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Fixing the funding gap: City invests in women private investors overlook

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FOUR WAYS THE CITY INVESTS IN WOMEN

WE NYC seeks to help close the funding gap for women at all levels.

The WE NYC initiative launched in 2014 to help close the funding gap for female business owners. It has rolled out four programs.

WE Fund Crowd pledges the first 10% of crowdfunding campaigns by city-based women on the microlending site Kiva, which has partnered with the Department of Small Business Services. The zero-interest loans can be up to $10,000 and are paid back in three and a half years or sooner.

WE Fund Growth connects lenders to cashflow-positive companies that need between $25,000 and $125,000. The city provides a loan-loss guarantee that allows partners, including Renaissance Economic Development Corp., New York Business Development Corp., Excelsior Growth Fund, BOC Capital Corp. and Brooklyn Cooperative Federal Credit Union, to take more risk.

WE Fund Credit provides loans up to $100,000 for businesses that have a big customer order but need money to fulfill it, as an alternative to high-cost credit cards and working capital loans. Its partners include Goldman Sachs and lending site Fundation.

WE Fund Venture co-invests at a 1:2 ratio alongside partners Archer Gray, Future/Perfect Ventures, Golden Seed Venture Fund, WOCstar Fund and the Multicultural Innovation Lab. The Economic Development Corp. operates the $10 million venture fund.

KJ Miller and Amanda Johnson were having drinks one evening when they got on the topic of makeup, specifically why it is so hard to find a nude-tone lipstick that works for women of color. Most cosmetics, they noted, were formulated for women with a lighter complexion.

The pair, who met at Harvard Business School, bought industrial molds and dyes and began experimenting with lipsticks in their New York kitchens. "Lipstick is not rocket science," Miller said. In early 2017 they launched Mented (short for pigmented), a direct-to-consumer cosmetics brand for women of color, who they estimate spend $30 billion a year on cosmetics.

Raising capital proved more challenging. As African-American women pitching to mostly white male investors, "we had a harder time getting in the room and, when we did, convincing people that there is a problem that needs to be solved," Miller said.

That, she stressed, is simply human nature. Investors tend to put their money in what feels familiar. "When the majority of investors are men and white, it should be no surprise that the majority of people who get funding are white males," Miller said.

After three dozen fruitless meetings, Miller and Johnson got their first break with an HBS alumna and angel investor they cold-called. By the end of last year, they had raised $4 million from investors, including iSeed Ventures, BBG (Built by Girls) Ventures and Outbound Ventures.

Today Mented has grown to include products for the face, eyes and nails. The founders have left their kitchens for an office in Harlem that accommodates their staff of seven full-time and four part-time employees. Orders are fulfilled from a New Jersey warehouse.

Moving the needle

For each success story like Mented, however, there are dozens of women-founded businesses that go unfunded. Women are launching startups at a faster rate than their male peers. Yet last year, female founders received just 2% of the $130 billion invested by venture capitalists, a proportion that has stubbornly refused to budge despite heightened attention to gender disparities. (Mixed-gender teams received 13% of VC dollars.)

If that's not bad enough, "the numbers around minority women are another degree of terrible," said Jo Ann Corkran, general partner at Golden Seeds Venture Fund.

Corkran's is one of five venture funds selected in late February by the city to help change those odds. Under the program WE Venture, run by the NYC Economic Development Corp., the city has earmarked $10 million to co-invest alongside VC partners in women-led startups based in the city. For every $2 invested by the partners—which also include Archer Gray, Future/Perfect Ventures, WOCstar Fund and the Multicultural Innovation Lab—the city will invest $1. That will mobilize $30 million during a period of up to five years. Recipients must pledge to remain in New York for at least three years.

"As a city, that's how we stay competitive, attract the best talent and continue to attract jobs," said Gayle Jennings-O'Byrne, who along with Pialy Aditya is a general partner at WOCstar Fund, which focuses on early-stage ventures led by women of color.

WE Venture is the final piece of an ambitious strategy by the de Blasio administration to boost the success of the city's female entrepreneurs and close the persistent funding gap. It also serves as a swan song of sorts for its key architect, Alicia Glen, deputy mayor for housing and economic development, whose last day was March 1.

The strategy is driven by the belief that entrepreneurship is a critical pathway to economic security for women and to greater vitality for the city. There are more than 359,000 women-owned businesses in New York, which employ more than 190,000 people and generate $50 billion in sales annually. The number of female entrepreneurs has surged 43% since 2002, almost double the growth of men-owned businesses.

Glen's portfolio was broad, but women's issues were of special interest. One of the first things she did as deputy mayor, with first lady Chirlane McCray and Maria Torres Springer, then-commissioner of the Department of Small Business Services, was to launch Women Entrepreneurs NYC—or WE NYC—a sweeping initiative aimed at expanding the economic potential of female entrepreneurs across the five boroughs.

"I thought, Let's see what's going on here and if there are specific interventions that city government can undertake to actually move the needle," Glen said.

The city canvassed 1,500 female business owners through multilingual surveys and in-person conversations. It found that, despite the increase in women owning businesses, they faced acute challenges in acquiring capital, business skills and other resources. Mirroring broader trends, they lagged behind their male counterparts on key metrics, such as revenues, employees and funding. More than half of female founders started their company with less than $10,000, compared with a third of male founders.

That research led to the development of a suite of programs and policies to help a broad swath of women "who are CEOs, freelancers, live in public housing and are making their first bottle of hot sauce," as Glen put it. "I wanted it in the zeitgeist that New York is the best city in the world for women to succeed."

The focal point for the initiative is we.nyc, a website offering free legal advice, mentoring and workshops and events—complete with child care. But the most groundbreaking elements seek to help women overcome funding barriers. While WE Venture is the latest and perhaps flashiest program, the fact is, few companies, especially outside the tech realm, will ever raise money that way. Less than 2% of all businesses are funded via venture capital. Most mom-and-pops have more modest ambitions—and needs. Seven out of 10 women are seeking less than $10,000, said Gregg Bishop, the current commissioner of the SBS.

Reaching those budding microentrepreneurs is the idea behind WE Fund Crowd, a first-of-its-kind partnership with microlending site Kiva formed in November 2017. On Kiva, entrepreneurs can crowdfund up to $10,000 in zero-interest loans—borrowers pay back the principal but no interest. There's no credit score or collateral required. Instead, the system relies on social collateral in the form of the borrower's family and friends, who make the first pledges, effectively vouching for the borrower. These first small pledges are critical to attracting other investors. (If a campaign does not meet its funding target, the money is returned.)

With WE Fund Crowd, the city is lending its considerable clout by kicking in the first 10%, up to $1,000, to campaigns by New York City–based female entrepreneurs. The loans are repaid over a maximum of 42 months and can be reinvested by the city. Bishop said the SBS had already been providing technical assistance to women looking for small loans, but "we wanted to do more, so we put up our balance sheet."

After struggling to find a nail salon that didn't give her a headache from toxic fumes, Nathaly Rodriguez used the program to help open House of Nails, a salon that uses products free of formaldehyde, toluene and other harmful ingredients, in Rego Park, Queens. She had saved money via her previous job's 401(k) matching program and attended nail school, but a city law mandating ventilation systems threw off her painstakingly crafted budget. She heard about Kiva through her local Small Business Services office, which last spring helped her launch a campaign for $4,000. SBS put in the first $400, and the loan to install a ventilation system was funded within three weeks.

“I couldn’t believe that it was a city agency that was trying to help women,” said the Ecuador-born Rodriguez. “If it wasn’t for that loan, I couldn’t have opened as early as I did.” As House of Nails nears its one-year mark, business has been booming, keeping Rodriquez and her five employees busy. Appointments are required on weekends to tame the flow. She is paying back her loan in installments, and she envisions opening more locations.

A ripple effect

To date, WE Fund Crowd has helped channel $1 million in loans to owners such as Rodriquez. (The city's portion is $100,000.) The program is on track to reach more than 500 businesses in its first three years with $3 million in total loan value, said Bishop. It has drawn interest from cities including Athens, Boston, Barcelona, Montreal and Santiago, Chile, he said, adding, "We like to be trendsetters."

WE NYC includes other options for established businesses that need growth capital (see box, below). It's WE Venture, though, that is likely to get the most attention, if only because the kinds of companies it targets are higher profile. "It's a great twofer," Glen said. "Put more money into women VC firms and have women VC firms invest more in women-run companies."

But as a use of taxpayer money, it's likely to draw criticism. Early-stage investments are risky, and the traditional VC model rests upon one or two big hits that make up for a lot of duds. "I love that they're supporting women," said Joanne Wilson, a New York angel investor. "But [early-stage investing] is hard. They could be investing alongside 10 losers." Wilson said programs such as WE Credit, which lend to established businesses and can earn more predictable returns, are a better use of city funds.

On the other hand, the $10 million investment by the city is relatively small and may be a more cost-effective way to cultivate jobs than the kind of "big game hunting" represented by the failed Amazon deal to build a headquarters in Queens. The city and state offered $3 billion in subsidies, or about $120,000 per job promised.

Local governments have long cultivated public-private venture funds—such as the life sciences fund launched in 2013 by the EDC to support biotech—though none before has targeted women- and minority-owned businesses.

The city's involvement is warranted, Glen said, because the private market isn't addressing the issue on its own. "Despite the business case for diversity, the numbers are still appalling.

So something else has to happen. There has to be some other kind of intervention," she said.

What happens here can have a ripple effect.

"When you see a city like New York that's at the forefront of finance commit real dollars and significant capital," said Jennings-O'Byrne of WOCstar, "that signals to the world that this population is profitable and investable and a real asset class."

Inline Play

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