 13% of US BFEEn. In fact, **most US BFEEn are small (57%) or micro (31%)**.

US Capital demand sizing model	
	2018*
Total number of micro businesses (annual sales below \$100K) <sup>1</sup>	13,389
Total number of small businesses (annual sales between \$100K-\$3 million) <sup>1</sup>	24,786
Total number of medium businesses (annual sales between \$3 million -\$15 million) <sup>1</sup>	5,544
<b>Total number of Black women owned MSMEs with at least 1 employee <sup>1</sup></b>	<b>43,719</b>
<b>Micro businesses</b>	
Total number of micro businesses (annual sales below \$100K)	13,389
Capital demand per micro business <sup>2</sup>	\$10,000
Total micro businesses capital demand	\$133,890,000
<i>Micro businesses capital demand in %</i>	<i>1%</i>
<b>Small businesses</b>	
Total number of small businesses (annual sales between \$100K-\$3 million)	24,786
Capital demand per small business <sup>2</sup>	\$100,000
Total small businesses capital demand	\$2,478,600,000
<i>Small businesses capital demand in %</i>	<i>18%</i>
<b>Medium businesses</b>	
Total number of medium businesses (annual sales between \$3 million -\$15 million)	5,544
Capital demand per medium business <sup>2</sup>	\$2,000,000
Total medium businesses capital demand	\$11,088,000,000
<i>Medium businesses capital demand in %</i>	<i>81%</i>
<b>Total capital demand</b>	<b>\$13,700,490,000</b>

### Approach

#### Estimate number of BFEEn and develop BFEEn segmentation by business size

- The Annual Business Surveys give us an indication of the annual sales of Black female owned companies in the US and allowed us to estimate the average annual sales for each company and determined if there were micro, small, or medium thanks to proxies such as IFC MSME indicators.

#### Estimate capital demand by segment

- Still using proxies such as MSMEs loan size classification from IFC, we defined that micro, small and medium businesses, respectively have a capital demand of \$10K, \$100K and \$2M.

Note: \* We used 2017-2018 averaged numbers due to relatively high standard error for 2018 numbers.

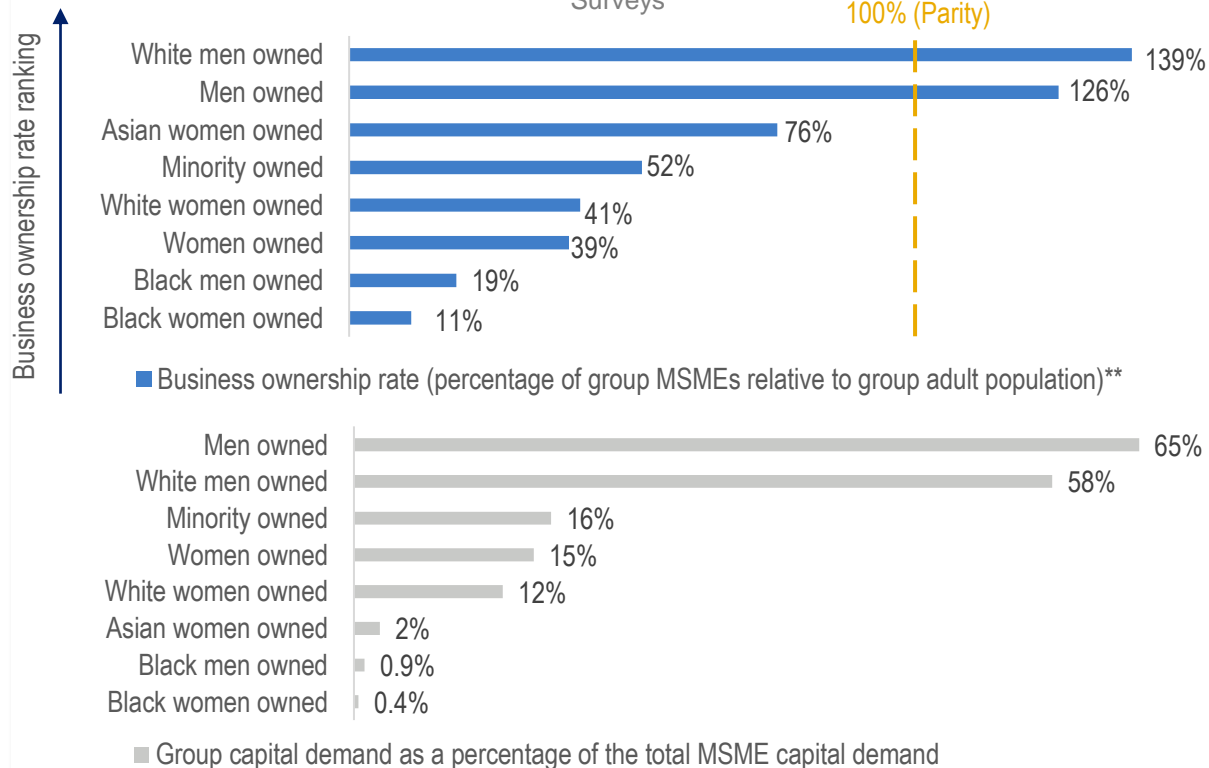
# Capital Demand Sizing – US BFE<sup>n</sup> representation within MSMEs\*

## US BFE<sup>n</sup> compared to other MSME groups

According to the National Advisory Council on Eliminating the Black-White Wealth Gap, Black owned businesses are more likely to be smaller because of inequities in wealth and access to capital. The outcomes for Black women owned businesses are likely to be worse due to the compound effects of structural racism and both racial and gender discriminations.

### US BFE are least likely to run a firm with employees and tend to be smaller

Source: Palladium estimations based on US Census population data and 2019-18 Annual Business Surveys



### Black females represent about 7% of the adult US population while US BFE<sup>n</sup> account for only 0.77% (about 44,000) of the MSMEs and 0.4% of the capital demand

- Unsurprisingly, the data shows that women own MSMEs at a lower rate than men. White men have the strongest representation as they account for 54% of MSMEs owners (about 3.45m) but only 39% of the adult population (i.e.  $54\% \div 39\% = 139\%$  business ownership rate).
- Women-owned businesses are underrepresented within MSMEs employing staff (39% business ownership rate), while men-owned businesses are overrepresented (126% business ownership rate).
- Asian women (76% business ownership rate) and White women (41% business ownership rate) perform better than women as a group in terms of representation.
- US BFE were the least likely to run a firm with employees (11% business ownership rate) and the disparity between the number of US BFE<sup>n</sup> and their capital need was also the widest within our benchmark, with a disparity of 49%.
- The data is consistent with the literature review, Black female owned businesses are more likely to be smaller and therefore less represented in the MSME universe.

Note: \*In this slide we define MSMEs as firms with at least 1 employee and businesses equally owned by men and women are not included.

\*\* Percentage of group MSMEs divided by percentage of group adult population. A percentage under 100% shows an under-representation of the group MSMEs compare to the group adult population, any figure over 100% is an over-representation.

Note: These results are Palladium estimates based on US Census 2019-18 Annual Business Surveys



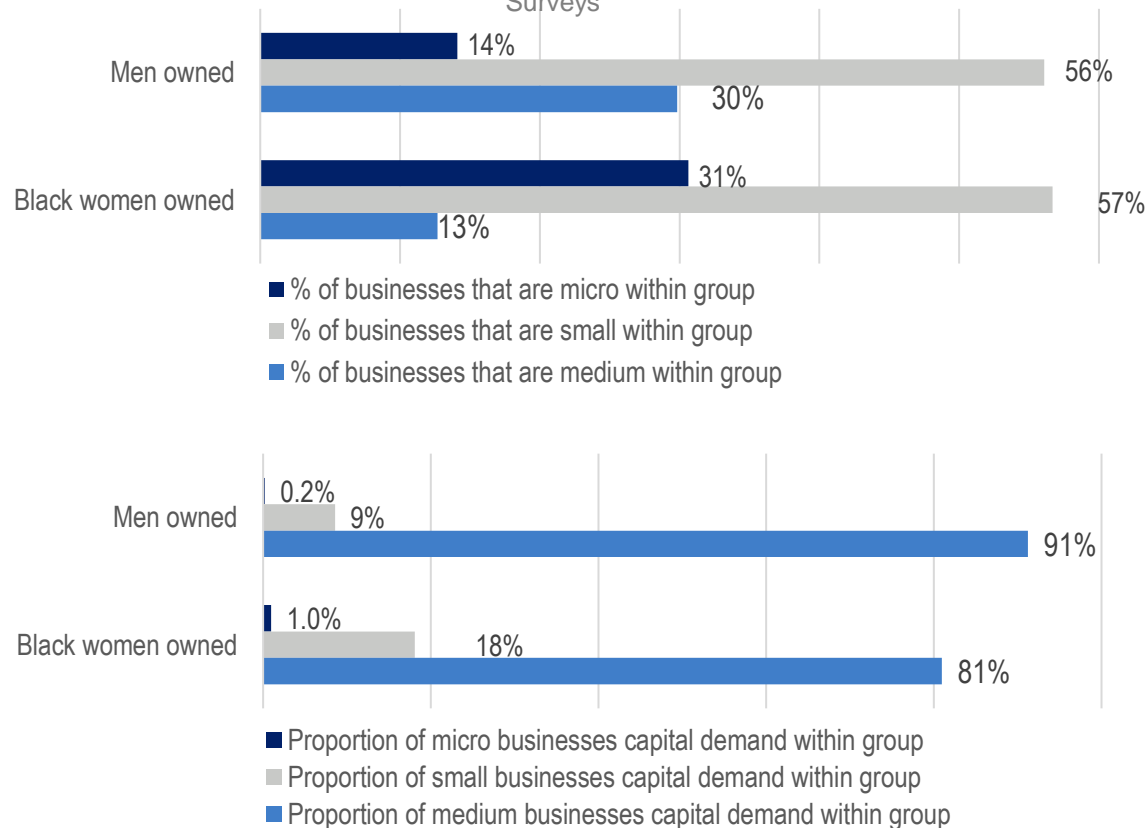
# Capital Demand Sizing – US BFE<sup>n</sup> compared to men owned MSMEs\*

## Comparison by MSME size

US BFE<sup>n</sup> tend to be smaller compared to White male owned businesses. The lack of capital to start a business is often cited as an explanation for that difference. According to Kauffman Foundation<sup>1</sup>, White owned businesses begin their ventures with about \$107K, which is 3 times more capital than Black owned businesses (\$35K). Even if this gap decreases over time, the disparity is still present after seven years of operation.

### Men owned MSMEs tend to be larger than US BFE<sup>n</sup>

Source: Palladium estimations based on US Census population data and 2019-18 Annual Business Surveys



Note: \*In this slide we define MSMEs as firms with at least 1 employee and businesses equally owned by men and women are not included.

### When looking at companies by size and annual sales, men owned businesses are larger than those of BFE<sup>n</sup>. Disparities in access to capital as well as gender bias could be an explanation.

- Men owned MSMEs represent 61% of the MSMEs and are comprised of 30% of medium businesses and only 14% of small enterprises. With more medium businesses than the other groups in our benchmark, men owned MSMEs have a capital demand of about \$2.3 trillion.
- For BFE<sup>n</sup> it is the reverse, micro businesses represent 31% of the group and medium businesses only 13%. With 0.77% of the MSMEs, and a minority of medium companies, the capital demand of US BFE<sup>n</sup> is 167 times smaller than men owned businesses.
- The average sales for medium men owned MSMEs is \$8M compared to only \$3M for medium US BFE<sup>n</sup>. The lower annual sales of medium US BFE<sup>n</sup> is consistent with US BFE<sup>n</sup> being more likely to be smaller and have fewer employees.
- In addition to the challenges reported by entrepreneurs to access capital, women are also likely to report biases. An HSBC survey on entrepreneurs revealed that 46% of women surveyed in the US felt experiencing gender bias when trying to access capital<sup>2</sup>.

Note: These results are Palladium estimates based on US Census 2019-18 Annual Business Surveys



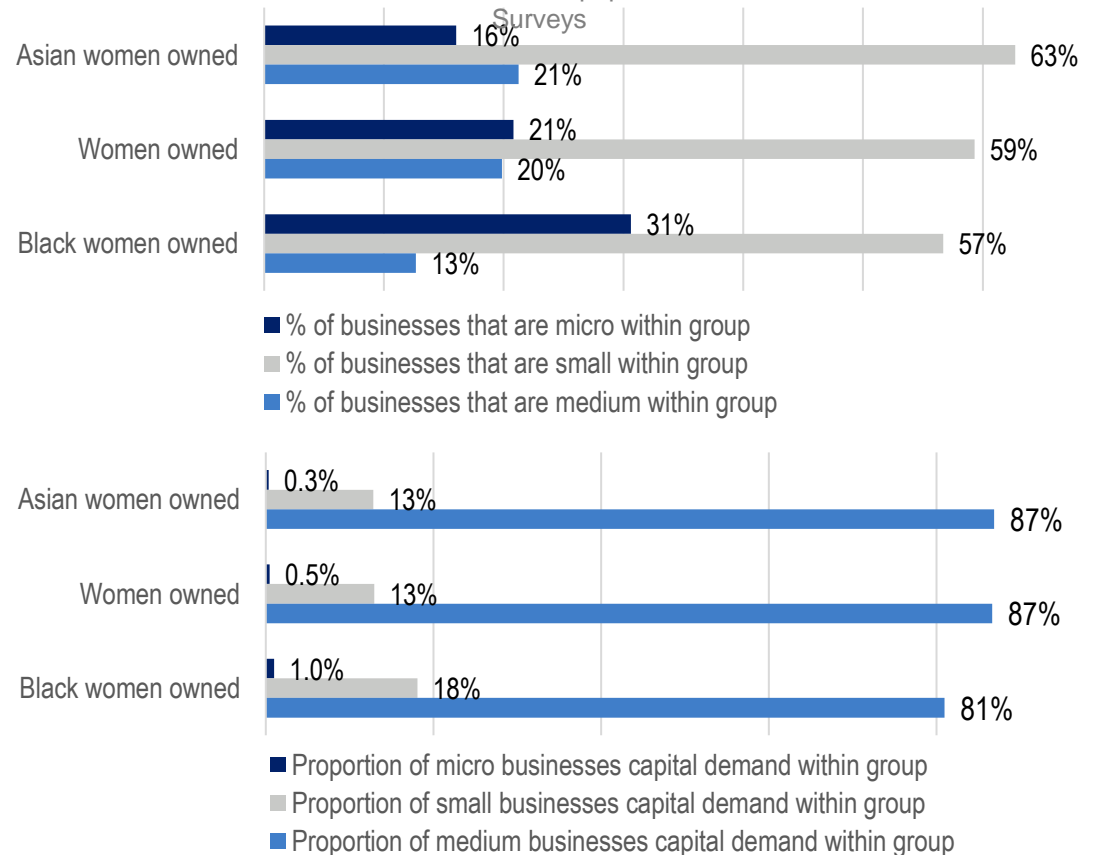
# Capital Demand Sizing – US BFEn compared to women owned MSMEs\*

## Comparison by MSME size

When we look at other women owned businesses, US BFEn still rank within the smallest businesses in terms of representation and annual sales. All MSME groups are different, and intersectionality can add a different narrative for a particular group or entrepreneur.

### Asian women owned businesses seem better represented than US BFEn

Source: Palladium estimations based on US Census population data and 2019-18 Annual Business Surveys



Note: \*In this slide we define MSMEs as firms with at least 1 employee and businesses equally owned by men and women are not included.

**Most studies recognise that the outcomes for BIPOC are likely to be worse when it comes to accessing capital. But the experience for BIPOC is not always homogenous. Asian women seem better represented than women in the MSME universe.**

- Women are estimated to own about 1.1 million MSMEs of which about 226,500 are medium businesses (20% of women owned MSMEs) with an average annual sales of \$5.4M.
- Asian women owned companies represent about 155,000 companies including 21% of medium businesses with an average annual sales of \$3.7M.
- In terms of representation, Asian women account for only 4% of the adult US population and own 2.27% of MSMEs which is a much better business ownership ratio than women in general (76% vs 39%).
- In addition, the capital demand of Asian women owned MSMEs relative to the number of their MSMEs represent 80% compared to 75% for women and 51% for US BFEn.

Note: These findings are Palladium estimations based on US Census 2019-18 Annual Business Surveys

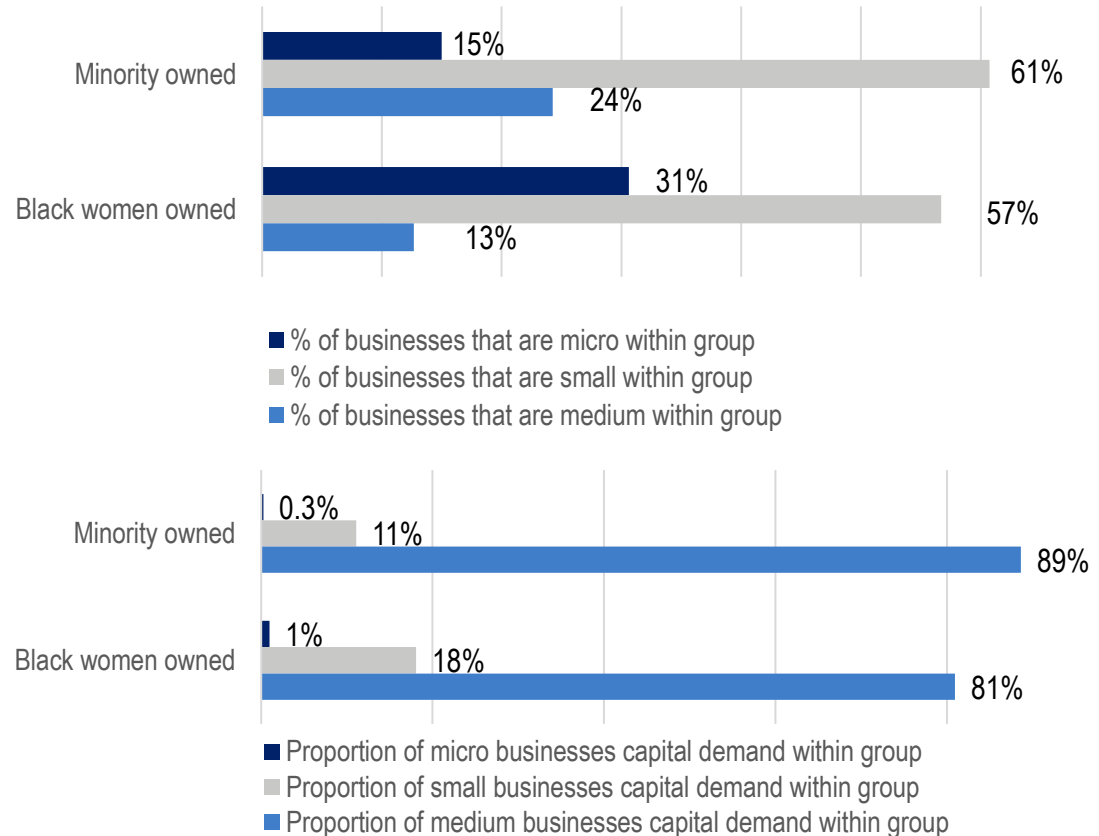
# Capital Demand Sizing – US BFEn compared to minority owned MSMEs

## Comparison by MSME size

When comparing Minority owned MSMEs and US BFEn, all BIPOC experiences are not the same. Minority owned MSMEs as a combined group seem to have a much better representation in terms of the number of firms (18%) versus adult population (35%), they also tend to be bigger than US BFEn. These insights reinforce the necessity to look at intersectionality when looking at the different MSME groups and their access to capital.

### Minority owned MSMEs tend to be larger than US BFEn

Source: PIC estimations based on US Census population data and 2019-18 Annual Business Surveys



Note: \*In this slide we define MSMEs as firms with at least 1 employee and businesses equally owned by men and women are not included.

### Minority owned MSMEs seem to perform better than women owned MSMEs including US BFEn

- In 2018, we estimate that there were about 1 million minority owned businesses of which around 254,000 were medium businesses (24% of their group) with an average annual sales of \$4.3M compared to only \$3M for medium US BFEn.
- Minority owned MSMEs are composed of fewer micro businesses and more medium companies compared to US BFEn. This explains why the proportion of the capital demand of US BFEn relative to the number of their MSMEs (51%) is smaller compared to minority owned MSMEs (89%).
- In addition to having bigger companies and a better representation in terms of number of businesses/adult population, from 2017 to 2018 minority owned MSMEs grew by 3% while women owned MSMEs increased by merely 1% and US BFEn decreased by 3%.

Note: These results are Palladium estimations based on US Census 2019-18 Annual Business Surveys

# Capital Supply Sizing - US

## Approach to supply sizing

### Approach and methodology

- To establish the total capital supply for Black Female Entrepreneurs in the US, we first broke down capital supply into two main instruments; debt and equity
- We further categorized debt capital supply into four main components; Bank SME loans, Small Business Administration (SBA) Loan program, Alternate Lending and Credit Union small business loans. The categorisation enabled us focus on key debt sources for small business in the US and provided a clear way to assess each category
- We employed data from several sources to estimate the total size of each category. These sources include US Federal Reserve, OECD Library, Annual Business Survey, Small Business Administration (SBA) and Credit Union National Association (CUNA)
- Relying on available quantitative and qualitative data, we made assumptions about proportions of these debt instruments that went to Black women led businesses in the US
- We used proxies in categories where data on our target group was limited or unavailable
- For equity supply to our target group, we relied solely on venture capital as an asset class
- To infer the total investment supply for BFE in the US, we aggregated each category of asset class to reach a conclusion

### Assumptions

- \$633bn SME business loans were disbursed by banks in 2018. To arrive at the proportion that went to BFE, we first estimated the amount that went to Black owned businesses.
- According to Investing in the Success of African-American Owned Small business report, 2% of SME loans bank loans went to Black owned enterprises representing \$12.6 billion of total SME loans. To drill further, the Annual Business survey estimated 36% of Black owned businesses were led by women. We estimated that 50% of Black women led businesses sought SME loans for their businesses. The Availability of Credit to Small Business report estimated 47% of Black owned SMEs are rejected for loans. From the above estimates, we deduced about \$1.1 billion went to BFE
- Total alternate lending (P2P business loans) disbursed in 2018 stood at \$36.5 billion. Using proportion of bank loans that went to BFE as a proxy, we applied a 15% growth to reflect the P2P lending market
- Total small business loans issued by Credit Unions stood at \$73.1 billion. We used proportion of bank loans to BFE as a proxy, increasing by 10% to reflect the higher likelihood for BFE to access credit through this means

# Capital Supply Sizing - US

Our analysis shows approximately **\$3.6 billion** flows to BFEs in the US via debt and equity instruments

Debt	2018
<b>Bank SME loans</b>	
Total outstanding business loans, SMEs	\$633,000,000,000 <sup>1</sup>
Percentage that goes to Black businesses	2.00% <sup>2</sup>
Total bank loans that goes to Black businesses	\$12,660,000,000
Proportion of Black businesses owned by women	36.00% <sup>3</sup>
Proportion of BFE that seek credit facilities	50.00%
Acceptance rate of Black founders for SME loans	47.00% <sup>4</sup>
Percentage of Bank loans that goes to BFE	0.17%
Amount directed to BFE	<b>\$1,071,036,000</b>
<b>SBA loan Program</b>	
SBA loan program approved loans for BFE	<b>\$334,100,000<sup>5</sup></b>
<b>Alternate Lending</b>	
Alternate lending (P2P Business loans)	\$36,528,000,000 <sup>6</sup>
Proportion of P2P loans going to BFE	0.195%
Proportion directed to BFE	<b>\$71,076,182</b>
<b>Credit Union small business loans</b>	
Credit union small business loans	\$73,060,000,000 <sup>7</sup>
Percentage that goes to BFE	0.186%
Amount directed to BFE	<b>\$135,979,272</b>
<b>Equity</b>	<b>2018</b>
Total VC funding	\$276,700,000,000 <sup>8</sup>
Percentage that went to BFE	0.14% <sup>8</sup>
VC funding for BFE	<b>\$387,380,000</b>
<b>Total capital supply to BFE</b>	<b>\$1,999,571,454</b>

- **Bank SME loans** represent the major source of financing for Black Female Entrepreneurs. This represents **54% of total funding** to the group
- **The SBA 7(a)** program disbursed **\$334 million** to BFE in 2018. This was up by 5% the previous year
- The **alternate lending** market is a growing sector for small businesses to raise debt. BFE based on our assumptions raised **\$71 million** from P2P online sources making up about 0.19% of \$36 billion P2P loans issued in 2018
- Based on our assumptions, we estimated about **\$135 million** out of the \$73 billion **Credit Union small business loans** went to BFE
- National Venture Capital Association estimated that about **0.14%** of VC dollars went to BFE in 2018.
- **Total capital supply** to BFE in the US was **\$1.9 billion**
- Our analysis proves that only a fraction of capital supply in the US flows to BFE
- The higher rejection rates for credit by BFE also accounts for the shortfall in supply

1. OECD Library 2. VEDC: Investing in the Success of African-American Owned Small Businesses 3. Annual Business Survey 4. US Federal Reserve: Availability of Credit to Small Business report 5. SBA.gov 6. Cambridge Centre for Alternative Finance: Global Alternative Finance Benchmarking report 7. Credit Union National Association 8. National Venture Capital Association

# Capital Demand Sizing - UK

## UK BFEn capital demand estimation by MSME size

Using our estimated number of UK Black Female Enterprises, our preliminary findings show **a total capital demand from UK BFEn of approximately \$2.7 billion**. Compared to the US, the sizing exercise was relatively more laborious due to a lack of detailed data.

UK Capital demand sizing model	
	2018
Total number of Ethnic Minority Led (EML) MSMEs <sup>1</sup>	946,392
% of women led MSMEs out of all EML MSMEs <sup>2</sup>	17%
% of Black women led MSMEs out of all women EML MSMEs <sup>2</sup>	26%
Proxy a - Proportion of EML MSMEs with at least one employee out of all EML MSMEs <sup>1</sup>	22.5%
Proxy b - Proportion of women led MSMEs with at least one employee out of all women led MSMEs	19%
Estimated proportion of Black women led MSMEs with at least one employee out of all Black women led MSMEs (average of proxy a and b)	21%
<b>Total number of Black women led MSMEs with at least one employee</b>	<b>8,754</b>
<b>Micro businesses</b>	
<i>% of total Black women led MSMEs that are microbusinesses (US proportion applied)</i>	31%
Total number of micro businesses (annual sales below \$100K)	2,681
Capital demand per micro business <sup>3</sup>	\$10,000
Total micro businesses capital demand	\$26,810,248
<b>Small businesses</b>	
<i>% of total Black women led MSMEs that are small businesses (US proportion applied)</i>	57%
Total number of small businesses (annual sales between \$100K-\$3 million)	4,963
Capital demand per small business <sup>3</sup>	\$100,000
Total small businesses capital demand	\$496,316,987
<b>Medium businesses</b>	
<i>% of total Black women led MSMEs that are medium businesses (US proportion applied)</i>	13%
Total number of medium businesses (annual sales between \$3 million -\$15 million)	1,110
Capital demand per medium business <sup>3</sup>	\$2,000,000
Total medium businesses capital demand	\$2,220,270,616
<b>Total capital demand</b>	<b>\$2,743,397,851</b>

## Approach

### Estimate number of BFEn and develop BFEn segmentation by business size

- In the UK, the data around ethnic minority led businesses is less granular. We used the 2018 Longitudinal Small Business Survey and indications (such as the percentage of women led MSMEs out of all EML MSMEs and the percentage of Black women led MSMEs out of all women EML MSMEs) from the most authoritative research reports on EML businesses<sup>1,2</sup> to estimate the number of UK BFEn in 2018.
- For the size segmentation, we applied the US market proportions to the UK given data on annual sales were not available. We recognized that the US and the UK are not the same and acknowledge that this proxy alters data quality.

### Estimate capital demand by segment

- We use the same approach as the US.

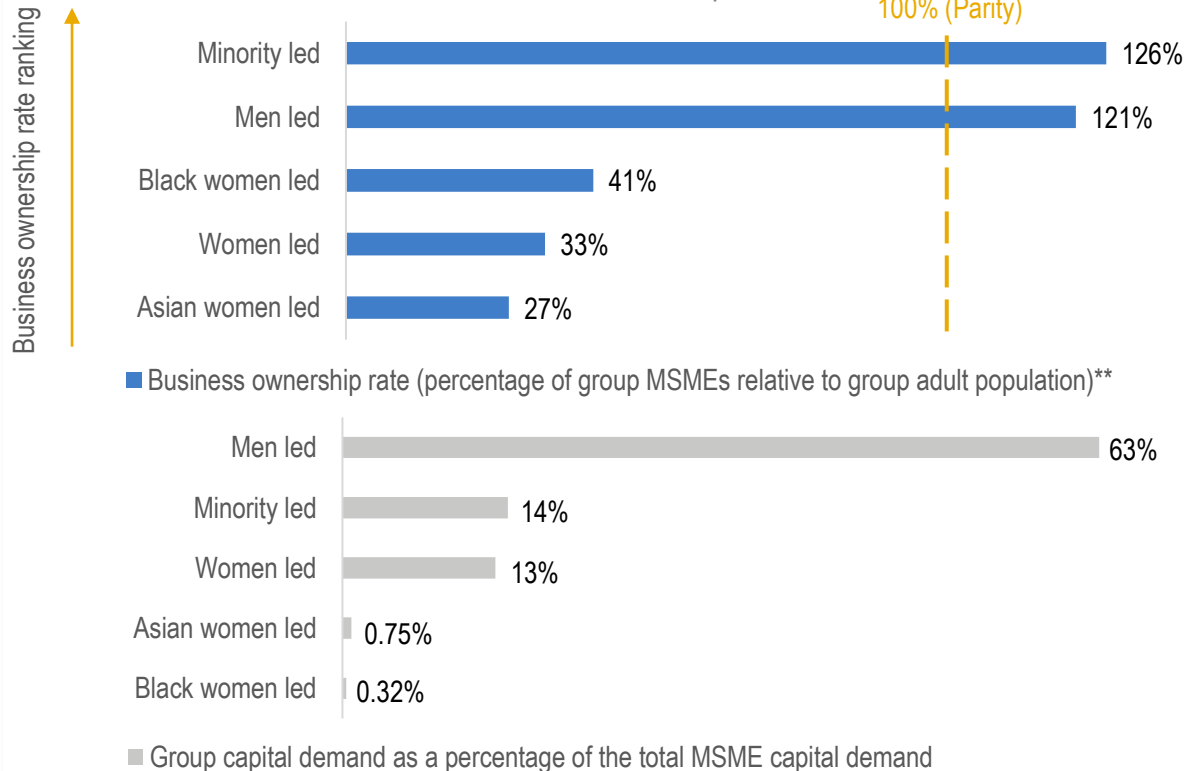
# Capital Demand Sizing – UK BFEn representation within MSMEs\*

## UK BFEn compared to other MSME groups

UK Female entrepreneurship is less advanced than the US. According to the Rose Review<sup>1</sup>, only 1 in 3 UK entrepreneurs is a woman and only 8.6% of all women surveyed in the 2017 Global Entrepreneur Monitor planned to start a business compared to 15% of women surveyed in the US. When comparing to other MSME groups, UK BFEn were better represented than Asian women led MSMEs and women led MSMEs as a group.

### UK BFEn representation and capital demand compared to other groups

Source: Palladium estimations based on 2018 UK Longitudinal Small Business Survey, UK 2011 Census and research reports<sup>2,3</sup>



**Based on our estimations, UK Black Female Enterprises account for only 0.63% of MSMEs and 0.32% of the capital demand.**

- Similarly, in the UK women are underrepresented in the MSME universe while men are overrepresented.
- With a 126% business ownership rate, Minority led MSMEs have the best representation in our benchmark when comparing the minority adult population (12%) and the number of MSMEs they led (15%).
- Men led MSMEs rank second with a representation close to minority led MSMEs (121%).
- Within all minority led businesses, 15% are Black led and 54% are Asian led. However within minority women led businesses, only 39% are led by Asian women while 26% are led by Black women<sup>2</sup>.
- This overrepresentation of Black women led businesses translates into the UK BFEn/Black women adult population ratio which is better than for women (41% vs 33%) and Asian women (41% vs 27%).
- Compared to the US, Asian women led MSMEs rank at the bottom of our benchmark with 0.95% of MSMEs for 3.47% of the UK adult population.

Note: \*In this slide we define MSMEs as firms with at least 1 employee and businesses equally owned by men and women are not included.

\*\* Percentage of group MSMEs divided by percentage of group adult population. A percentage under 100% shows an under-representation of the group MSMEs compare to the group adult population, any figure over 100% is an over-representation.



# Capital Supply Sizing - UK

## Approach to supply sizing

### Approach and methodology

- To ascertain the total capital supply for Black Female Entrepreneurs in the UK, we first broke down capital supply into two main instruments; debt and equity
- We further grouped debt capital supply into three main categories; Bank SME loans, Alternate Lending and Community Development Finance Institution (CDFI) SME loans. The classification enabled us focus on key debt sources for small business in the US and provided a clear way to assess each category
- We employed data from several sources to estimate the total size of each category. These sources include OECD Library, England and Wales 2011 Census, Cambridge Centre for Alternate Finance and Extend Ventures' Diversity Beyond Gender report
- At present, the UK lacks comprehensive data on BFEs, as such, significant reliance on quantitative and qualitative data from existing reports were applied as proxies to deduce proportions of the various instruments used by BFEs
- We relied on external sources for data on VC funding in the UK
- To infer the total investment supply for BFE in the UK, we aggregated each category of asset class to reach a conclusion

### Assumptions

- OECD Library estimates total outstanding bank SME loans in 2018 at \$233 billion. From our demand analysis, we estimated that 0.15% of all SMEs with at least one employee in the UK are women led. We further applied the US loan acceptance rate of 47% as proxy for the UK. From the above, we can deduce that 0.073% of SME loans in the UK went to BFE
- Total alternate lending for SMEs in the UK stood at \$3.4 billion. We used the proportion of bank loans that went to BFEs as a proxy, we applied a 50% growth to reflect the relative ease in assessing online loans. We arrived at 0.1% as the proportion of P2P loans that went to BFE
- The Responsible Finance Industry report for 2018 stated \$114.2 million as the total SME loans issued by CDFIs in the UK
- 16% of SME lending in the UK went to BAME founders. Using the England and Wales Census 2011, we inferred 25% of BAME community are Black. From our calculation, we deduced 4% of CDFI loans went to Black-owned businesses. We further assumed 50% of Black owned businesses are women led. Based on our calculations, we concluded, 2% of the total CDFI SME lending went to BFE
- We applied data from Extend Ventures' Diversity Beyond Gender report on the proportion of VC funding in the UK that went to Black female founders



# Capital Supply Sizing - UK

Our analysis shows approximately **\$170.4 million flows to BFEs in the UK via debt and equity instruments**

Debt	2018
Outstanding business loans, SMEs	\$233,028,348,784 <sup>1</sup>
Proportion of BFEs out of all SMEs with at least one employee	0.15%
Loan acceptance rate for BFE	47.00%
Proportion of SME loans to BFE	0.073%
<b>Total bank SME loans to BFE</b>	<b>\$161,803,194</b>
UK P2P lending	\$3,412,817,412 <sup>2</sup>
Percentage growth applied to bank loan proportion	50.00%
Percentage to BFE	0.109%
<b>Total P2P business lending to BFE</b>	<b>\$3,713,910</b>
Total CDFI SME lending	\$114,201,263 <sup>3</sup>
Percentage to BAME founders	16.00%
Percentage of BAME community that are Black	25.00%
Proportion of CDFI SME loans to Black business owners	4.00% <sup>4</sup>
Proportion of Black businesses that are women led	50.00%
Proportion of CDFI SME loans directed at BFE	2.00%
<b>Total CDFI SME loans to BFE</b>	<b>2,284,025</b>
Equity	2018
Total VC funding	\$13,475,749,026 <sup>5</sup>
Percentage that went to BFE	0.02% <sup>5</sup>
<b>VC funding for BFE</b>	<b>\$2,695,150</b>
<b>Total capital supply to BFE</b>	<b>\$170,496,279</b>

- Total outstanding **SME loans by banks** in the UK stood at **\$233 billion**. Based on our assumptions, we estimated 0.02% of SME bank loans in the UK went to our target group representing **\$161 million**
- Cambridge Centre for Alternate Finance data shows a total of **\$3.4 billion** loans were issued through **P2P lenders** in the UK. We estimated about 0.109% or **\$3.7 million** went to businesses led by Black females
- The **CDFI SME lending** market is a relatively small industry in the UK. In 2018, CDFIs made \$114 million loans to SMEs, of which we estimated 2% or **\$2.3 million** went to BFE
- The Diversity beyond Gender report estimated **\$2.7 million** of total **VC funding** in the UK went to BFE. This represents 0.02% of total equity funding
- From our analysis, we can infer figures for capital supply to Black female entrepreneurs in the UK is disproportionately low. Although Blacks make up only **3.4%** of the UK population, this analysis brings to fore the reality on the ground
- It is important to note that a huge constraint to our analysis in the UK is data. The lack of data on ethnic groups impedes our ability to analyse and draw robust conclusions for this market

1. OECD Library 2. Cambridge Centre for Alternative Finance: Global Alternative Finance Benchmarking report 3. Responsible Finance: The Industry in 2018 4. England and Wales 2011 Census 5. Extend Ventures: Diversity Beyond Gender report

Annex  
Demand Side  
Interviews and  
Roundtables

# A2

# Demand-side Roundtable and Interview Participants - UK

UK entrepreneur perspectives on barriers and solutions

Market	Enterprise	Region	Sector	Business Size
United Kingdom	Beautystack	Greater London	Beauty / London	Small Business
	Black Ballad	Greater London	Media: online mag	Micro Business
	BYP Network	Greater London	Professional services	Small Business
	Cashmere App	Greater London	Financial Services	Micro Business
	Elevate (AQUIRED)	Greater London	Professional services: Law	Micro Business
	Equidiet UK Ltd	East Midlands	Agricultural Services	Micro Business
	Jomas Associates	Greater London	Construction Services	Small Business
	Nubian Skin	Greater London	Fashion / New	Small Business
	Place of Progress	Greater London	Property services / London	Micro Business
	Shoobs	Greater London	Online Marketplace	Micro Business
	The Blair Project (Hybrid CIC & PL)	North West	Motorsport	Micro Business

# Demand-side Roundtable and Interviews – Selected Comments UK

## UK entrepreneur perspectives on barriers and solutions

**“I get now I have gone through the process. Investors, they sit there and think ‘I’m bored now she hasn’t made a major point - this is not ambitious enough’. That’s what has made me hyper aware, and why I’m really [good] at pitching because I know how people package a story. [It would help] if more people could do pitching and knew how venture capital works, because if you know how VCs work you know how to pitch. If you understood that they usually have a thesis or this is a business model that they follow and often invest in, or this is the category, this is what they are looking for, you can craft a perfect picture based on what the investor is looking for. And on this I don’t think it helps having specifically Black funds, you can give people money but it doesn’t mean anything - if you give them the tools they’ll build the right thing. I don’t think people know this, but that’s why I was successful with my raise; I knew that before I began.”**

*Founder, UK*

**“The world is bursting with opportunities for UK businesses to explore and I want to encourage more businesses, especially Black and other ethnic minority owned-businesses, to export.”**

*Founder, UK*

**“I didn’t need to go out hunting for capital and started from my kitchen table. Over the last 11 years the company has grown organically from day one and I have very good cash and credit control systems in place.”**

*Founder, UK*

**“From essentially day one to where I am today I have not needed that sort of finance, which appears very different to those sort of Tech founders who need that cash injection from day one.”**

*Founder, UK*

**“The reason as to why we set up a social enterprise was that we realised as Black people its very difficult to get investment. So [we made a way] to get funding and backing. It’s far easier to get the money that you need to get going and then add the LTD side.”**

*Founder, UK*

**“From day one it was Lloyds and they are really good with start-ups. I think a lot of these banks have all their offerings for start-ups, so in the early days we were very close with our relationship manager and we would go to the events they would run and be able to network. So we knew them quite well.”**

*Founder, UK*

**“Interestingly enough when I get these emails about raising finance for Black female entrepreneurs, it’s an interesting concept for me as I have not needed that because of the growth of the company. However, now we are set to scale up considerably we are considering [investment].”**

*Founder, UK*

**“Research shows diverse teams and encouragement provide diverse results. When there is diversity in ideas, your team is more likely to develop rather than just be a massive echo chamber – thus investors should have more diversity in their teams.”**

*Founder, UK*

**“People are not educated on how to pitch so teach them how venture capital works I mean the process, that’s it.”**

*Founder, UK*

# Demand-side Roundtable and Interview Participants - US

US entrepreneur perspectives on barriers and solutions

Market	Enterprise	Region	Sector	Business Size
United States	Avisare	West	Digital procurement	Micro Business
	CrowdBureau	Northeast	Financial Services	Micro Business
	Film Connx	South	Recruitment	Micro Business
	LucasPye BIO	Northeast	Health Care	Micro Business
	Opus-12	South	Clean Energy	Micro Business
	The Runway Project	East Coast	Financial Services	Micro Business
	CIA Media Group LLC	South	Marketing	Micro Business

# Demand-side Roundtable and Interviews – Selected Comments US

## US entrepreneur perspectives on barriers and solutions

**“Many VCs will say that they are writing cheques for Black lives matters and the inequality gap, [that] ‘we need to get money to the entrepreneurs ASAP’...but the mandates that these venture capital groups have from their investors who actually give them the money to write the cheques, those mandates are so narrow that most entrepreneurs don’t know what those guidelines are. Entrepreneurs aren’t asking the right questions at the outset: are you writing cheques to new companies?, what are your portfolio type of companies?, how quickly can you right me a cheque? If those questions aren’t in the affirmative to what you are trying to accomplish, you quickly start to realise that it has nothing to do with you it’s just their process. So I think the process and the mandates aren’t right.”**

*Founder, US*

**“I have a network because I was in banking for a long time. I do other things so my issue as the Black female was not because I didn’t have relationships with people.”**

*Founder, US*

**“I think people were probably scratching their heads and trying to figure out why I was [leaving my job]... people thought I was probably losing my mind because I wasn’t generating any revenue versus doing what I was previously doing. I’m personally not certain if my capital raising was difficult upfront because people couldn’t get their arms around my own personal transition.”**

*Founder, US*

**“Americans get the investment world more than most other countries. Investors are often looking for high tech, high growth...you know the ‘unicorn type business.’ And many companies, whether they are by women or men or by any ethnicity are not going to be the unicorns. They could be very solid stable businesses, that could generate very sustainable income but they are not the type of company that a VC is going to invest in.”**

*Founder, US*

**“I think when we start talking about the data the question becomes how is it that across the different regions the demographics of the raises are generally different and I attribute this to the access in the relationships people have... those relationships can provide you with access.”**

*Founder, US*

**“The statistics of course suggest that women and minorities are getting less money, that is a true statement, but that statement should be embellished upon for other reasons not just the colour of one’s skin and not because of the gender....but because [when] people don’t look or sound like you, they turn off.”**

*Founder, US*

**“VCs are very much like the corporate world, where...there is a very small group that make decisions; there’s a very small group of people who actually have convictions and everyone else just follows. So they are playing follow the leader. They want to meet with you but won’t say yes unless someone else says yes.”**

*Founder, US*

**“We do it for a reason, because we have the absolutely foolish and naïve notion that we can make a difference and this world needs to happen – so we just fight and fight and fight to make it happen.”**

*Founder, US*

Annex  
Supply Side and  
Ecosystem  
Interviews

# A3



# Supply-side Interviewees - UK

Investor perspectives on barriers and solutions

Market	Investor	Interviewee	Region	Investment Stage	Capital Type
United Kingdom	Barclays Bank PLC	Rohit Mathur, VP Venture Capital, Start-ups, and High Growth firms	National Coverage Yorkshire and Humber	Early Growth, Growth Capital	Debt
	Cornerstone Partners	Chenelle Ansah, Head of Angel Syndicate	Greater London	Seed, Early Growth	Debt, Equity
	GC Angels	Jessica Jackson, Investment Director	North West	Seed	Equity
	GC Business Growth Hub/A2F	Steven Wall, Equity Investment Manager	North West	Seed	Indirectly - Equity Access/Matching
	Helios Investment Partners	Henry Obi, Partner	Africa, Greater London	Early Growth, Growth Capital	Equity, Debt
	Impact X Capital	Yvonne Bajela, VP Principal	Greater London	Early Growth, Growth Capital	Equity
	Scottish Enterprise (formerly Scottish Investment Bank)	Jan Robertson, Director, Growth Investments	Scotland	Early Stage Venture, Late Stage Venture, Seed, Spin-Offs	Equity
	Innovate UK	Emily Nott, Head of Diversity and Inclusion Programmes; Katy Petherick, Equality, Diversity and Inclusion Programme Lead (Embedding)	National Coverage	Early Growth	Debt, Grants

# Supply-side Interviewees - US

Investor perspectives on barriers and solutions

Market	Investor	Interviewee	Investment Stage	Capital Type
United States	Southern Bancorp Community Partners	Karama Neal, President	Seed, Early Growth	Debt
	JPMorgan	Leyonna Barba, Executive Director, Tech & Disruptive Commerce - Middle Market Commercial Banking	Seed, Early Growth, Growth Capital	Debt, Equity
	Candide - Olumina Fund	Lynne Hoey, Director Leslie Lindo, Portfolio Manager	Early Growth	Equity, Debt Funds, Debt
	Kapor Capital	Esther Tricoche, Director of Investments	Seed, Early Growth	Equity
	Wells Fargo Bank	Connie Smith, SVP, Diverse Community Capital Program Manager	Early Growth, Growth Capital	Debt, Grant, Social Capital
	22 Fund	Tracy Gray, Founder	Growth Capital	Equity, Grants
	African American Alliance of CDFIs	Donna Gambrell, Founder	Seed, Early Growth	Debt

# Ecosystem Interviewees

## Knowledge of investment and business ecosystem for entrepreneurs

Market	Organisation	Interviewee	Role in Ecosystem
United Kingdom	Ada Ventures	Check Warner, Co-Founder	Venture capital firm which invests in overlooked founders and markets.
	Federation of Small Businesses (FSB)	Diana Chrouh, Chair of BAME Policy	UK business organisation representing small and medium-sized businesses
	Black British Business Awards (BBBA)	Melanie Eusebe, Entrepreneur & Co-Founder	Annual awards for high performing Black professionals and business owners in the UK
	CREME	Professor Monder Ram, Director of Research	Academic Research initiative at Aston Business School
	FounderTribes	Gary Stewart, Founder and CEO; Wendy Maldonado D'Amico, Chief of Staff and Head of Marketing	Digital community connecting founders to other founders, early-stage investors, mentors, coaches
	Impact Investing Institute	Jamie Broderick, Board Member	National perspective on social investing in the UK, former wealth manager director UBS, JPMorgan
United States	Echoing Green	Tiffany Thompson, Senior Director, Equity Thought Leadership	Provide social entrepreneurs, both for and non-profit, with start-up funding and offers customised support
	VCInclude and Include Ventures Fund-of-Funds	Bahiyah Yasmeen Robinson, CEO and Founder	A VC network focused on investment into diverse and women-led fund managers, currently standing up a fund-of-funds.
Elsewhere	FMO	Corianne van Veen, Sustainable Finance Officer	Analogous journey in the Netherlands
	Shell Foundation	Tara Sabré-Collier, Adviser/ Gender Lead, (also UK Angel Investor)	Investor, and leads diversification efforts at Shell Foundation, investing in women in energy in emerging markets

# Ecosystem Contributors

Network and recommendations for connecting with entrepreneurs

Market	Organisation	Contact	Role in Ecosystem
United Kingdom	The Angel Investing School	Andy Ayim, Founder	Trains professionals from all backgrounds on how to get started with investing in start-ups.
	Beauhurst	Henry Whorwood, Head of Research & Consultancy	A searchable database of the UK's high-growth companies.
	Foundervine	Izzy Obeng, Founder	An award-winning social enterprise specialising in start-up and scale-up acceleration programs
	School of Discovery	Mandy Nyarko, Co-Founder	Founder network providing introductions to investment networks and other sources of start up finance.
United States	Access to Capital for Entrepreneurs (ACE Loans)	Grace Fricks, President and CEO	A non-profit community lender whose mission is to provide economic development to underserved people and communities, including low-income, minority and women borrowers.
	Transparent Collective	James Norman, Founder	A non-profit helping African-American, Latinx, and female founders access the growth resources and connections they need to build successful tech companies.

Annex  
Literature Review  
Annotated  
Bibliography

# A4

# Literature Review Summary

This section gives the annotated bibliography of the existing literature on barriers identified in the hypothesis section. The literature review investigated previous publications on the hypotheses of what factors might be demand- or supply-side barriers to capital flow for BFEs. Along with research findings in the Market Study, the literature review contributed to the determination of which barriers were proven or disproven.

## Demand-side Barriers

- The barrier of difficulty for BFE to access existing investment instruments was proven. The Black Women Entrepreneurs report affirmed that BFE do not have the networks to learn about investment. An Extend Ventures report highlighted that only 0.02% of VC funding in the UK went to BFE.
- Black Women Business Start-ups report proved that BFE prefer not to engage with external investors. Studies from the report showed that Black women in the US are less likely to apply for business funds because they were discouraged from borrowing.
- Various reports for both the US and UK revealed that BFE have limited access to seed capital barring them from proceeding to growth stage. In the Alone Together report, it was stated that BFE are heavily represented in deprived areas in the UK which proves there is a barrier for businesses located in deprived areas to attract capital.

## Supply-side Barriers

- Mismatch of investment models and BFEs' businesses, identified as a barrier is verified by a number of publications. The Alone Together report asserted that Black-run businesses are more than four times more likely to be denied a loan outright than White-run businesses. US Black Women Entrepreneurs report also stated that financial institutions do not target areas where BFE operate hence there is lack of information on resources and how to access capital.
- The barrier, Investor bias prevents deal sourcing from BFEs, was also proven by our literature review. A US report established that nearly eight in ten investors say BFE receive the right amount, or more, of capital, yet these same investors dramatically underinvested in this population. Other reports reinforced the lack of understanding on the part of investors in markets BFEs operate in.
- Investment process is inappropriate or cumbersome for BFE is another barrier confirmed by the literature review. The Alison Rose Review of Female Entrepreneurship report mentioned that two key issues for female entrepreneurs in search of funding is access and complexity.

# Hypothesis of Demand-side Barriers that BFEs Face

## Literature related to the hypothesis

### **Hypothesis: BFEs access to existing investment instruments is difficult or not possible**

- BFE don't know about investment options
- BFEs do not have networks or mentors to learn about investment
- BFEs lack financial literacy

### Black Women Entrepreneurs: Past and Present Conditions of Black Women's Ownership [US]

Supports the hypothesis that this IS a key barrier: Yes

- Research conducted by the National Women's Business Council highlights that women business owners tend to rely on individuals who do not have equity in the company
- This pattern is also prevalent for Black women-owned firms whereby they are more likely to draw upon friends and kinship networks as well as community-based resources
- The above has implications when taking into consideration the racial wealth gap, history of redlining etc. As Black women's immediate kinship ties and resources may not provide the necessary finance needed to start a business. It also could imply that many BFEs do not have access to role models they need.



# Hypothesis of Demand-side Barriers that BFEs Face

## Literature related to the hypothesis

### **Hypothesis: BFEs prefer not to engage with external investors**

- Investment feels too risky (fear, collateral, over-indebtedness)
- BFE have experienced bias or harassment from investors and don't want to go back
- BFE feel that investment isn't going to help them achieve their goals (does not match growth plans, dilutes ownership)

### Black Women Business Start-ups: A report by The Federal Reserve Bank of Kansas City. Dell Gines [US]

Supports the hypothesis that this IS a key barrier: Yes

- Black women in the US are less likely to apply for business funds because they were discouraged from borrowing and less likely to receive the funding requested
- BFE more likely to rely on personal funds to finance business needs
- When BFE do apply for funding they're less likely to receive funding or received less than they requested

### Diversity in UK VC Capital

Supports the hypothesis that this IS a key barrier: Yes

- 83% of firms have no women on their investment committees
- This has implications regarding unconscious bias, and access to finance

### Black Ballad: Where Is the Investment For Black British Female Entrepreneurs [UK]

Supports the hypothesis that this IS a key barrier: Yes

- In 2013 the Global Entrepreneurship Monitor identified Black women as the most entrepreneurial female group based on total economic activity. Often BFE do not have access to generational wealth. Majority of investors are White males.

# Hypothesis of Demand-side Barriers that BFEs Face

## Literature related to the hypothesis

### **Hypothesis: BFE have limited access to early-stage capital and so do not progress to growth stage**

- Access to early-stage debt (access to small business loans and microloans; access to pay-day lending, credit card debt; collateral requirement issues)
- Access to early-stage equity (crowdfunding, angel investments, self-financing, family and friends to invest the first several thousand)

### Extend Ventures: Diversity beyond gender [UK]

Supports the hypothesis that this IS a key barrier: Yes

- The report highlights BFE as the most disadvantaged entrepreneur group in the UK, receiving a small proportion of overall VC funding. The report further compares BFE with White women and men. Black women receive 0.02% of venture capital. Just 38 of Black entrepreneurs received VC funding between 2009-2019, only one Black woman received series A funding. This is despite ethnically diverse teams delivering an extra 30% profit to investors on exit compared to all White team.

### Barriers to ethnic minority and women's enterprise: Existing evidence, policy tensions and unsettled questions [UK]

Supports the hypothesis that this IS a key barrier: Yes

- Has info on barriers to finance for BME businesses generally, including men's. However, the reasonings for barriers to finance also resonate with BFEs. For example, Black African firms are 4x more likely than White firms to be denied a loan outright, Black Caribbean 3.5x. 44% of Black African and 39% of Black Caribbean. Even after controlling for other explanatory factors such as poorer credit, ethnicity remained a significant factor in discouragement, particularly for Black Caribbean firms.

### Black Women Business Start-ups: A report by The Federal Reserve Bank of Kansas City [US]

Supports the hypothesis that this IS a key barrier: Yes

- In the US 50% of BFEs use personal or family savings to start their business due to their inability to access mainstream financing options.

# Hypothesis of Demand-side Barriers that BFEs Face

## Literature related to the hypothesis

[continued]

### **Hypothesis: BFE have limited access to early stage capital and so do not progress to growth stage**

- Access to early-stage debt (access to small business loans and microloans; access to pay-day lending, credit card debt; collateral requirement issues)
- Access to early-stage equity (crowdfunding, angel investments, self-financing, family and friends to invest the first several thousand)

### Financial inequality: the ethnicity gap in pay, wealth and property [UK]

Supports the hypothesis that this IS a key barrier: Yes

- Good assessment regarding lack of generational wealth within Black communities. Black African and Bangladeshi households have only 10p of savings and assets for every £1 of White British wealth. In the last year for which figures are available, Black people had the highest unemployment rate of all groups; were most likely to have a household income below £400 a week; and, after Bangladeshi households, were most likely to claim income-related benefits. Only 8% of Black pensioner families drew any income from a personal pension.
- Has implications regarding early funding for business and access to finance.

### The Impact of the Financial Crisis on Bank Lending to SMEs, Warwick Business School

Supports the hypothesis that this IS a key barrier: Yes

- Black owned businesses were more likely to be rejected for an overdraft and charged higher interest rates than their White-owned counterparts.

# Hypothesis of Demand-side Barriers that BFEs Face

Literature related to the hypothesis

**Hypothesis: Mismatch of investment models and BFEs' businesses (BFEs' businesses are perceived as "not investable")**

**Sub-hypothesis: BFEs' businesses are located in economically deprived areas that do not attract investment**

- Market demand issues (low-income households prevalence, lack of generational wealth)
- Stigma
- Racial wealth gap

## Alone together: Entrepreneurship and diversity in the UK

Supports the hypothesis that this IS a key barrier: Yes

- Black Caribbean entrepreneurs are heavily over-represented in more deprived areas, as are Black African. Pattern is partly due to the concentration of ethnic minorities in Greater London, which has some of the highest level of deprivation in the country. 46% of Black entrepreneurs and 33% of Asian and Other Ethnic Minority entrepreneurs are in Greater London, compared to 11% of White entrepreneurs. This has implications regarding household income, access to personal finance, generational wealth etc.

## Supporting enterprise growth in deprived areas. Local Government Improvement and Development [UK]

Supports the hypothesis that this IS a key barrier: Yes

- People that live in deprived areas are more likely to be financially excluded. Many live in private/public rented accommodation and do not have the collateral to secure bank loans. Opportunities from informal borrowing from friends/family may also be limited as communities generally have less personal wealth. Credit ratings can be affected due to a lack of existing relationships with banks. If individuals are unable to meet lending criteria for mainstream bank loans, this can be a significant barrier to business start-up.

## Racial Equity Investing: Opportunities for Impact & Alpha [US]

Supports the hypothesis that this IS a key barrier: Yes

- Due to lack of understanding of markets minority businesses operate in, fund managers miss the opportunity to tap into new markets which can possibly enhance their portfolios. Investors are not intentional about including minority businesses in their pipeline. It is imperative for investors to intentionally assess how their portfolios approach creating opportunities for minority owned businesses.

# Hypothesis of Demand-side Barriers that BFEs Face

Literature related to the hypothesis

[continued]

**Hypothesis: Mismatch of investment models and BFEs' businesses (BFEs' businesses are perceived as "not investable")**

**Sub-hypothesis: BFEs' businesses are located in economically deprived areas that do not attract investment**

- Market demand issues (low-income households prevalence, lack of generational wealth)
- Stigma
- Racial wealth gap

## Preventing Unequal Investment US Cities

Supports the hypothesis that this IS a key barrier: Yes

- Many neighbourhoods have been cut off from capital for decades – dating back at least as far as redlining, blockbusting and White flight. Overall, African-American communities and low-income communities receive far less capital than their neighbours. In Baltimore, neighbourhoods where less than 50 percent of residents are African-American receive four times the total investment per capita of neighbourhoods where more than 85 percent of residents are African-American. Low-poverty communities receive 1.5 times more investment per capita.

## Small Business Loans Harder to Get in Less Affluent Areas [US]

Supports the hypothesis that this IS a key barrier: Yes

- Small businesses in communities of colour and lower-income areas of Chicago and the Los Angeles-San Diego regions are getting disproportionately fewer loans and smaller amounts than other borrower groups.

## Patterns of Disparity: Small Business Lending in the Chicago and Los Angeles-San Diego Regions. Woodstock Institute [US]

Supports the hypothesis that this IS a key barrier: Yes

- SMEs in communities of colour receive disproportionately fewer loans and smaller amounts than other borrowers.

## Do SMEs in deprived areas find it harder to access finance. Evidence from the UK Small Business Survey

Supports the hypothesis that this IS a key barrier: No

- This paper disputes the claim that firms living in deprived areas find it harder to access finance. Their results suggest that firms in deprived areas find it no harder or easier to obtain finance than other firm.

# Hypothesis of Demand-side Barriers that BFEs Face – Disproven Hypotheses

## Literature related to the hypothesis

### **Hypothesis: Black women do not start or grow businesses – entrepreneurship is low**

- Poor regulatory environment prevents business establishment
- Cost of doing business is higher than profits in an atypically high percentage of cases
- BFEs lack direct access to role models

### Black Women Entrepreneurs: Past and Present Conditions of Black Women's Business Ownership. Walkers Legacy [US]

Supports the hypothesis that this IS a key barrier: No

- In the US Black women make up 58.9% of Black business owners and so make up the majority of Black businesses.

### Alone together: Entrepreneurship and diversity in the UK. Wyman, O. British Business Bank [UK]

Supports the hypothesis that this IS a key barrier: Maybe (can be disputed as ethnic minority especially Black businesses in general face the same barriers despite making up a significant number of the businesses in the UK)

- In the UK Black women make up 50% of the Black workforce although make 28% of Black entrepreneurs

### Who Starts New Businesses: The displaced, uncomfortable entrepreneur, Psychology Today [US]

Supports the hypothesis that this IS a key barrier: No

- Parental entrepreneurial role models plays a significant part

### A Longitudinal Investigation of the Impact of Family Background and Gender on Interest in Small Firm Ownership [US]

Supports the hypothesis that this IS a key barrier: No

- Many female entrepreneurs had/have close relationships with other self-employed people who were often relatives

# Hypothesis of Supply-side Barriers

## Literature related to the hypothesis

### **Hypothesis: Mismatch of investment models and BFEs' businesses (BFEs' businesses are "not investable" or need different types of capital)**

- Sector mismatch due to investor preferences, market saturation, hard asset collateral requirements
- Size of business mismatch between investor targets and BFE business size
- Size mismatch in how much capital BFE's businesses can absorb
- Investor perception that BFEs' businesses are high risk but low return
- Mismatch due to the formality/informality of BFEs' businesses
- Mismatch of investor geography preferences or knowledge base and BFEs' business locations in economically deprived areas that do not attract investment

### Alone together: Entrepreneurship and diversity in the UK

Supports the hypothesis that this IS a key barrier: Yes

- Black-run businesses are more than four times more likely to be denied a loan outright than White-run businesses. The research shows this is primarily due to businesses credit characteristics.

### Ethnic Minority Businesses and Access to Finance [UK]

Supports the hypothesis that this IS a key barrier: Yes

- Evidence suggests that people from ethnic minority groups particularly Black African, Black Caribbean, Bangladeshi and Pakistani groups are more likely to have their loan application rejected than White businesses. The factors that contribute to the loan outcome include; collateral shortage, poor credit worthiness, lack of formal savings and discriminating perception by some banks.
- There is no evidence to indicate that disparities are due to racial discrimination per se, but automated credit scoring models rely on credit history which minority groups tend to lack.

### Access to Finance by Ethnic Minority Businesses in the UK

Supports the hypothesis that this IS a key barrier: Yes

- Black owned businesses are concentrated in the retail and wholesale, restaurants and creative sectors. Other key sectors focused by Black owned businesses are the hair and beauty and personal services. These sectors are usually less focused on by venture capital investors.

### US SEC: Office of the Advocate for Small Business Capital Formation

Supports the hypothesis that this IS a key barrier: Yes

- Collateral is often a prerequisite for small businesses seeking bank financing. Collateral requested are usually in the form of personal guarantee, business assets and personal assets



# Hypothesis of Supply-side Barriers

## Literature related to the hypothesis

[continued]

### **Hypothesis: Mismatch of investment models and BFEs' businesses (BFEs' businesses are "not investable" or need different types of capital)**

- Sector mismatch due to investor preferences, market saturation, hard asset collateral requirements
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- Mismatch due to the formality/informality of BFEs' businesses
- Mismatch of investor geography preferences or knowledge base and BFEs' business locations in economically deprived areas that do not attract investment

### US Black Women Entrepreneurs: Past and Present Conditions of Black Women's Business Ownership

Supports the hypothesis that this IS a key barrier: Yes

- Financial institutions do not target areas where Black Female Entrepreneurs operate hence there is lack of information on resources and how to access capital. By operating in economically deprived areas, Black Female Entrepreneurs are alienated from external capital investments

### Venturing into Diversity & Inclusion 2019 [UK]

Supports the hypothesis that this IS a key barrier: Yes

- The proportion of women in London Venture Capital firms is 29% versus 46% for the London working population. 39% of London VC firms had no women at all while 65% do not have women in decision making positions. The low representation of women shows in the knowledge base and preference of VC firms.

### Deconstructing the Pipeline Myth and the Case for More Diverse Fund Managers [US]

Supports the hypothesis that this IS a key barrier: Yes

- Data suggests there is a selection bias in the Venture Capital world. VCs tend to invest in people that look like themselves, have similar views and upbringings. According to the National Venture Capital Association (NVCA), only 3% of investment partners at VC firms are Black. An ethnically diverse VC team can better understand the nuances of different industries, products, cultures and problems.

# Hypothesis of Supply-side Barriers

## Literature related to the hypothesis

### **Hypothesis: Investor bias prevents deal sourcing from BFEs**

- Investors are actively biased and do not want to support BFEs
- Investors are actively biased and do not believe BFEs make good entrepreneurs
- Investors are unconsciously biased, and:
  - Do not know how to build pipeline with this group
  - Do not know how to evaluate the business model or sectors common among BFE businesses
  - Are reluctant to invest in business models or sectors that are new to the investor, though these are common among BFE businesses
  - Investors work in ecosystems of actively biased partners who deter investees from the process, such as lawyers, intermediaries, accelerators

### The Growing Market Investors are Missing: The Trillion-Dollar Case for Investing in Female and Multicultural Entrepreneurs [US]

Supports the hypothesis that this IS a key barrier: Yes

- Nearly eight in ten investors say that multicultural and female entrepreneurs receive the right amount, or more, of capital than their business model deserve, yet these same investors dramatically underinvest in this population. Investors don't see the imbalance. There is a clear disconnect between how investors perceive their investments in businesses owned by women and people of colour, and how much they actually invest.
- The research found that investors are much less likely to be exposed to Black Female Entrepreneurs. More specifically, investors are nearly three times more likely to review male-led business opportunities very frequently.

### Racial Equity Investing: Opportunities for Impact & Alpha [US]

Supports the hypothesis that this IS a key barrier: Yes

- Due to lack of understanding of markets minority businesses operate in, fund managers miss the opportunity to tap into new markets which can possibly enhance their portfolios. Investors are not intentional about including minority businesses in their pipeline. It is imperative for investors to intentionally assess how their portfolios approach creating opportunities for minority owned businesses.

### The Alison Rose Review of Female Entrepreneurship [UK]

Supports the hypothesis that this IS a key barrier: Yes

- Perceived bias within the UK venture finance community is a concern. Many women entrepreneurs feel that they are judged to be less competent than their male peers and encounter a lack of understanding and imagination from investors evaluating business ideas. In the survey, two-thirds of the 750 women business owners felt they were not taken seriously by investors and banks when seeking funding.

# Hypothesis of Supply-side Barriers

## Literature related to the hypothesis

### **Hypothesis: Investment process is inappropriate or cumbersome for BFEs**

- Pipeline issues including that BFEs are not in the informal networks that provide pipeline, and/or BFEs are excluded from formal institutions that lead to investment such as accelerators, grant programmes, etc.
- Due diligence issues:
  - DD process feels biased or invasive to BFEs
  - Investors and investees do not use the same language
  - Overly cumbersome DD requirements are inappropriate for early-stage entrepreneurs
- Collateral or equity matching requirements are especially cumbersome for BFEs compared to other entrepreneurs

### The Alison Rose Review of Female Entrepreneurship [UK]

Supports the hypothesis that this IS a key barrier: Yes

- Two key issues for female entrepreneurs in search of funding are access and complexity. Information on sources of capital is fragmented across multiple platforms and often highly technical, making it difficult for female entrepreneurs to understand.
- Female entrepreneurs are less likely to have professional networks to consult when it comes to navigating the funding maze. Warm introductions are 13 times more likely than cold submissions to reach investment committees and to be funded. Women entrepreneurs miss out because they do not have access to formal and informal networks of VCs.

### US Black Women Entrepreneurs: Past and Present Conditions of Black Women's Business Ownership

Supports the hypothesis that this IS a key barrier: Yes

- Black Female Entrepreneurs found loan application process as daunting and lengthy, particularly in light of their doubts and fears about approval. Some Black Female entrepreneurs described the effort as potentially “not worth it.”
- Many of the challenges described directly linked to the key issue areas of mentorship and networks. Black Female Entrepreneurs desire to broaden their social networks to build relationships that can provide access to the right people.

Annex  
Abbreviations and  
Acronyms

# A5

# Abbreviations and Acronyms

<b>ABS</b>	Annual Business Survey
<b>AI</b>	Artificial Intelligence
<b>BAME</b>	Black, Asian, And Minority Ethnic
<b>BBBA</b>	Black British Business Awards
<b>BFE</b>	Black Female Entrepreneur
<b>BFE<sub>n</sub></b>	Black Female Owned Or Led Enterprises
<b>BIPOC</b>	Black, Indigenous, And People Of Colour
<b>BoE</b>	Bank Of England
<b>CDEI</b>	Centre For Data Ethics And Innovation
<b>CDFI</b>	Community Development Financial Institution
<b>CREME</b>	Centre For Research In Ethnic Minority Entrepreneurship
<b>CUNA</b>	Credit Union National Association
<b>D&amp;I</b>	Diversity And Inclusion
<b>DD</b>	Due Diligence
<b>EML</b>	Ethnic Minority Led

# Abbreviations and Acronyms

<b>FCDO</b>	Foreign, Commonwealth And Development Office
<b>FSB</b>	Federation Of Small Businesses
<b>GDPR</b>	General Data Protection Regulation
<b>GP</b>	General Partner
<b>GSS</b>	The Government Statistical Service
<b>IFC</b>	International Finance Corporation
<b>IRS</b>	Internal Revenue Service
<b>LP</b>	Limited Partner
<b>MSME</b>	Micro-small-and Medium-enterprise
<b>NVCA</b>	National Venture Capital Association
<b>OPD</b>	Open Platform Database
<b>OECD</b>	Organisation For Economic Co-operation And Development
<b>OMB</b>	Office Of Management And Budget
<b>PIC</b>	Palladium Impact Capital

# Abbreviations and Acronyms

<b>P2P</b>	Peer To Peer
<b>RDU</b>	The Race Disparity Unit
<b>SBA</b>	Small Busines Administration
<b>SEC</b>	Securities And Exchange Commission
<b>SME</b>	Small- And Medium-enterprise
<b>UK</b>	United Kingdom
<b>US</b>	United States
<b>USD</b>	United States Dollar
<b>VC</b>	Venture Capital



# THANK YOU

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