

INVESTING IN ETHNIC MINORITY ENTREPRENEURS

Report and Data Analysis
November 2023



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MINISTERIAL FOREWORD



Entrepreneurs in every part of the UK should have an equal chance to realise their ambitions, whatever their background. For this vision to become a reality, we must tackle the barriers faced by ethnic minority entrepreneurs in the UK.

With this report and analysis, we are fulfilling an undertaking made in the report *Inclusive Britain* to collect and publish data from Investing in Women Code signatories on their investment in founders from ethnic minority backgrounds.

Investing in Women Code

The Code is a commitment by lenders and investors to support women entrepreneurs, collect data and change their business practices accordingly. Starting with 16 founder signatories in 2019, it has attracted 240 signatories to date including banks and non-bank lenders, Angel investors and investment institutions.

This would not have been possible without the active engagement of our four Code partners: the British Business Bank, British Private Equity and Venture Capital Association, UK Finance, and the UK Business Angels Association.

Over the past year, the Code partners have focused on sharing the concrete steps that signatories have taken to encourage a wider range of applicants for finance, improve their internal processes, and change the make-up of their investment teams and committees.

A new dimension

Several signatories have now gone further and collected data on the ethnicity of founder teams as well as their gender. The information they provided has been analysed by the UK Business Angels Association and British Business Bank and is presented here.

These are early steps on a journey to better understand the barriers faced by ethnic minority-led businesses.

We will use this first set of results to guide our priorities, taking account of other recent evidence such as the Lending Standards Board's report *Increasing Access to Finance for Ethnic Minority Led Businesses*. We will also review how data collection could be improved, to provide meaningful and actionable results.

I look forward to taking further steps with our Code partners towards achieving the government's goal of making the UK the best place in the world to start and grow a business.

Kevin Hollinrake MP

Minister for Enterprise, Markets and Small Business

Department for Business and Trade

INTRODUCTION



Introduction

1. Entrepreneurs who start new businesses that drive growth are the heartbeat of a thriving UK economy. Starting a new business carries significant risk, and entrepreneurs from diverse backgrounds face distinct challenges in accessing finance for their ventures. These challenges stem from factors like wealth disparities, family responsibilities, limited access to information and networks, which differ from those faced by entrepreneurs on average.¹ Therefore, certain demographic groups, including women, individuals from Ethnic Minority backgrounds, and those from lower socio-economic backgrounds, receive disproportionately low venture capital investment.²
2. Around 5–8% of smaller businesses are led by individuals or teams identifying as Ethnic Minority, even though Ethnic Minorities make up about 18% of the population. Research suggests Ethnic Minorities in the UK are more entrepreneurial than the White population, but are less likely to run older, established firms that generate stable income.³
3. Breaking down these barriers is an enormous challenge for entrepreneurs, finance markets, government, and the economy as a whole. ***Without action, we know that capital available for entrepreneurs will concentrate in particular communities, and the UK will miss out on vast latent potential.***
4. Understanding the situation is vital for taking action, and data plays a central role in shaping diversity policies in entrepreneurship. While data is a means to action and not an end in itself, there are significant challenges in data collection that the industry is working to overcome.
5. Although there is a growing body of research highlighting the underrepresentation of women in venture capital and private equity, as well as disparities in funding for female founders, there remains a scarcity of comprehensive data on ethnic minorities particularly at the intersection of gender and ethnicity. This paper aims to help to begin to address this gap, provide a baseline to measure progress and spark industry dialogue to promote increased representation and capital allocation for ethnic minority individuals in the UK.
6. The Investing in Women Code (“Code”), stemming from the 2019 Rose Review into Female Entrepreneurship, is now overseen by the Department for Business and Trade (DBT), formerly known as the Department for Business, Energy & Industrial Strategy (BEIS). Supported by Code Partners, namely the British

Business Bank (BBB), UK Business Angels Association (UKBAA), British Private Equity & Venture Capital Association (BVCA), and UK Finance, the initiative has made significant progress in driving transparency and action to promote investment in women-led businesses.

7. Based on the UK 2021 Census, ethnicity could be chosen from five categories: White, Mixed or Multiple Ethnic Groups, Asian or Asian British, Black, African, Caribbean or Black British, Other Ethnic Group. We recognise the need for more nuanced representations of ethnic identity beyond these categories and we welcome further engagement on data collection to reflect diversity.
8. The government's Spring 2022 *Inclusive Britain* report in response to the Commission on Racial and Ethnic Disparities⁴ supported this pilot with a recommendation stating that:

“BEIS [now DBT] will work with Code signatories and their trade associations to pilot data collection on the ethnicity of entrepreneurs applying for finance. This pilot will inform future options for data collection and follow-up actions designed to improve access to finance for ethnic minority entrepreneurs.”

9. BBB, BVCA and UKBAA, the Code delivery Partners for equity signatories, have been encouraged by the willingness of the industry to engage in this pilot and provide ethnicity data on a voluntary basis. The Partners recognise there is much more to be done and look forward to the dialogue that will follow this paper to improve outcomes for founders from all communities across the UK.

SUMMARY OF FINDINGS



Ethnic Minority teams secure a higher percentage of deals when evaluated by a mixed ethnicity investment committee.



When presenting proposals to diverse Investment Committees, Ethnic Minority teams experience similar funding success rates to other teams.



Only 8% of total funding is being invested in teams with at least one ethnic minority founder.



Access to a trusted referral source, such as a warm inbound referral, drastically increases chances of investment.



2022 saw significantly less investment in ethnic minority founders backed by Angel investment than 2021.



92% of total Angel investment in 2022 was to all white founder teams.



To increase Angel investment, we must increase the diversity of existing Angel groups and form more groups dedicated to backing ethnic minority founders.



Ethnic Minority teams secure fewer deals from all-White Investment Committees than all-White and Mixed Ethnicity teams.



Only 12.2% of investment teams are from ethnic minorities, and diversity diminishes as seniority increases.



All-Ethnic Minority teams are underrepresented in follow-on funding, accounting for 4% of follow on deals compared to 14% of first-time deals.

DATA AND ANALYSIS

UK BUSINESS ANGELS ASSOCIATION DATA AND ANALYSIS

Angel Investment in Ethnic Minority Founders

2021 and 2022



Introduction

1. To date, there has been very little specific research done on Angel investment in ethnic minority founders. Whilst there have been some important studies on investing in ethnic minorities and on the barriers and challenges for these founders, most research that has been carried out on the equity market has generally focused on venture capital (VC) or has combined Angel and VC data.
2. Angel investment is the most significant source of equity for start-up businesses seeking to build and scale their early business ideas. It is a fundamental first link in the equity supply chain, providing a direct source of deal flow to VC and Series A investors. However, what is more important is that in addition to vital early-stage capital, **Angels also bring business experience, skills, knowledge, strategic advice, market contacts and introductions** to support the early nurturing of these small businesses with Angels acting as a clear pathway to further funding rounds, customers and talent.
3. It is therefore especially important to increase our access to data on Angel investing into ethnic minority founders in order to understand the current levels and patterns of investment. This will enable us to identify what more can be done to address the market failures and barriers that ethnic minorities are experiencing, and how to improve their access to the investment needed to achieve their growth ambitions.
4. The Angel Groups who have signed up to the Investing in Women Code ("Code"), and who have already committed to giving annual gender focused data on their investments, offer an ideal cohort for us to further explore the investments made by Angel investors into ethnic minority groups seeking equity investment for their early-stage businesses. In 2021, we invited the Angel group signatories of the Code to submit additional data on the ethnicity of the founders that they are investing in, alongside the gender related data. This was a completely voluntary exercise carried out by UKBAA, alongside the BBB and BVCA, as the lead partners for data on equity investment for the Code.
5. As a result of this request, 8 Angel groups (50% of the 16 Angel groups who annually provide gender related data as signatories of the Code), volunteered to provide ethnicity data to UKBAA alongside their gender related data. This represented a very encouraging response from our Angel

group signatories to this first pilot exercise.

- This same request was repeated in 2022 and as a result, 12 of the 17 Angel Group Code signatories that provided gender investment data, also provided ethnicity investment data. This represented over 70% of the Angel group respondents for 2022 and revealed the **increasing willingness of our code signatories to participate in providing ethnicity data.** We feel that this offers strong indications of the potential to considerably expand the number of Angel groups giving ethnicity data and the opportunity to expand the range and extent of the ethnicity data that could be collected from the angel market, enabling us to gain much deeper levels of insight on Angel investing in ethnic minority founders for future years.

Focus of Investment Data Collected

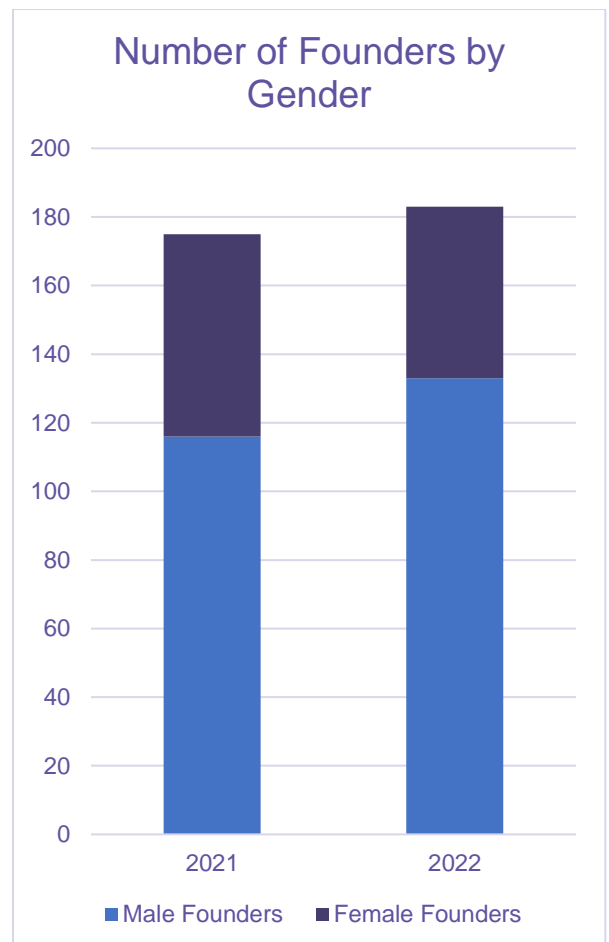
- For the ethnicity data pilot for 2021 and 2022 data, Angel group respondents were asked to provide data in relation to the ethnicity of the team founders securing investment, and no data was gathered on the ethnicity of teams seeking investment i.e., in the pipeline or those considered for investment, but did not succeed. The aim was to reduce complexity of the task and encourage as many Angel groups as possible to volunteer to provide this valuable ethnicity data. As the annual collection of ethnicity data becomes embedded, we plan to expand the range and depth of the ethnicity data collected from Angel groups from deal sourcing to investment decision-making and to reflect the current approach to the gender focused data.

Key findings

The Ethnicity Data Set for 2021 and 2022

- For 2021, the eight Angel group respondents provided data on ethnicity investments into **80** deal teams, covering **175** individual founders and co-founders. Of these **116** (66%) of the founders were male and **59** (34%) were female.
- For 2022, the 12 Angel groups provided ethnicity data relating to **105** deal teams, covering **183** founders and co-founders, of which **133** founders (72%) were male and **50** founders (28%) were female, reflecting investments in a lower proportion of female founders, despite the higher number of teams securing Angel investment.

Graph 1. Founders by Gender 2021-22



Breakdown of the Founder Data by Gender and Ethnicity

10. If we look at the data for **2021**, of the total 175 founders receiving investment from Angel groups, **77%** (135) of founders were white, and the majority of these were male. Only

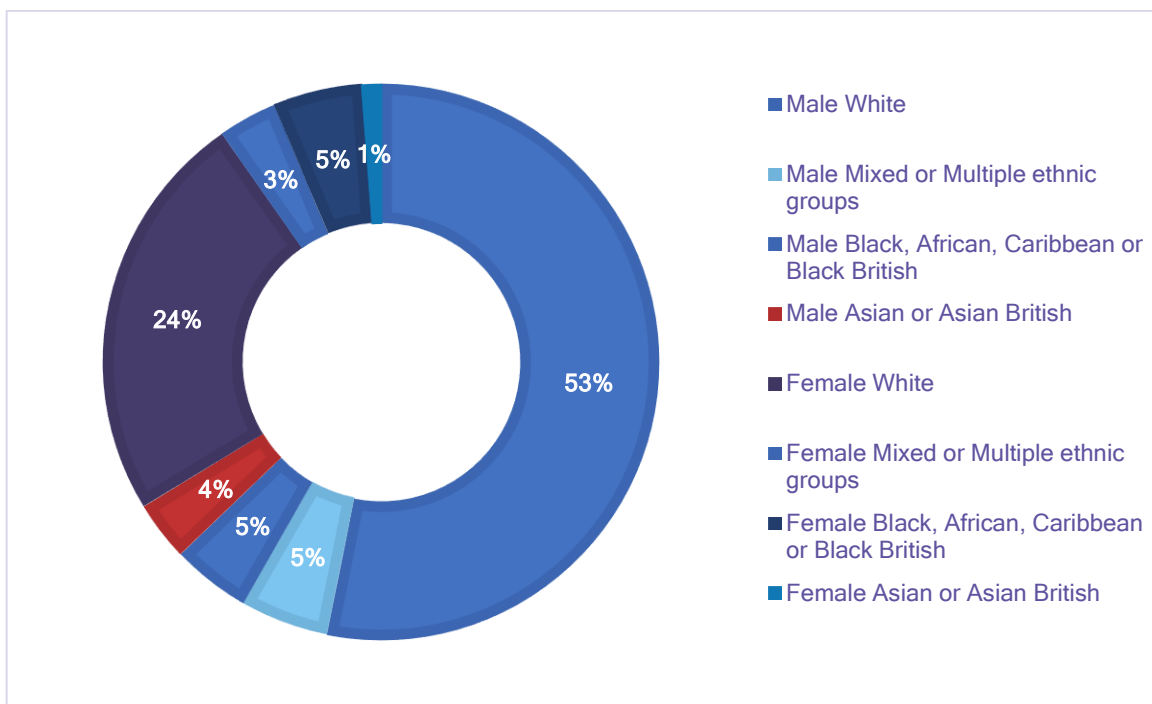
23% (40) were ethnic minority founders.

11. For both male and female founders, Asian or Asian British founders showed the lowest total representation (**5%**) among the founding teams who received investment from Angel groups in 2021.

Table and Graph 1. Ethnicity of Founders who Received Funding, by gender 2021

	Asian or Asian British	Black, African, Caribbean or Black British	Founders from Mixed or Multiple Ethnic groups	White
Female	1%	5%	3%	24%
Male	4%	5%	5%	53%
Overall	5%	10%	8%	77%

Source: UKBAA analysis of IWC signatory data (80 teams: 175 founders) N.B. Excludes those where gender and ethnicity data not known/not provided.



Gender and Ethnicity of the Founders Receiving Angel Investment in 2022

12. In 2022, only **13%** of founders (24 out of 241 founders) who received investment were from ethnic minority groups. ***This is a significantly lower proportion of ethnic minority founders backed by***

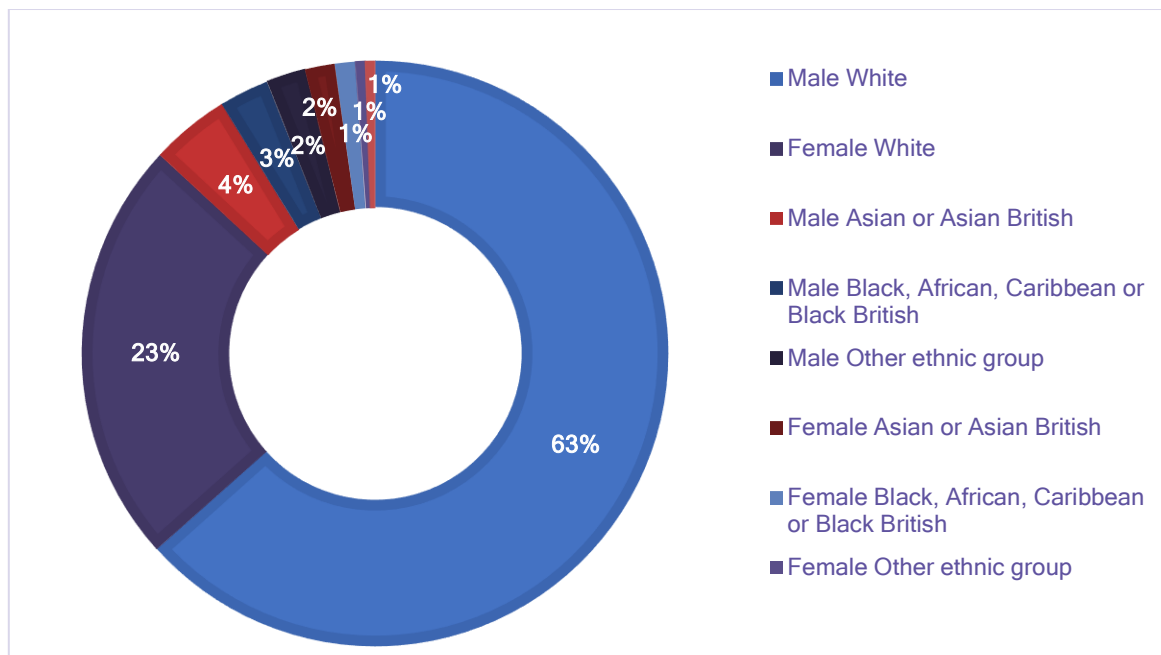
Angel group signatories than in the previous year, 2021.

13. Of the ethnic minority founders who received investment, 17 were male (**70%**) and 7 were female (**30%**). The 2022 data shows us that founders who were mixed race or from multiple ethnic groups, and founders who were Black, African, Caribbean, or Black British showed the lowest total representation among both the male and female founding teams.

Table and Graph 2. Ethnicity of Founders who Received Funding, by gender 2022

	Asian or Asian British	Black, African, Caribbean or Black British	Founders from Mixed or Multiple Ethnic groups	White
Female	2%	1%	1.5%	23%
Male	4%	3%	1.5%	63%
Overall	6%	4%	3%	87%

Source: UKBAA analysis of IWC signatory data (133 teams:241 founders) N.B. Excludes those where gender and ethnicity data not known/not provided



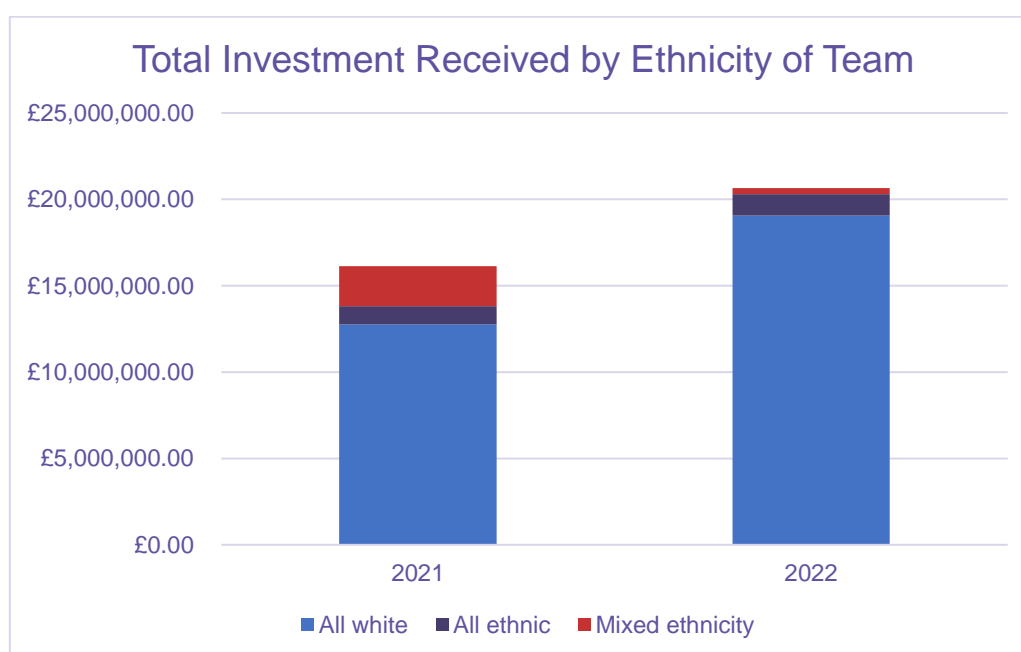
Source: UKBAA analysis of IWC signatory data (105 teams/183 founders) N.B. Excludes those where gender and ethnicity data not known/not provided

Understanding the Ethnicity of the Founder Teams Receiving Investment

14. It is important to note that in relation to the teams receiving Angel investment identified in the 2021 and 2022 data, the number of co-founders by team is small, often two co-founders or even a single founder, reflecting the very early stage of the businesses. Thus, the total number of founders in the data analysis is relatively small compared to the number of teams identified.

15. Looking at the **80** teams receiving investment from Angel group signatories in **2021**, **61%** had all white co-founders (49 teams); with 31 teams (**39%**) having at least one ethnic minority founder or co-founder. For the **105** teams receiving angel investment in the **2022** ethnicity data, **81%** (85) teams were all white; only **7%** of teams (7) had 50% or more founders from ethnic minorities in the team whilst **12%** of the teams (13) were entirely made up of ethnic minority founders. It should be noted that 6 of these teams had sole founders.

Graph 3. Breakdown of Total Investment Received by Teams, 2021 and 2022



Amount of Investment Secured based on Ethnicity of Team

16. In 2021, the total level of funding secured by the 80 teams in the data set was **£16.12m**. Of this total, all white founder teams secured **£12.75m (79%** of the total equity allocated by the Angels). Teams with at least one ethnic minority founder secured **£2.32m (14.5%** of the total equity raised). Whilst all ethnic minority teams secured **£1.05m (only 6.5%** of the total equity allocated). Notably, the mean level of funding for

all white teams was **£260k**. For teams with one or more ethnic minority founder the mean was **£136k**, and for teams with all ethnic minority founders the mean was only **£75k** per team.

17. For the 2022 data, the total amount of funding secured by the 105 teams where ethnicity data was provided, was **£20.64m**. This is higher than the total investment made in 2021 when taking account for the increased number of teams reviewed. Of this **£19.06m**, (92% of the total investment by the 12 angel groups) was made in all white founder teams, much higher

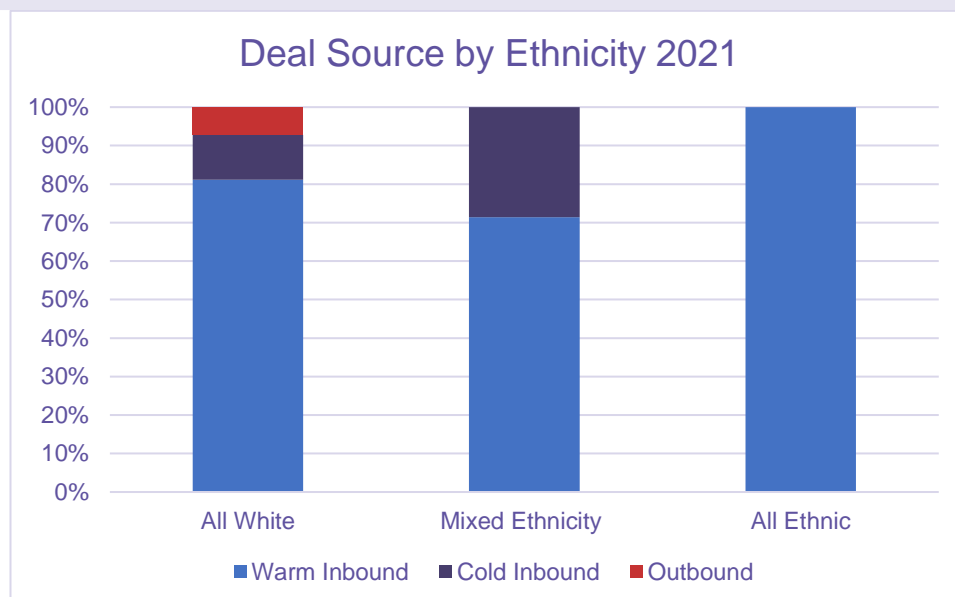
than our 2021 data. **Businesses with one or more ethnic minority founder raised £348,000 (only 2% of the total invested).** For the 13 all ethnic minority teams (of which 6 were solo founders) the total investment was **£1.23m (only 6%).**

18. Although we do not have data on the sector, or other individual aspects of the business, this data reveals **only 8% of funding in 2022 was invested in teams with at least one ethnic minority founder.** All white teams accessed a mean level of investment of **£224k**; whereas teams with one or more ethnic minority founder received a mean level of **£49k**, and all ethnic minority teams received a mean of **£94k** investment; however, this could be driven by the low number of data-sets.

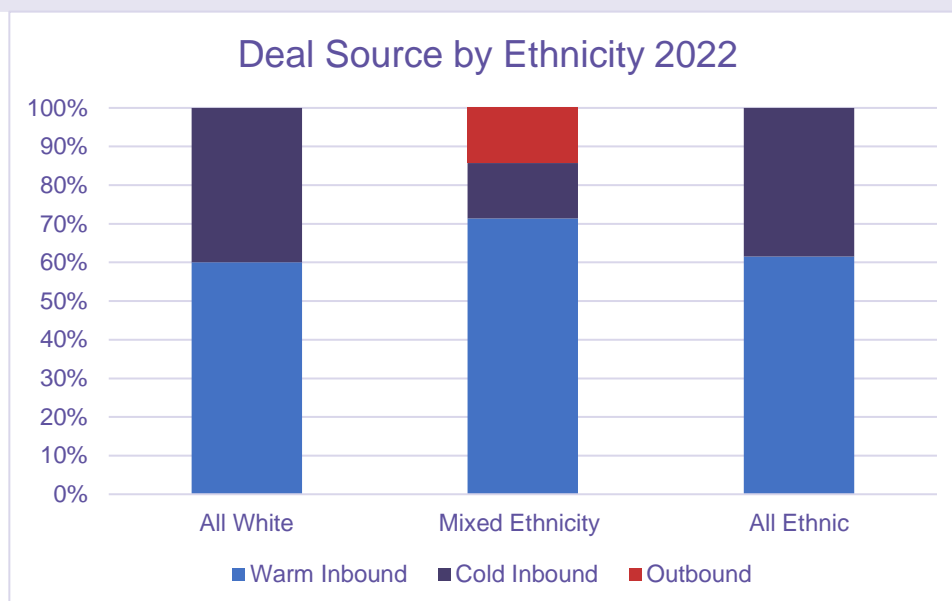
The Impact of Referral Sources for the Outcomes of Ethnic Minority Teams

19. Cornerstone Partners research into funding for diverse founders, noted founding teams with at least one ethnic minority individual are 10% less likely to have a friend or family contact they can reach out to for an introduction than all-White teams.⁵ Of the 31 ethnic minority teams that received Angel funding in our 2021 data, a majority of 28 were warm inbound referrals with only 3 of the deals reported as cold inbound applications. For 2022, 14 of the deals were warm inbound with only 7 cold inbound, and one outbound.
20. Graphs 4 and 5 reveal **the importance of accessing a trusted referral source for ethnic minority entrepreneurs to be considered for, and to achieve investment.** Broader research⁶ on these challenges reveal the distinct barriers in accessing relevant networks, trusted intermediaries, or opportunities to engage with investors prior to the investment process.

Graph 4. Deal Sources by Ethnicity for 2021



Graph 5. Deal Sources by Ethnicity for 2022



Diversity of the Angel Investment Groups

21. The Code Angel group respondents were not asked to provide data on the ethnicity of their investor members as part of this pilot. This means that we lack understanding of whether the level of ethnicity among the Angel investors in the Angel groups impacts outcomes for the ethnic minority founders in this data set.
22. Studies by Extend Ventures⁷ and Cornerstone Partners looked at the ethnicity of the investors and identified that **investors tend to back businesses with a similar demographic, socioeconomic and educational profile**, which is seen as a form of mitigating risk. We also know from the research in 2022 by Beauhurst and UKBAA on the level and impact of women angel investment in the UK, that Women Angel investors have a significantly higher number of women founders in their portfolio than their male Angel counterparts⁸
23. The Code data for 2021 and 2022 underlined this, as Angel Group signatories with more than 15% Women Angels invested in more women founders, and provided higher levels of investment in female founders than all male Angel groups, (or those with less than 15% women investors). From the 2022 Angel groups, 40% have more than 15% female Angel investors.
24. The most recent data on the ethnic diversity of Angel investors was gathered under the BBB-UKBAA Angel Market Survey of 2019-20⁹. This revealed **only 11% of Angels across the UK are from ethnic minority communities with nearly 70% based in London and the South East**. Without more data on the ethnicity of Angel investors, we are unable to draw conclusions on the relationship between the ethnicity of the investors and the level of investment in ethnic minority founders.

Conclusions

25. The two pilot ethnicity data sets for 2021 and 2022 were provided by a growing proportion of the Angel Group signatories under the Investing in Women Code (50% in 2021 and 70% in 2022). There is a willingness of the Angel community to provide greater transparency on their investments in ethnic minority founders and we are encouraged to expand and deepen the ethnicity data survey in the coming year. However, the data reveals that **the number of ethnic minority founders securing Angel investment remains extremely small.**
26. This is compounded by the very low level of investment received by ethnic minority teams compared to all white teams. The further decrease in the proportion of investment gained by ethnic founder teams in 2022 than 2021 is extremely disappointing. It may also reflect the lack of risk taking by investors at a time of financial and economic turbulence in the latter half of 2022, with Angel investors focusing on their existing investee businesses and seeking out businesses with a similar demographic profile as themselves as a means of mitigating risk.
27. Nevertheless, through only a snapshot of Angel activity, these findings demonstrate that ethnic minority founders in the UK still encounter many large barriers to gain access to Angel investment compared to their white founder counterparts. Although we have no specific data from this pilot study, we know there is a lack of ethnic minority Angel investors across the UK. Whilst we are seeing the emergence of some very active all Black and Asian investment groups within the Angel market, who have a valuable influence as investors and co-investors, **there remains an urgent need to increase the ethnic diversity of existing Angel groups, as well as forming more groups dedicated to backing ethnic minority founders.**
28. There is much more we can all do across our Angel investment community to improve our practices and significantly increase the level of ethnic minority founders accessing investment, covering a wide range of recommended actions such as: **addressing pipeline and deal sourcing, approaches to evaluation, due diligence, and decision-making.** At UKBAA, we are supporting Angel groups in our community to take practical steps for change. One of the ways we are doing this is through our development of the “Angel Investment in Diversity Good Practice Guidelines”.¹⁰
29. We are extremely grateful to all the Angel groups who have provided this valuable data on their 2021 and 2022 investments. Going forwards, we hope many more Angel groups will share ethnicity data on their investments, so we can all measure progress and achieve a significant increase in investment in ethnic minority founders in the years ahead.

BRITISH BUSINESS BANK DATA AND ANALYSIS

Venture and Growth Capital Chapter

2022



Introduction

1. To better understand and address the challenges surrounding diversity in entrepreneurship, the British Business Bank initiated an ethnicity data collection pilot in 2021 and 2022, alongside collection of gender data. This discussion paper presents the findings from the 2022 pilot and invites an industry-wide dialogue on how to progress this essential agenda. The Bank will soon publish a more comprehensive report based on these insights.
2. This voluntary exercise aimed to assess the industry's readiness to gather data on ethnicity in addition to gender, complementing our ongoing commitment to gender diversity within the [Investing in Women Code](#) ("Code") framework.
3. The pilot was a success insofar as **over two thirds of venture and private equity signatories participated in both years**, and from 2023 onwards, equity Code Partners will continue to collect ethnicity data on a voluntary basis as part of the Investing in Women Code data collection process.

Methodology

4. The primary focus of the discussion paper is on the ethnicity and gender disparities among General partners¹¹ (GPs), as allocators of capital, and founders/entrepreneurs as recipients of capital.
5. The study aims to assess the current state of ethnic diversity within the investment teams and committees of General Partners (GPs) handling venture and private equity allocation. Furthermore, it examines diversity among founding teams advancing to the investment committee stage and their funding outcomes. Lastly, it explores the relationship between diversity and investment allocation.
6. The paper concludes with actions for fostering diversity and inclusion in GPs and the investment pipeline, drawn from the British Business Bank's recent research report, [Finding What Works: Pathways to Improve Diversity in Venture Capital Investment](#)¹².
7. In 2022, 55 out of 80 signatory firms provided data on investment committee decisions encompassing gender and ethnicity of founders.

Key findings

Ethnic Minorities as Allocators of Capital

8. In this section we examine the ethnic and gender diversity within the investment teams and committees of General Partners allocating venture capital and private equity. **Diversity within investment committees is likely to foster a more inclusive and equitable decision-making process.**

When investment committees encompass a wide range of perspectives, backgrounds, and experiences, they are better equipped to make well-informed and nuanced judgments, ultimately leading to improved investment outcomes. Additionally, diverse committees can enhance risk management by mitigating groupthink and promoting critical evaluation of potential investments.

9. The table below depicts individuals with an investment committee role across all signatory firms. In 2022, Ethnic diversity within investment committees remained notably low, with diversification typically occurring around the 6th IC-level hire. **Among individual committee members, Ethnic Minority representation is 7.6%** out of a total of 513 individuals, while 73.1% are White.

Representation diminishes for all ethnic minority groups as seniority increases.

10. **Ethnic diversity in investment teams is low**, comprising 12.2% of 885 individuals, with 55.4% being White. This indicates higher Ethnic Minority representation in investment teams than at the committee level.

Table 1. Investment committee members by broad ethnic group 2022

Source: British Business Bank analysis of IWC signatory data, n=513 (2022)

	White	Asian or Asian British	Black, African, Caribbean or Black British	Mixed or Multiple ethnic groups	Other ethnic group	Prefer not to report	Total
Male	55.0%	3.1%	0.6%	1.0%	0.2%	16.0%	75.8%
Female	18.1%	1.2%	0.4%	1.0%	0.2%	3.3%	24.2%
Total	73.1%	4.3%	1.0%	1.9%	0.4%	19.3%	100%

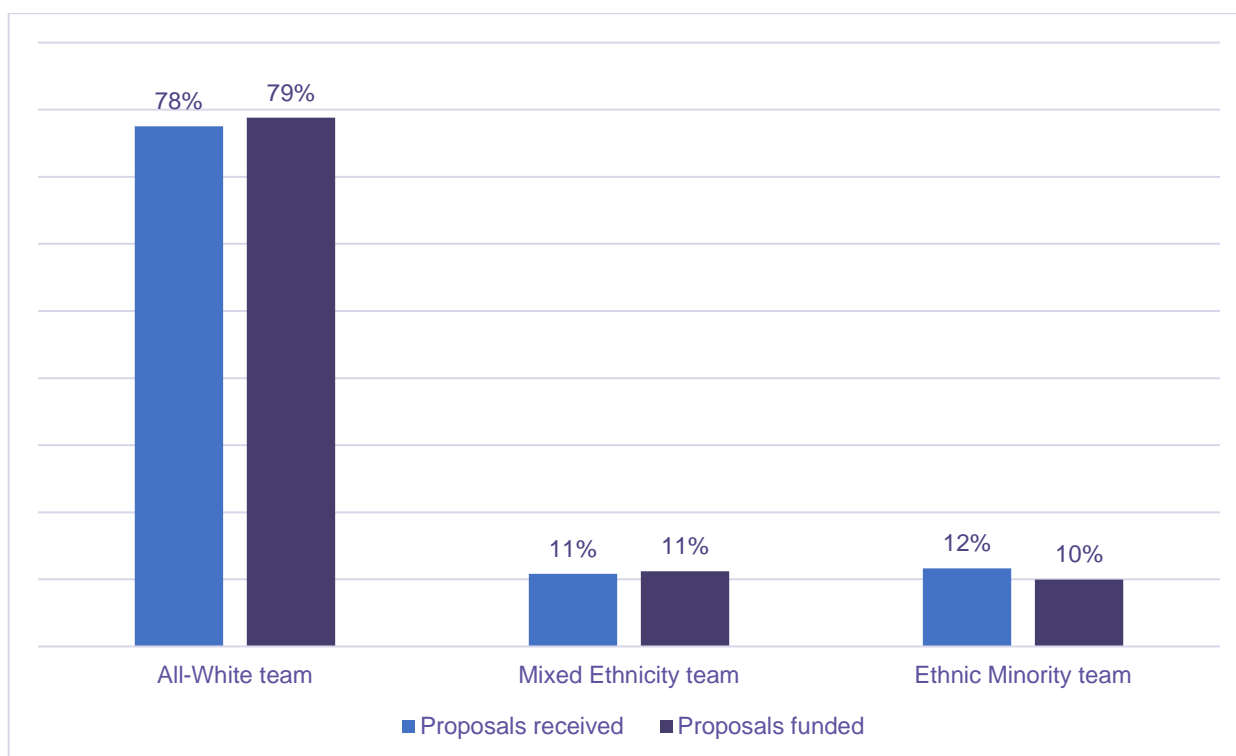
Ethnic Minorities as Recipients of Capital

11. In this section we explore the depth of ethnic diversity within founding teams and individuals advancing to the investment committee stage, probing into their funding outcomes. Our examination encompasses funding outcomes across all-White, Ethnic Minority, and Mixed Ethnicity teams, illuminating aspects of inclusivity and fairness within the industry.
12. **All-Ethnic Minority founding teams made up 12% of the total received proposals (175**

of 1,481) but accounted for a smaller portion, 10%, of those funded (91 of 911). This is equivalent to a progression rate of 54%, the lowest of the three groups, as highlighted below.

13. All-White founding teams represented 78% of the total 1,481 proposals received and 79% of the total 911 funded proposals, a progression rate of 64%. Mixed Ethnicity teams accounted for 11% of received proposals and 11% of total funded proposals, a progression rate of 65%.

Graph 1. Investment committee proposal outcomes by team ethnicity 2022



First and Follow-On Proposals for Ethnic Minority Teams

14. This section presents insights and trends within the dynamics of first-time and follow-on proposals presented and deals at investment committee stage.
15. **All-Ethnic Minority teams are underrepresented in follow-on funding, accounting for 4% of follow-on deals compared to 14% of first-time deals.** The vast majority of funded deals for Ethnic Minority teams are in first-time funding (84%) compared to 58% and 54% for all-White and Mixed Ethnicity teams respectively.

16. In total, all-White teams secured 83% of follow-on funding, also accounting for 76% of first-round funding. Mixed Ethnicity had a higher share of follow-on deals relative to their share of first-time deals (13% and 10% respectively).

Warm introductions, stand out as the predominant approach by which teams of all ethnicities connect with firms.

17. Warm introductions typically secure higher success rates relative to other types of introductions, **but all-White and Mixed Ethnicity teams appear to benefit more than all Ethnic Minority teams** (72%, 79% and 58% respectively).

Graph 3. Share of First and follow on deals by ethnicity of team



Source: British Business Bank analysis of IWC signatory data n=991 (2022)

Relationship between Investment Committee diversity and Investment Allocation

20. Expanding upon our examination of GPs' investment committee composition and investment allocation by team ethnicity, we now investigate whether there is a relationship between the diversity of the investment committee and investment allocation. The diversity of the investment committee in the allocation of deals is a crucial aspect of ensuring equity and inclusivity in the investment landscape. It directly impacts how resources and opportunities are distributed among various founding teams.

21. When an all-White Investment Committee evaluates proposals from different team compositions, Ethnic minority teams secure an 8% share of deals. This is equivalent to a progression rate of 43%, the lowest among the three groups (60% all-White teams, 59% Mixed Ethnicity teams).

In Mixed Ethnicity investment committee proposal assessments, Ethnic minority teams perform similarly to all-White and Mixed Ethnicity teams.

22. ***When a Mixed Ethnicity Investment Committee evaluates proposals from different team compositions, Ethnic minority teams secure a 13% share of deals.*** This corresponds to a progression rate of 69%, similar to rates observed for all-White teams (70%) and Mixed Ethnicity teams (74%).

23. This underscores the imperative of promoting diversity within investment committees to provide more equitable funding opportunities for entrepreneurs from diverse backgrounds."

Actions General Partners Can Take

General Partners

24. The British Business Bank's recent report, "[Finding What Works: Pathways to Improve Diversity in Venture Capital Investment](#)," provides a valuable foundation for addressing some of the disparities identified in this discussion paper. The report identifies three clear pathways for UK funds to enhance diversity in VC investment. These pathways encompass promoting diversity at the decision-making level, fostering inclusion in the investment pipeline, and embracing transparency and accountability. These pathways offer practical strategies for VC firms, entrepreneurs, and the broader industry to adopt and promote. ***It's crucial not only to choose an approach but to sustain it over time***, tracking and monitoring progress rigorously.

Conclusion

25. These findings though not representative of the entire market, uncover ***the stark reality of ethnic minority underrepresentation within the Venture Capital/ Private Equity landscape, shedding light on the need for urgent action***. In the face of significant underinvestment in women and ethnic minority founders, GPs may be

leaving money on the table. While some progress has been made, the disparities persist.

26. Our results echo findings of other organisations active in this space. For example, Cornerstone Partners and Extend Ventures, who have drawn attention to the low share of VC funding secured by Ethnic Minority founders, particularly female Ethnic Minority founders.^{13,14}
27. However, based on signatory data, the relationships between ethnicity, gender and securing funding are not conclusive, with relatively low sample sizes preventing any significant results from statistical and econometric testing. Further data collection and analysis across the industry is key to transparency and tracking progress.
28. These findings show there is still much progress to be made, but the Investing in Women Code signatories have shown there is a base for collecting data more consistently. Feedback and commentary on this topic from the industry is welcome at investinginwomencode@beis.gov.uk and roundtable discussions will be undertaken with industry players to progress this agenda.

INDUSTRY INSIGHTS

"Green Angel Syndicate first introduced a diversity policy in 2018, stressing the need for diversity among our investments, our members and our management team. It is particularly important to encourage ethnic minority founders. All the evidence supports the case that diversity among founders creates a greater chance of success, while monocultural founders are less likely to succeed. Prejudice in this regard, as well as being unfair and inequitable, is self-defeating. The greater the diversity we can achieve among our founders, the better it suits us. Thus, data collection to monitor this is a crucial part of our strategy."

Nick Lyth, Founder and President, Green Angel Syndicate

"We are delighted to contribute to this report which provides data on investments in businesses led by ethnic minority founders and are pleased to be a signatory to this initiative going forward. At Cornerstone, we recognise the importance data transparency plays in promoting a more inclusive investment landscape. As a 'people first' VC firm that believes diverse founding teams provide a competitive advantage, capturing diversity data is a core part of our inbound application process. Although providing diversity data is an optional part of our investment process, we are encouraged by our high completion rates (>80%) given our transparent approach and the trust we have built with founders over several years in how we handle this data. We are encouraged the wider investment community is beginning to incorporate diversity data capture into their processes, with strong evidence to suggest tracking ethnicity and other diversity data points creates a proactiveness amongst funders to i) originate more diverse deal flow and ii) review existing investment processes to remove biases to finding exceptional companies, regardless of the backgrounds of the founders that are building them. Thanks to the UKBAA and BBB for continuing to lead this effort".

Rodney Appiah, Co-Founder Cornerstone Partners, and Managing Partner of Cornerstone VC

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- ¹ <https://www.british-business-bank.co.uk/research-alone-together/>
- ² https://www.british-business-bank.co.uk/wp-content/uploads/2023/07/BBB_What_Works_in_VC_Report.pdf
- ³ https://www.british-business-bank.co.uk/wp-content/uploads/2023/02/J0189_BBB_SBFM_Report_2023_AW.pdf
- ⁴ <https://www.gov.uk/government/publications/inclusive-britain-action-plan-government-response-to-the-commission-on-race-and-ethnic-disparities/inclusive-britain-government-response-to-the-commission-on-race-and-ethnic-disparities>
- ⁵ <https://report.cornerstone-partners.co.uk/wp-content/uploads/2021/04/Cornerstone-Report-2021.pdf>
- ⁶ Extend Ventures www.extend.vc/diversity-beyond-gender
- ⁷ <https://report.cornerstone-partners.co.uk/wp-content/uploads/2021/04/Cornerstone-Report-2021.pdf>
- ⁸ Beauhurst- UKBAA Women Angel Insights report September 2022
<https://www.beauhurst.com/research/women-angel-insights/>
- ⁹ BBB-UKBAA Report on the UK Angel Market October September 2020
- ¹⁰ <https://www.ukbaa.org.uk/wp-content/uploads/2021/12/diversityguidance.pdf>
- ¹¹ In this paper we define general partners as private equity and venture capital fund managers with an office and investments in the UK.
- ¹² https://www.british-business-bank.co.uk/wp-content/uploads/2023/07/BBB_What_Works_in_VC_Report.pdf
- ¹³ <https://report.cornerstone-partners.co.uk/wp-content/uploads/2021/04/Cornerstone-Report-2021.pdf>
- ¹⁴ <https://www.extend.vc/diversity-beyond-gender>