The UK government must do way more for women and POC startups following the HNWI fiasco

The government's recent policy reversal around access to funding for women and persons of colour start-ups is good news. But it remains nothing short of shocking that we got there in the first place.

Temps de lecture : minute

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For those who missed it, the last seven months have been a rollercoaster for many UK women and persons of colour (POC) in the world of start-ups and angel investors. In 2023, as part of the Autumn Statement, the UK government made significant changes to what is known as ‘financial promotion exemptions’ in relation to high-net-worth individuals (HNWI), an amendment that went on to disproportionately inhibit the ability of women and POCs to provide angel investment to startups (much of which goes to women-run and POC-run businesses).

This legal change raised the financial threshold for individuals to self-certify as a HNWI, setting the bar to £170K in annual income and £430K in net assets, up from (the far more accessible) £100K income and £250K in assets. This mattered greatly, as without the HNWI certification (also known as a ‘sophisticated investor’), an individual cannot legally invest in private limited companies, as part of a law called the Financial Promotion Order.

And so, from January of this year (when the new threshold came into effect), one had to be much richer to legally invest in private limited companies, an amendment that hit women and POC investors (and therefore start-ups) the hardest. How so? Because systemic sexism and racism still exist across UK society, economy and politics, which is why *women* and *ethnic minority groups* in the UK earn less than their counterparts. Women, in particular, are even more likely to earn less, since many work part-time, due to stereotyped gender roles around childcare and the home.

As such, for male individuals or those from privileged demographics (who earn more), the new threshold was not hugely concerning or prohibitive. But for women-run and POC-run start-ups, the alteration spelled a funding and equity disaster. Suddenly, far fewer women and POC angel investors could put their hard-earned money and seed capital into private companies of their choice, namely women-run and POC-run start-ups since we know that women and ethnic minorities are far more likely to invest in those demographics compared to others.

There are, of course, good reasons for having a law and threshold around HNWIs in the first place, as it protects individuals in the public from being lured into investing in private companies, some of which fail to provide complete and transparent information about themselves when advertising investment opportunities, unlike public companies. But the new threshold did much more harm than good.

In the Autumn Budget of last year, the government claimed it was adapting the HNWI eligibility in step with changes in technology, social norms and inflation, as per a 2021 *HM Treasury consultation*. But what remains most infuriating and shocking is the fact that, after a consultation that lasted many months (and was 37 pages long), not a single section discussed the negative impact of the proposed legal change on under-represented groups.

To add insult to injury, two years later in November 2023, the Treasury released a *consultation response* which, across its 32 pages, included all but a short paragraph (section 2.7) on adverse effects for disadvantaged groups: "Responses that disagreed with raising the thresholds expressed concern with how increased thresholds could negatively impact the angel investment market. These respondents raised concerns that increasing the thresholds could reduce the potential for broadening angel network participation, including among less represented groups such as women and ethnic minorities. They also raised concerns that lower angel investor participation in the future could reduce SME investment, particularly for younger start-ups".

Many are still asking what is worse: the fact that the Treasury devoted so little attention to this matter over a period of several years, or the fact that the note was included in the consultation response and then brazenly ignored by the government (who then implemented the new threshold in January of this year).

Either way, this case highlights a deeply disappointing and concerning carelessness on behalf of the UK government, a manoeuvre that suggests a lack of women and POC representation in decision-making. It also raises a much-asked and long-overdue question: does the UK government take its advocation of women and POCs in business and entrepreneurship seriously? Following an outcry from the UK start-up community in the first few months of this year, Westminster reversed the HNWI amendment (effective as of late March). This, plus the newly formed *women-led high-growth enterprise taskforce*, has been good news, but much more work is needed.

It remains the case that start-ups led by women continue to receive a fraction of the venture capital funding of male-led companies, despite a record number of women starting businesses in the UK. In fact, *just 3.5%* of equity raised in investment deals in the first half of 2023 went to businesses with an all-female founding team, compared to *85.1% of funding* secured by all-male teams. A stark and devastating state of affairs that has huge implications for the growth of the UK’s *all-important SME economy*.

Following the fiasco and wasted resources of a years’-long policy flop, as detailed in this piece, the government must do a lot more to show that it cares about women and POCs in business, and as such, the longer-term health and growth of the UK’s world class start-up community.

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