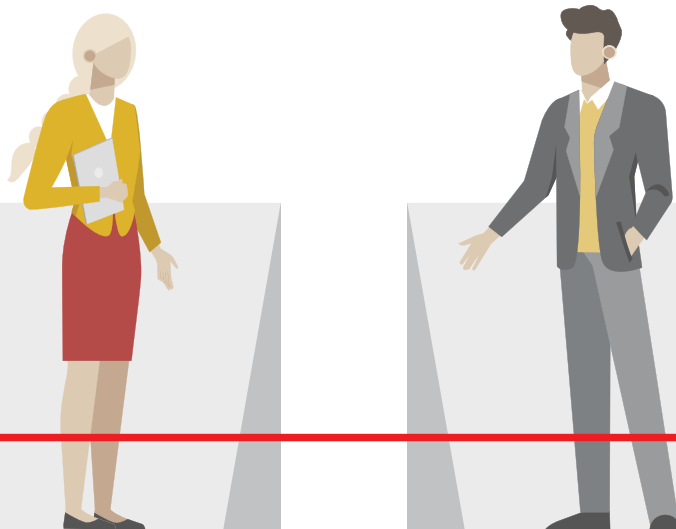


# The funding gap

Investors and female entrepreneurs



# Introduction

Female entrepreneurs, globally, receive less funding than their male counterparts.

**This reality** is even more pronounced for women of color and those in developing countries, and comes at a great cost to gender parity efforts. As a result of this funding discrepancy, female entrepreneurs lack equal opportunities to innovate and build successful companies that can contribute to the global economy. Furthermore, there is an abundance of evidence to suggest that women entrepreneurs, who receive funding, develop businesses that perform as well, or even better, than their male counterparts, which suggests investors are missing out on attractive investment opportunities.

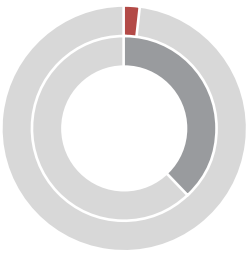
The objective of this paper is to raise awareness, understand the reasons behind this discrepancy and to illustrate how this gap can be narrowed.



**Marianna Mamou**  
Head Advice Beyond Investing  
Chief Investment Office Global Wealth Management

The numbers speak for themselves...

**There have been** numerous studies as well as a plethora of media coverage on the funding gap that exists between women entrepreneurs and their male counterparts. This greater awareness is helpful, but the stark reality is women entrepreneurs, particularly those of color and those living in developing countries, do not have equal access to funding. The numbers speak for themselves:



2%

In the US, only 2% of investments in start-ups are for women-led ventures, despite the fact that **38%** of start-up founders are women.<sup>1</sup>

< 3%

Another research paper suggests that less than 3% of funding goes to companies with a **female CEO**. Less than 0.2% of all venture capital (VC) funding goes to female entrepreneurs of color.<sup>2</sup>



86%

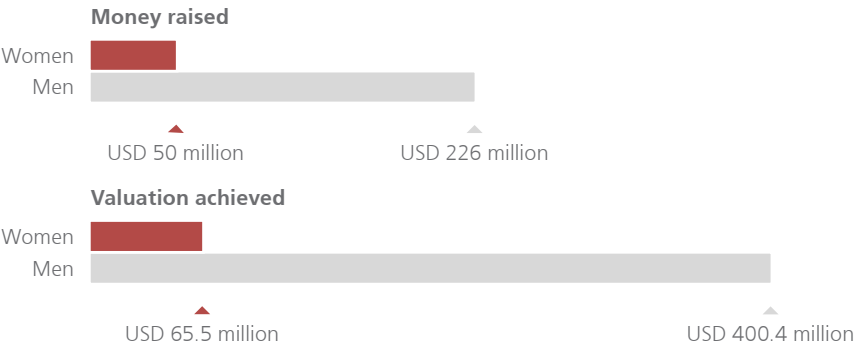
Eighty-six percent of all venture capital-funded businesses have **no women** in management positions.<sup>3</sup>

USD 213,000

The median investment by equity investors is nearly USD 1 million in general, but only USD 213,000 for **women-owned businesses**.<sup>5</sup>

USD 50 million

Top female founders raise substantially less money than their male counterparts—USD 50 million versus USD 226 million—and achieve lower valuations for their companies—**USD 65.5 million** versus USD 400.4 million. Moreover, 87% of top founders are on all-male founding teams.<sup>4</sup>

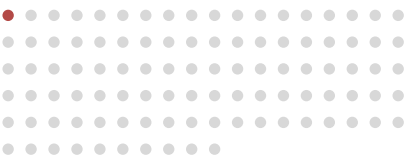


2%

In Europe, only 2% of VC capital goes to **all-female teams**, while 5% goes to mixed-gender teams.<sup>6</sup>

< 1p

For every GBP 1 of VC investment in the UK, **all-female founders** receive less than 1p, all-male founder teams 89p, and mixed-gender teams 10p.<sup>7</sup>



11%

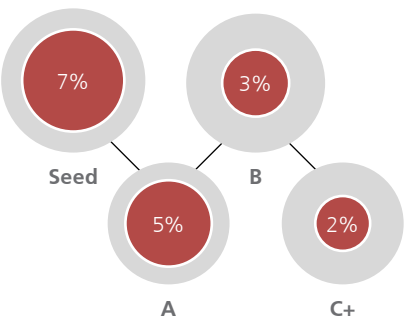
Start-ups with a woman on their founding or leadership team receive only 11% of **seed financing** and only 5% of later-stage venture capital in emerging markets.<sup>8</sup>

USD 42 billion

In Africa, the **estimated funding gap** for women entrepreneurs stands at around USD 42 billion.<sup>9</sup>

7% → 2%

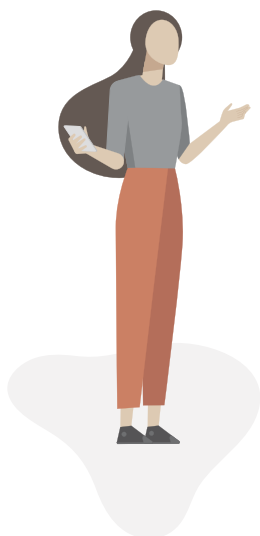
As a percentage, more women are funded in early rounds, with female-only businesses receiving 7% of seed funding, 5% of series A, 3% of series B, and 2% of series C+. Female/male co-founded start-ups receive **14%, 10%, 13%, and 10%** respectively.<sup>10</sup>



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### The funding gap

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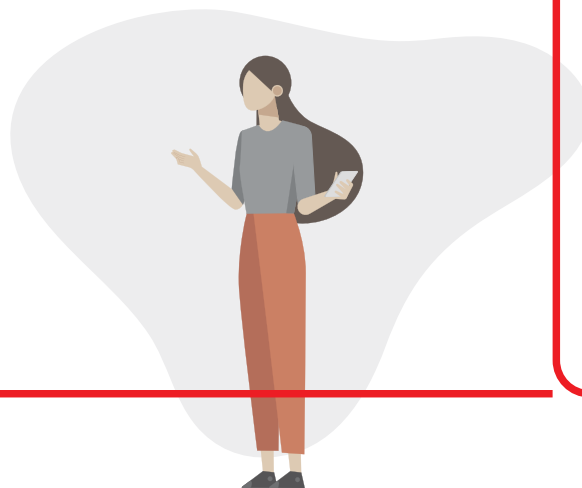
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# Why does this matter?

A look at start-up success and investor returns



## How funding affects the success of a start-up

**Funding helps companies** to take shape and become operational. It enables the founder of the company to fine-tune their business plans, hire talent, build a sales force and fund working capital. Funding is needed at different stages of a start-up in order to meet varying liquidity and investment needs during a business's development.

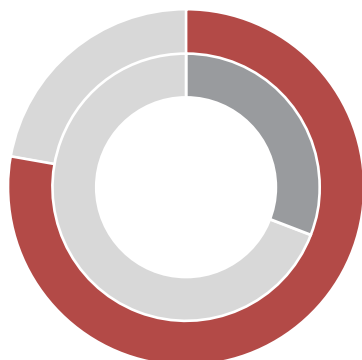
Discrepancies in funding affect a business start-up's likelihood of success and its potential for future growth. Greater access to resources/funding provides an advantage versus one's competitors, particularly in the high growth VC funded space. Without financial backing, start-ups are deprived of the means to grow, and their ability to innovate and capture market share is jeopardized. Based on a recent study of start-ups participating in accelerators two years after raising capital, funded companies achieved 30% more growth in revenue and 50% more growth in numbers of employees than those that didn't get access to external funding.<sup>11</sup> As a result, difficulties in securing funding can put an end to the entrepreneurial journey. In essence, the funding disparity creates an additional hurdle for many women entrepreneurs.

VCs also frequently offer more than just financial investment. A number of capital providers also add value through their experience, sector knowledge and know-how, and the access they provide to a wider network, including management teams, and distribution channels. Given these additional benefits, the earlier a start-up attracts VC investment, the stronger its performance will likely be.<sup>12</sup> Furthermore, given that the money-raising process can take time, something that is often in short supply during the start-up phase of a business, the earlier that one can raise capital, the better. Given the difficulties women face in accessing funding, this adds an additional hurdle for the would-be woman entrepreneur.

Finally, once a start-up is funded and has earned a VC stamp-of-approval, it often becomes easier to secure additional funding, given investors tend to want to invest where others have gone before them. Given that the amount raised can often be seen as a proxy for company valuation, receiving less funding, as women frequently do, puts women-run businesses at a disadvantage as the lower company valuation suggests a company with less progressive growth, making additional rounds of funding more difficult.

## Why should we be interested in this discrepancy?

**Companies led by** diverse entrepreneurs meet or exceed average returns. Different studies highlight this:



### 78 cents

On average, women generate 78 cents of revenue per dollar invested, compared with **31 cents** for the men.<sup>13</sup>

### ↑ 10%

Start-ups founded and co-founded by women perform better over time, generating 10% **more in cumulative revenue** over a five-year period.<sup>13</sup>

### USD 2.5-5 trillion

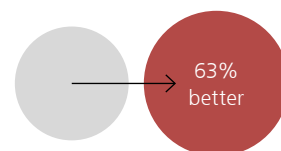
If women and men were to participate equally as entrepreneurs, **global GDP could rise** by 3-6%, boosting the world economy by USD 2.5-5 trillion.<sup>14</sup>

## Diversity

Diversity leads to **economic gains**, as women bring new skills and perspectives, thus raising productivity and wages.<sup>15, 16</sup>

### ↑ 63%

According to a study of 300 companies, investments in companies with **at least one female founder** outperform investments in all-male founder teams by 63%.<sup>17</sup>



# Understanding why

From the business plan to the investor's perception



**The funding discrepancy** cannot be attributed to differences in content or competence of founders. According to research, even when women and men presented and pitched with comparable content, investors preferred the male-led start-ups.<sup>18</sup> This preference is even more pronounced for attractive males, whereas physical attractiveness did not affect the chances of female entrepreneurs receiving funding.<sup>19</sup>

What could be behind this preference shown to male-led start-ups? What are investors typically looking for? In the case of VC funding, the answer is high earnings potential through

aggressive growth, by taking advantage of a market opportunity at the right time. To evaluate the likelihood of success, particularly in the early stages of a start-up, investors have to elicit information, and decide on the basis of a short interview and pitching process. As a result, they rely heavily on gut feeling and the impression made during the short interview. This leaves plenty of room for biases to creep into the decision-making process.

Which biases could affect the chances of female entrepreneurs securing funding?

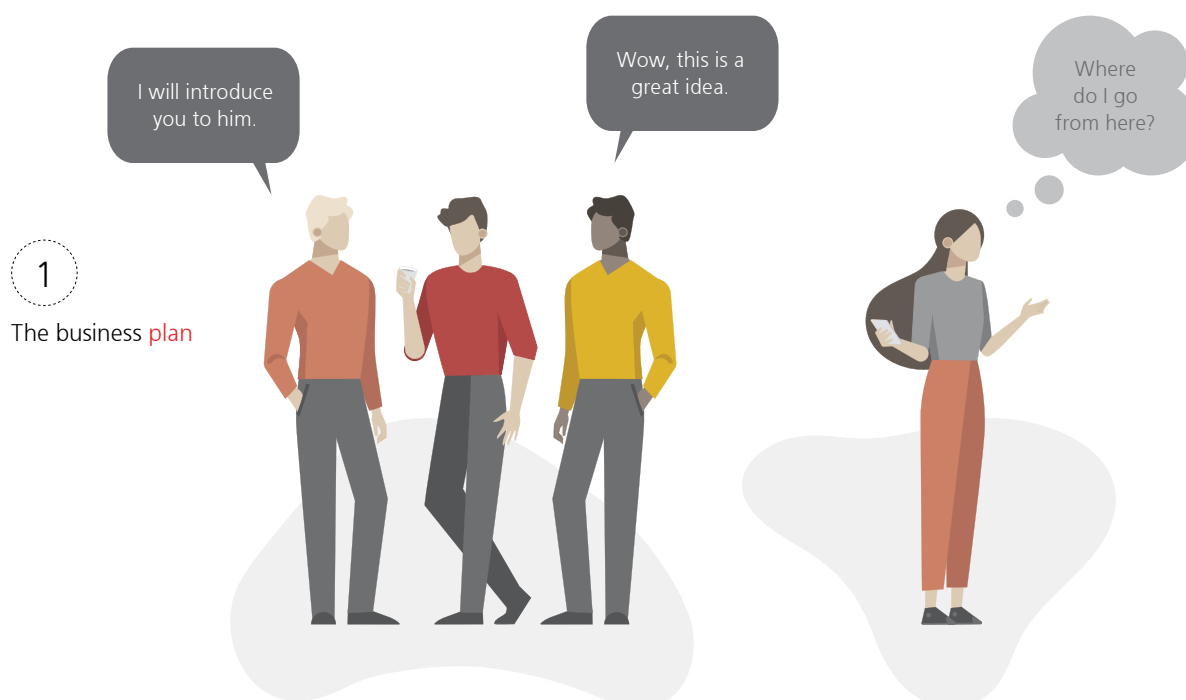
## Network and the “Like me” effect

**People’s tendency** to like people who look, and act like, or remind them of themselves is referred to as homophily. Such homophily frequently manifests itself in the venture funding world, where the overwhelming majority of investors are male (with 70% of these being white males).<sup>20, 21</sup> Indicatively, only about 12% of decision-makers at US venture capital firms are women.<sup>22</sup> Among UK VC investment teams, women hold 13% of senior roles.<sup>23</sup> Female representation in emerging markets, excluding China, is only about 8%. China is a notable exception, with 15% female representation, which is above the percentage for developed countries.<sup>24</sup>

VCs in general tend to be relatively homogeneous, with hires having quite similar backgrounds, such as similar educational degrees (economics, business or finance, MBAs) and work experience (investment banking, consulting, or large technology companies).<sup>25</sup> Notably, among Black investors, who overall make up about 3% of VCs, over 50% attended Harvard or Stanford.<sup>26</sup> In addition to a substantial gender gap, VCs suffer from a significant racial gap. Based on The Information’s VC Diversity Index, among 100 women surveyed at the 102 largest US venture capital firms, there was only one Hispanic female partner, one Native American female partner, and no African-American female partners.<sup>27</sup>

VC firms with women partners are more than twice as likely to invest in women-led enterprises, and more than three times more likely to invest in enterprises with women CEOs.<sup>28</sup> Research shows that when a woman is on the investment team of a venture capital company, that company is 40% more likely to invest in a company with a woman on the executive team.<sup>2</sup>

Investors almost always rely on their network of colleagues and service providers to source investments. Academic research has demonstrated that having a strong network in the venture capital space plays a critical role in deal sourcing, deal syndication, and decision-making.<sup>29</sup> Men have, in general, been much more likely to be part of a social network that included other men while “most of the non-investing women did not know any female peers or role models who were angel investors”.<sup>6</sup> This means that male entrepreneurs are more likely to have or obtain access to and receive relevant guidance from their network, resulting in higher motivation and validation of their thinking and business model, more useful information around vendors and clients, as well as useful inputs in their business plans. The existence of a robust social network is a key determinant of future success. Beyond the access to a network, the “like me” effect also affects the funding process, given the majority of decision-makers are white males.



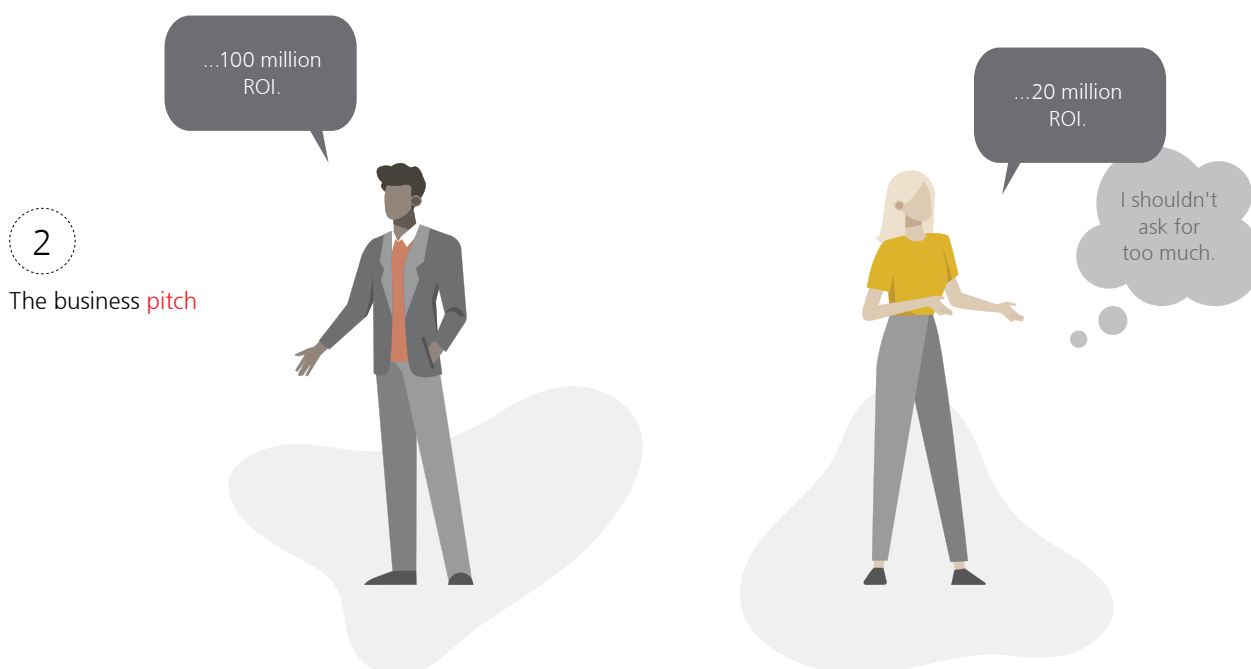


## Differences in expressed ambition and expectations

**There is evidence** that women tend not to ask for financing as often as their male counterparts, and that they would, in general, rather ask in cases where they believe they have a high chance of approval.<sup>3</sup> This in turn creates a vicious circle, as women expect the funding process to be onerous, the reality being that it frequently is, and they are faced with far greater rejection than their male counterparts. Furthermore, if women are not confident about their financial acumen, they will tend to refrain from asking.<sup>3</sup> Therefore, self-perception and confidence are important parameters that affect how many women will pursue the journey of becoming entrepreneurs.

Furthermore, women typically feel less comfortable voicing their ambitions than men.<sup>30</sup> As a result, it can be inferred that women are potentially more cautious in expressing their and their company's ambitions, and therefore may lower their initial demands or expectations.

Another factor that may affect investors' perception is the motivation behind starting a company. Women, more than men, may be driven to build companies as a means of achieving greater control over their work/life balance, or after hitting a "glass ceiling" in their previous careers.<sup>31</sup> Furthermore, women often set up companies with the objective of achieving positive social impact.<sup>32</sup> This motivation may be viewed as less profit motivated and therefore less likely to be benefit from VC funding.



## Gender stereotypes

**The majority** of successful CEOs of start-ups are white men. Due to this representative bias, investors may perceive men to be more capable entrepreneurs, as male entrepreneurs are more similar to, and representative of, the existing pool of successful entrepreneurs. As a result, women entrepreneurs are often perceived as different and possibly less capable than their male counterparts. Therefore, investing in companies led by women may be perceived as riskier and restrict access to funding, despite otherwise similar and sometimes better risk/return profiles of ventures led by women.

Existing gender stereotypes may also lead to biases that affect female entrepreneurs' chances of obtaining funding. Based on wider gender role expectations, women, on average, are expected to display certain feminine behaviors, such as warmth, emotional expressiveness and sensitivity.<sup>33</sup> Similarly, men are expected to display assertiveness and dominance. Research suggests that demonstrating stereotypical feminine behavior during a pitch affects the outcome, as it negatively impacts the entrepreneur's perceived business competence, preparedness and leadership.<sup>33</sup>

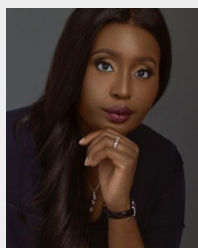
In addition, unlike male entrepreneurs, it is more likely that female entrepreneurs will be asked family-related questions.<sup>2</sup> This line of questioning suggests investors find the fact that women who currently have, or potentially wish for, children a possible distraction that could negatively impact the founder's ability to lead.<sup>2</sup> Women may be perceived as less committed, more distracted, less willing to put in the hours and hard work required, or at risk of changes to their family planning that in some way will affect their focus or risk-taking propensity. Similarly, investors might be affected by the motivation behind women's entrepreneurial efforts. As previously

mentioned, this could happen if it seems that the motivation behind starting a company was to achieve a better work/life balance compared with riding an opportunity or addressing a market gap.

All these biases may manifest themselves during the pitching process. For example, research suggests that women entrepreneurs are asked questions that are focus on their ability to avoid losses rather than the growth potential of their business.<sup>34</sup> Such a difference in questions, which are focused on risk avoidance compared with business potential, induce corresponding responses i.e., focusing on risk management or on growth forecasts. This research suggests that these differences in questions and responses account for a significant difference in funding levels between men and women.<sup>34</sup> A possible solution tested to mitigate such an impact was to tailor the answer to also include a growth focus. When women did this, they were no longer penalized. More specifically, male-led start-ups in the sample raised an average of USD 17.1 million per start-up, 5.14 times the average funds raised by female-led start-ups of USD 3.3 million. However, those who switched to include growth focused answers raised USD 7.9 million in funding on average, about 14 times more than the average amount raised (USD 563k) by those who replied with a 'prevention-only' focused answer.<sup>34</sup>

Interestingly, female VCs were also more likely to ask such growth-focused questions when interacting with male entrepreneurs, and risk-focused questions when interacting with female entrepreneurs.<sup>34</sup> This highlights that unconscious biases are also demonstrated by women VCs and puts in question how much can be achieved through focusing only on increasing the number of women in VCs.





External view

# Perspectives on the funding gap

Adesuwa Okunbo Rhodes

Founder &amp; Managing Partner Aruwa Capital Management

## Tell us a bit about the mission behind Aruwa Capital Management.

Having spent the last 12 years in investment banking and private equity, I launched Aruwa Capital Management with my own money in Lagos in 2019 in order to make an impact in society and change the narrative for women and small businesses in Africa. Aruwa Capital is one of the few African-women-founded-and-led growth equity and gender lens funds on the African continent. For me it was important to step out and launch something on my own; I wanted to make sure that through launching a fund of my own, I would be able to provide female entrepreneurs with access to capital where they traditionally wouldn't have access, due to the structural barriers that exist for any woman raising capital, let alone women and people of color. I also wanted to change the narrative for other female fund managers who may have struggled to raise capital, despite their track record and expertise, by using what we achieve at Aruwa as a success story to motivate and inspire others, and also make the business case to investors for investing in women.

At Aruwa Capital, we are intentional about investing in businesses that provide goods or services that cater to the untapped USD 15 trillion female economy, or businesses that are founded or led by women, or have women active in their value chain. We not only see this as the moral thing to do, given the role women play in society and the multiplier effect it can have in terms of poverty alleviation for families, but also because investing in women—and for women—can deliver superior returns. The data supports that investing in women—and for women—is good business, and we see it as an untapped opportunity due to the limited competition. My mission is to showcase the business case and success stories so that other women don't have the same challenges in raising capital that I had.

## What does the funding gap mean specifically in Africa? Why is it important to close the gap?

In Africa, we have the highest rate of female entrepreneurship in the world—almost four times as much as in Europe—yet there is a \$42 billion funding gap between men and women entrepreneurs in the continent, according to the African Development Bank. Women make up half of the population and are typically re-investing 90% of their income into healthcare and education for their children and family. When women are given an opportunity to access capital, run and scale their

businesses, the benefits extend to their children, families, communities, society and the economy at large. There is such a significant multiplier effect when women are empowered in society and it can be a huge driver for job creation and poverty alleviation on the continent. Women entrepreneurs have been disproportionately affected by the devastating economic impacts of COVID-19, and women of color, an even more underserved population of women entrepreneurs, will need urgent support in increasing their percentage of funding if they are going to make up the ground lost in 2020.

## How important of a role does a network play in the funding process?

I believe having a network can be very valuable in the funding process. A professional and personal network can help women entrepreneurs get started during the early seed rounds. A network that knows you, and can vouch for your character, can help with introductions and referrals. I always advise female entrepreneurs to leverage their networks. Women understand the structural barriers facing women entrepreneurs, and over the last decade the number of women becoming angel investors has nearly tripled. Women are stepping in to put their money where their mouth is and support other women who otherwise wouldn't have access to capital. The surge in female angel investors and women investment clubs are playing a critical role in early-stage female-founded companies getting funded.

## In your experience, what can we do to narrow the gender funding gap?

For me it is very simple: women entrepreneurs urgently need equal access to capital, and the best way to get capital to women as quickly as possible is to invest in women that allocate capital. With more women allocating capital, they are twice as likely to invest in female founders and three times as likely to invest in a business with a female CEO. The gender gaps we see in society are directly correlated to the fact that we don't have women as capital allocators. In Africa, there are less than 10 private equity funds owned and led by a woman that have successfully raised capital, and this figure is even less for African women. I believe the way to effectively provide women with more seats at the table is for us to create our own tables. More women succeeding as capital allocators means more women getting funded, more mentors, more torch-bearers, more examples to follow. We don't need more seats, we need more tables.

# Taking action: What can be done?

How to narrow the funding gap



## How to prepare and pitch

**In the context of** obtaining VC financing, which observations could be taken that could help women navigate the pitching process more successfully?

An important consideration is, whether in an entrepreneurial context, women who do not conform to their gender-associated behavior are penalized. Some research suggests that gender role congruity may be more complex in entrepreneurship, and that there seems to be no penalty for women who display more masculine traits and therefore act inconsistently with

their gender stereotype.<sup>33</sup> Instead, both men and women who display more feminine-stereotyped behaviors during the interview processes seem to have been penalized.<sup>33</sup>

Ahead of the funding rounds, fundraisers should prepare thoroughly, search for resources through their contacts, arm themselves with as much knowledge as possible on the funding process, and optimize their way of communicating the company's potential and responses to questions.

## Leveling the playing field

**While individual women** can try their best to manoeuvre the funding process in their favor, it would be more powerful and impactful if the entrepreneurial ecosystem played its part in narrowing the gap.

As mentioned earlier, the existence of a robust social network is a key determinant of future success. Gaining access to strong networks and networking opportunities, as well as having the chance to build relationships beyond conversations around financing is vital to the success of a venture.

Formal events and networking platforms can facilitate the development of relationships and social networks that could support women entrepreneurs. Such support networks could help guide and motivate women who require finance to do so and help them work on delivering their ideas.

Education around the financing process could potentially help reduce the bias and financing gap women often face. Equally, boosting women's understanding of how they may be perceived, and what they can do to improve that perception, are key ingredients to success. Relevant know-how and tips can be shared within a network—even more effectively so via formal events and mentorships.

Last but not least, on the evidence presented, investors would benefit greatly from reviewing and debiasing their decision-making processes, for example, by ensuring that they ask an equal amount of 'growth' compared with 'prevention' questions to all founders, irrespective of their gender, or through evaluating pitch decks through "blindfold" processes. In addition, it is useful to provide constructive, actionable feedback to founders.

## Alternative sources of funding

**Traditionally, venture capitalists** have calculated that about two in 10 investments will generate most of a fund's profits.<sup>35</sup> If a fund hopes to achieve a 20% return, then those two in 10 winning investments must generate or return between 20-30 times the money invested into them. Investors in these companies eventually require an exit, to allow for monetization, either via an IPO or through a trade sale. Not all target companies fit this accelerated growth path. VC funding is appropriate for certain, but not all companies, as many of these do not fit this specific high-growth profile.

It is therefore worthwhile looking at how women founders and leaders of SMEs grow their companies. Research suggests that female founders often start their ventures with less capital and seek small and/or alternative sources of funding, which often comes at a greater cost.<sup>1</sup>

They usually rely more heavily on family financing, which hurts those who come from low-income backgrounds. But even in cases where financing is obtained from family and friends, women face greater scrutiny than men.<sup>1</sup> This also highlights that gender biases appear as well within family and friends' circles.

Raising traditional debt financing for start-ups is often challenging, given these typically neither have a previous track record, generate steady cashflow, nor own adequate collateral. Nevertheless, on occasion, advance customer cash payments can provide the necessary liquidity for growth and debt financing. A further option sometimes used by start-ups is to monetize the value of the receivables from their customers, thereby allowing them to generate incremental liquidity. These alternative sources of funding have historically proven successful for entrepreneurs who choose to build their business slowly and steadily.

Crowdfunding is another alternative source of funding that shows potential. Research indicates that women have better access to crowdfunding because they are viewed as more trustworthy than men.<sup>29</sup> Furthermore, women investors seem to support and prefer women-led projects in an effort to support their fellow entrepreneurs who face similar challenges.<sup>20</sup>



External view

# Perspectives on the funding gap

Vicki Saunders

founder SheEO

*SheEO is a crowd-funded, crowd-supported ecosystem that provides interest-free loans to women-identifying and gender non-conforming entrepreneurs working toward sustainability goals. As the loans are paid back, the funds are re-invested in new ventures, creating a perpetual fund in each country.*

## Why, in your view, is it important to reduce/eliminate the gender funding discrepancy?

Approximately 2.2% of venture funding globally goes to 51% of the population. That means we are missing the innovative ideas from more than half of the world that could be improving our cities, coming up with climate solutions, and bringing new approaches to education to market. This injustice is a core element of work we need to do to create a world that benefits all, not just the privileged.

## In your opinion, what can be done to reduce the funding discrepancy that women face?

We need to examine our biases and start setting goals and holding ourselves accountable to remedying the systemic and structural inequities. And we need to start supporting solutions that are rethinking and resetting the field. This is a factor of our financial imagination. And, underneath it all is classic power dynamics.

## What alternative sources of funding are there, and how can they help women grow their start-ups?

We have such a strong narrative around Venture Capital that many of us think this is the only kind of finance to support growth. However, 99% of businesses don't need VC. Expanding our frame to look at all kinds of financial capital is critical. Crowd-funding, new debt instruments, and program- or mission-related investments from philanthropists. I'm a classic boot-strapping entrepreneur so I always think about how to grow a business without investment capital. And, yes, that is a thing! Most businesses grow by getting customers. I have a good friend who grew her fintech company with customers, 100% boot-strapped to USD 10 million in revenue. Many of her competitors raised a lot of money and have nowhere near the traction she does.

## What can investors do to de-bias their processes?

Almost all of the rules are created from the perspective of the capital allocator, not the innovator. I'd start there. What does the innovator or community need, and how can the capital support that need.

## What advice would you give female entrepreneurs in terms of raising funds?

My advice for women entrepreneurs is to get into networks to build relationships with wealth holders. It's only through relationships and networks that we can unlock capital. In the past, we have lived in separate bubbles but we are starting to see more and more communities match up innovators and funders and it's changing the landscape.

# Conclusion

Tackling the funding gap should not be seen as just a moral obligation, but also as a great untapped opportunity for investors and a potential boost for the economy. Every effort should be made to eliminate the bias that exists.

**As a first step,** a greater awareness of the funding gap needs to be established, and the shortcomings and opportunity costs involved need to be made clear. In this context, greater transparency around the funding gap is a key first step toward resolving the problem.

The next step is to identify and share remedies as to how this gap can be reduced, such as by better understanding the underlying reasons for its existence, and taking action to eliminate bias and level the playing field. Tackling the bias that exists during the VC funding process and encouraging VCs to hire more women investors seems key.

Because of differing degrees of access to networks, which is a key determinant of success in the funding process, it is also important to foster relationships between female entrepreneurs and investors, as well as other important stakeholders.

Media coverage plays an important role in showcasing successful business ventures, in particular when female entrepreneurs are able to inspire other women to embark on the entrepreneurial journey, and who help these women believe in their potential, while also helping to reduce the perceived association of entrepreneurship as a male-dominated activity.

Finally, all of us can reflect on how our conscious and unconscious bias propagates itself, and by recognizing our own failings, we can go some way to righting the wrongs and better support women in their entrepreneurial journey.

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