

Why financial institutions' attempts to close the gender funding gap are falling short

Acknowledging the gender funding gap and addressing it are two different things. In recent years, there has been acknowledgement and some attempts to close the gap. However, the playing field is far from being levelled for aspiring female entrepreneurs.

Temps de lecture : minute

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There are countless studies that present qualitative and quantitative explanations as to why this gender funding gap exists. The hope is that understanding the issue will illuminate ways to address it. The typical pathways include qualitative, perception-based studies and quantitative studies of investment amounts and number of businesses supported. While perceptions and opinions might be slightly biased, they highlight an important aspect of cultural change that needs to be addressed.

Myths and facts

We are all familiar with claims that women are less confident when pitching and have less access to networking due to caregiving responsibilities in the home. There are also studies that have found a gender bias from investors towards women who are evaluated more on actual performance as opposed to their potential – unlike their male counterparts. Perceptions around women's limited knowledge around what's a VC-backable business or novice mistakes of first-time female entrepreneurs plague the industry. These invisible barriers are partly to blame why efforts to support female entrepreneurs have resulted in

limited success overall.

It is a fact that only 15% of decision-makers in UK VC industry are women. The obvious solution is to increase the numbers and ensure better representation of women in the VC industry. While previously, there were other myths about women not supporting each other, having positive role models will not only incentivise other women but could change the perception of men. It is a fact after all that men are getting 6.2 times more funding than women and only 3.5% of UK equity funding was allocated to women in 2023. Men also receive larger amounts – whether we talk about loans or equity – compared to female counterparts.

Loans vs. equity – women miss out in both cases

We can search for any commercial bank and find some sort of an initiative to support women. The more pragmatic institutions offer more than networking and training, they offer specialised products available for female entrepreneurs. While I am not against free networking and training, let's face it, in most cases, the issue now is the funding gap not the knowledge gap. The commercial banks that developed loans supporting female entrepreneurs target mainly the established businesses. In my previous role, we realised the issue of potential lack of collateral for women and found ways to accept unconventional assets as collateral, so the businesses could be backed by the financial institution. While this might be more of an issue in developing countries, it clearly demonstrates how a small deviation from standard terms and conditions can eliminate the barrier to qualify for women.

Startup loans in general are scarce, and the majority (over 50%) of female entrepreneurs in the UK still self-fund their businesses initially. Scaling your startup without loan programs is a challenge for both male and female entrepreneurs so they often look for investors. We have seen that

the myths and misconceptions are indeed leading to a biased and more critical evaluation of women business owners. The playing field is not levelled at all even if we look at highly scalable and lucrative industries such as fintech. In 2022, 11% of AI startups had female founders, yet only 2% of startup deals went to women-owned AI startups in the past decade! 77% of VC investments in 2022 were awarded to startups without a female founder. It seems that despite the increasing awareness of gender equality, many investors still harbour unconscious bias towards female entrepreneurs.

What is the disconnect?

To recap the whole women in business issue, it started with a small number of women choosing to start a business. Then once that was addressed and women started over 151,000 companies in the UK in 2022, the issue became the size, scalability and long-term sustainability of those businesses. As a response, several institutions introduced microfinance loans or a combination of business and personal loans that these women could use to invest in machinery to slowly grow the business. Microfinance is a double-edged sword as it is equally praised for helping the most vulnerable, and creating a cycle of dependency instead of growth. As a response, banks came up with capacity building and knowledge sharing where they provided access to networking events, trainings on business strategy, financial literacy and planning, basics of investing and marketing.

As we have seen, growing a business has the other avenue of finding investors. While researching the topic I came across VC firms that focus solely on supporting women business owners. Their surveys have similar findings to what we already know – female founders are treated differently, there are very few women in decision making positions and there is a lack of awareness amongst women on the threshold to qualify for VC backing. Their answer is to put women in decision making positions

and create an environment that enables women-owned businesses to pitch to the converted. The stories are inspiring and uplifting covering industries from sexual wellness, through to beauty, fashion and tech. Why do these women need to go to women-only investors to succeed when they are clearly onto something bankable? Having the right network and accessing funding seem to be the main barriers cited by several sites.

How to do better

Increasing women's representation in the VC industry will have a positive impact on the evaluation of women owned businesses. The key word is diversity though, as we enter the territory of racial, ethnic, gender and other types of discrimination that might for instance disproportionately affect women of colour. It is indeed a sensational headline that black women are getting VC funding, though only 0.02% of what is available in the UK was allocated to black female founders in the past 10 years. 2021 seemed to be a pivotal year as Google launched its Black founders' fund offering grants for such startups.

Crowdfunding and targeting women investors in general seem to be the other idea floating around. It has indeed been proven successful to create an ecosystem where female investors can invest in women business owners. In my view, it does solve the issue of women business owners accessing capital, as instead of integrating them into the main market, they remain segregated.

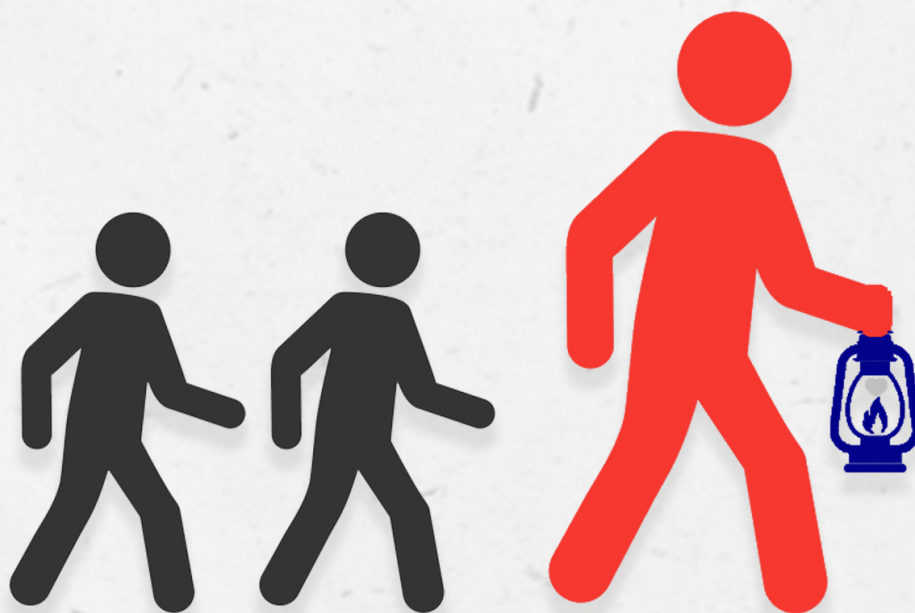
Addressing the unconscious bias and changing the culture of doing business is more and more widely implemented in different financial institutions. It still feels inefficient without updating the ecosystem that enables structural barriers that prevent women from accessing capital.

In order to truly close the gap, we need to adapt a comprehensive approach that addresses root causes of inequality within the industry.

Unconscious bias, expanding access to networks and resources, reforming lending and investment practices are a few ideas to consider.

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What is a
**SOCIAL
IMPACT?**



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But What is A Social Impact? Now

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