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Lessons learned by Extend Ventures

As we mark the one year anniversary of COVID-19’s dramatic trespass into our existence, many voices are calling for an accounting of the lessons learned. One of the most pivotal lessons we have learned was the disproportionate impact the deadly virus had on Black and ethnic minority communities.

The reasons for this have been sketchily presented by the British government – poor housing, employment on the front line, co-morbidities – with no official acknowledgement that each of these reasons can be traced to the poverty and disenfranchisement arising from systemic racism.

When we combine the impact of COVID-19 on Black communities with the clamour for racial justice ignited by the death of George Floyd and the Black Lives Matter movement, we are moved to look for actions that signal change.

For those of us who are working to open up access to funding for Black founders, the measure of change is how much money is actually being offered to diverse founders. That is the currency of change that we need.

The lesson learned here is that the funding being made available is not nearly enough, not nearly a sum that is meaningful to launch or sustain businesses being built by Black owners who have been denied funding for generations.

> *One of the clearest lessons learned is that the lack of diversity in those being funded is not because of a lack of talent or a limited pipeline. It is simply the failure to provide funding.*

Research in Britain closely tracks research in the US. With its *Diversity Beyond Gender* research report, Extend Ventures has highlighted the scale of the funding gap in the UK venture capital sector. In 2019, a record year for UK venture capital, only 2% of the almost £10B of venture capital went to teams that included ethnic founders. Extend Ventures found that Black entrepreneurs experienced the most underfunding, with just 38 Black entrepreneurs and their teams receiving just 0.24% of the total venture capital funds invested between 2009 and 2019.

The picture is worse for Black female founders who received only 0.02% of the total amount of venture capital invested over the 10-year period. Only one received early stage investment compared to 194 White female entrepreneurs getting support.

Yet, there are some welcoming signs that moves are being made to address this, specifically in the United States.

Bank of America, Citibank, JP Morgan and most recently Goldman Sachs with its *One Million Black Women* initiative are among the giant financial institutions – alongside the likes of Apple and Google – who have made explicit commitments in the billions of dollars to redress the imbalance of funding going to Black businesses.

We see VCs and other investors being challenged on the issue of racial equity too. While *less than 1% of all venture capital went to Black founders in the US since 2015*, this *figure* despite numerous funding pledges did not shift during a tumultuous 2020. We hope that the announced initiatives start to drive progressive and sustained improvement in 2021 and beyond.

Several VC firms such as *Softbank* and specialist funds focused on investing in underrepresented founders such as *Harlem Capital*, *Backstage Capital* and recently launched *Rise of the Rest* are looking to change this dismal record.

A seismic lesson we must learn is facing up to the estimated $4T that is unrealised in VC due to the lack of diversity, according to Morgan Stanley in their *October 2019 report on the venture funding gap*.

With all this upside being left on the table, it is important that we celebrate the successes from the Black business ecosystem. We are starting to see some of our own unicorns and impressive scalable ventures. All of them based on sound business models, strong leadership and deep understanding of their marketplace. All characteristics that shape investment rationales for White startups, but unaccountably have not been enough of an incentive when evaluating Black startups.

Cityblock Health, a primary care startup targeting underserved communities in the US, *raised $160M to secure a valuation of more than $1B*. The most recent record-breaking raise is Calendly, the cloud scheduling platform, which *secured $350M to achieve a valuation of more than $3B*.

As an American living and working in the UK for more than 30 years, I can say that the US has set the pace for financial markets innovation for the past 50 years. This is true for expanding access to finance for diverse owners.

While in the UK some banks and investment firms have declared their support for underrepresented founders and have gone through a period of self-reflection which has often included the setting up of diversity advisory boards, actual funding and even warm introductions to funders rarely play a part. The support on offer is too often in the form of mentoring and offers to join accelerators for advice, mostly given by Black and ethnic advisors recruited to provide a semblance of representation.

There are many Black led businesses that are seeking funding, but many do not want to be side-tracked by going through the hoops of the remedial help on offer. Especially as this is often the only support available. How many accelerators should a business do? What about live investor introductions?

We hope banks, VC firms, corporate sponsors and angel investors in the UK will work to apply the same intentionality to fill the gaps in funding that we have seen in the US. However, if the travails of raising diversity focused funding from LPs for Impact X, as shared by Eric Collins in his *recent interview with Sathnam Sanghera of the Times* are anything to go by, we still have a long way to go. Big shifts in mindset and thinking are still required by the major sources of capital.

The final lesson we have learned from the past year of challenges: Investing in businesses is a value creating investment in jobs, in communities and wider societal well-being. Investing in Black businesses is no different.

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