DIVERSITY

3 Ways To Address The Disparity In Startup Funding To Minority Founders

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By Kinsey Wolf

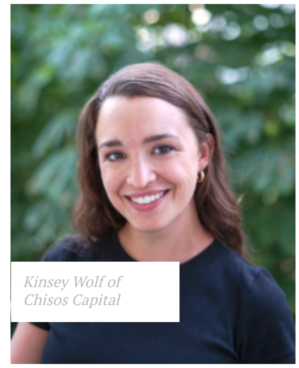
The numbers are clear: if you're not a white male, your chances of accessing venture capital are exceedingly low.

Since 2015, Black and Latinx founders have raised just 2.4 percent of total venture capital invested. Plus, the current VC funding system capitalizes women and minority founders at 80 percent less than businesses overall.

Startups may turn to banks, but typically struggle to get bank loans. Banks typically require two to three years of credit history and hard asset collateral to extend capital.

Other funding routes—such as personal savings, high-interest credit card debt, or friends and family funding —aren't available to all founders. After all, about 70 percent of Americans have less than $1,000 in savings.

Bottom line: Existing funding options fail to meet the needs of founders, especially minority founders.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Unfortunately, most VCs don't see it that way. About 80 percent of investors believe that minority and female business owners get at least the right amount of capital they deserve for their businesses.

It's hard to solve a problem you don't see.

So if today's traditional VC can't help minority founders launch and grow their business, what other solutions exist to address this inequity in startup funding?

Here are three possible solutions:

1. Build fairer pathways to funding
2. Create an ecosystem that supports minority founders
3. Encourage traditional banks and VCs to prioritize diversity, equity and inclusion (DE&I)

Solution 1: Build fairer paths to funding

To serve minority founders better, we need to create different paths to startup capital.

There are emerging options: New approaches to entrepreneur capital, hybrid accelerator/angel investors, and disruptive financing models like crowdfunding and revenue-based financing.

Solution 2: Cultivate an ecosystem that supports minority founders

There are plenty of angel investors, entrepreneurship groups and social networks dedicated to supporting founders. However, the homogeneity of existing funding systems means that minority founders often lack connections to resources and investors.

That's why it's important to cultivate a startup ecosystem that supports minority founders. This means:

- Elevating the voices and experiences of minority founders;
- Curating resources designed for the unique challenges that minority founders face, like pattern-matching;
- Establishing new funds led by and built for minority founders;
- Developing social groups where minority founders can connect with supporters;
- Normalizing that there is no "normal" founder journey; and
- Continuing to challenge conscious and unconscious bias in the startup funding world.

Solution 3: Hold traditional funding avenues accountable to DE&I

Since banks and venture capital firms control the majority of available startup capital, they need to be part of the solution.

To do that, encourage existing funding sources to prioritize diversity and inclusion. After all, DE&I is good for business. The failure to fund women- and minority-led businesses amounts to a $4 trillion missed opportunity.

Here are a few proven strategies existing funding options can implement:

- Communicate the value of diversity and inclusion; it's more than a box to check;
- Ensure that your internal decision-making team includes different demographics, backgrounds and experiences—diverse teams make better investment decisions;
- Analyze the demographics of both your applicants and portfolio; and
- Lean on experts in the DE&I space to educate you on evolving best practices.

These solutions point a path toward more equity in startup funding.

Kinsey Wolf is the fractional CMO at Chisos Capital, which uses proprietary investment terms, the Convertible Income Share Agreement, to write checks of $15,000 to $50,000 to high-potential entrepreneurs.

Illustration: Dom Guzman