

Capital Access and Founders of Color



Access to capital is the top concern for most startup founders, and the level of funding is largely tied to startup success. While all startup founders face challenges in securing the capital needed to grow their companies, founders of color often face additional barriers to capital access. Controlling for differences in credit scores, entrepreneurs of color report higher loan denials, pay higher interest rates, and are more likely to be denied credit than white-owned businesses. This puts founders of color at a disadvantage from the start. According to the Annual Survey of Entrepreneurs, roughly 64 percent of all entrepreneurs rely on funds from personal savings or their families for startup capital, 18 percent rely on funds from business loans, and 10 percent use personal credit cards. However, founders of color are more likely to rely on personal funds and personal credit than white owners. According to the Federal Reserve, 28 percent of Black and Asian small business owners and 29 percent of Hispanic small business owners relied on personal funds and credit, versus 16 percent of white small business owners. Diversity in the startup community is not yet reflective of U.S. society, and founders of color are at a stark disadvantage when accessing capital.

Access to Loans

- Small businesses owned by founders of color typically had fewer loan approval outcomes than white small business owners. According to the Federal Reserve, not only do founders of color receive approval for smaller portions of total financing applied for, they also are less likely to receive loans totaling the entire amount applied for compared to white-owned businesses. Moreover, the fear of rejection causes Black entrepreneurs to apply for fewer loans than white entrepreneurs.
- Founders of color are also typically approved for loans with higher interest rates, and are less likely to be approved for loans, lines of credit, or cash advances. Seventy-three percent of white-owned business applicants at banks receive some sort of financing, versus 56 percent of applicants who are founders of color.
- At founding, only one percent of Black owners receive funding through business loans, vs. seven percent of white owners.

Investment in Startups

- Black entrepreneurs report investing less startup capital into their ventures than white entrepreneurs. The average investment for Black entrepreneurs is \$35,205, while white entrepreneurs invest an average of \$106,720.
- Black-owned businesses also receive less outside equity at founding. The typical Black-owned business receives an average of \$500 in outside equity, while white-owned businesses receive an average of \$18,500.
- Venture capital funding of Black-owned businesses is almost nonexistent. According to a 2019 survey, only one percent of VC-backed founders were Black, while over 77 percent of VC-backed founders were white.
- According to Girlboss, Latinx, women-led startups have raised just 0.32 percent of the total VC funding in the past decade. Black women have only raised 0.0006 percent.
- Early-stage, Black-owned startups are funded largely by owner equity (more than half). Comparatively, white-owned startups are financed by less than 1/3 owner equity.
- On average, new equity investment is lower for founders of color—roughly \$3,379 for firms led by a person of color, or 43 percent of what white entrepreneurs receive.
- As of 2011, founders of color accounted for just seven percent of the entrepreneurs who pitched their business models to angel investors.