

Forbes

January 4, 2021

[Click Link Here](#)

How Policies Aimed At Female Founders And Investors Can Reignite The Economy And Close The Gap In Opportunity



Gerri Stengel

I write about the success factors of women entrepreneurs.



Anne Wojcicki, CEO & Co-Founder of 23andMe during The 2020 MAKERS Conference on February 11, 2020 GETTY IMAGES FOR MAKERS

How does the U.S. turn its economy around, create jobs, increase competitiveness, and become more innovative?

"We need to allow **ALL people to fully participate in the economy** and contribute their talents," said Gayle Jennings O'Byrne, co founder and general partner at WOCstar Fund—an investment fund focused on tech startups led by women of color (WOC), Native Americans, immigrants, and founders from the heartland. For far too long, venture capitalists have overlooked these founders of high-potential companies.

Federal Dollars To Support Women-And Diverse-Led Venture Funds

SSBICs [Specialized Small Business Investment Companies] should be a major cornerstone of the new administration's policy," said Trish Costello, founder and CEO at Portfolia and CEO/CEO Emeritus of the Kauffman Fellows, a training program for VCs. Portfolia is a venture capital firm focused on [energizing the 7 million affluent women](#) in the U.S. who can invest in startups.

SSBICs are venture funds owned by women and people of color, which receive matching grants from the Small Business Administration (SBA). "They should pull out a lot of the onerous regulation. [Importantly,] the program needs to be run by someone with VC experience," Costello said.

Investments in venture capital have become an important asset class for pension funds. It makes sense that pension funds serving educators, firefighters, and the police, would invest in funds that develop technologies to help them do their jobs better or are managed by people who look like them—women and people of color (POC).

Pension funds created [Emerging Manager Programs](#) for just this purpose. "Nearly all of that money goes to white guys spinning out of big brand name venture funds," said Costello. "That doesn't help anyone. The programs need to be run by people who reflect the population they serve and have those networks."

Fortunately, there are now many women and diverse fund managers who can serve as mentors. There are also training programs for startups, including those from All Raise and Kauffman Fellows.

A source of funding for STEM (science, technology, engineering, and math) startups are [Small Business Innovation Research](#) (SBIR) and Small Business Technology Transfer (STTR) grants. Eleven federal agencies participate in these programs. There's almost universal agreement that before private capital invests in cutting-edge technology, the government needs to fund the earliest research and development, commented Elizabeth MacBride, founder at Times of Entrepreneurship. She found a consensus among experts that, to restart innovation, Biden and Harris need to get Congress to increase funding to SBIR/STTR programs.



SBA chart illustrating why STEM startups and small businesses need research and development funding ... [+] SMALL BUSINESS ADMINISTRATION (SBA)

MacBride is reporting on more female scientists and researchers developing innovative technology and commercializing it. Yet, the total number of women-owned small businesses (WOSBs) receiving [SBIR/STTR Awards](#) decreased to 13% in 2018, down from 14.4% in 2013, according to *America's Seed Fund: Women's Inclusion in Small Business Innovation and Small Business Technology Transfer Programs* commissioned by National Women's Business Council (NWBC).

The NWBC plans to increase WOSBs participation in SBIR/STTR programs. It is a federal advisory committee, established to serve as an independent source of advice and policy recommendations for the President, the US Congress, and the US Small Business Administration (SBA) on issues of importance to women business owners and entrepreneurs.

NWBC has recommended to Congress that [adequate resources be provided](#) to outreach to universities and organizations that support women and POC-led STEM startups. Having served on the National Science Foundation SBIR/STTR subcommittee, Costello recommends that the 11 federal agencies diversify these advisory councils—making them half female and a third people of color and including entrepreneurs.

Applications for these grants are complicated and time-consuming. Participating agencies should offer the opportunity to do an initial pitch to determine if the company's idea is a fit for the program. "The process to do these applications takes a significant amount of time and research to do," said Liz Sara, chairmen of the board at NWBC and founder and president at Best Marketing. "If there were a quick pitch phase, it would eliminate women-owned businesses that are outside the scope."

Using Tax Advantage Returns To Encourage Investment

NWBC is recommending increasing the Angel Investment Tax Credit cap to more than \$50,000. Only about 1% of the wealthy are angels. Raising the cap would incentivize new angel investors and broaden the pool of investors, particularly women investors. If the administration feels that the tax credit will only

make the rich richer, make the credit contingent on investing in female-and diverse founders, suggested Costello.

Since the Black Lives Matter protests, corporations have pledged billions in racial-equality programs. However, those dollars are not targeting venture funds and high-potential companies led by women and people of color. Use tax incentives to encourage large corporations to make these investments. These startups could be sources of innovative vendors, partners, strategic alliances, and future acquisitions.

Whether individuals or corporations, "encourage behavior through tax changes that cause you to stretch out of your normal way of investing and beyond your normal networks," said Costello.

Expand Who And How People Can Invest In Startups

NWBC recommends that the SEC [modernize](#) an accredited investor's definition to include not just people with high income or net worth but also those who are financially sophisticated. People are so much more sophisticated than when the SEC defined [accredited investors](#) in 1933 as wealthy people. You don't need to be rich to know how to invest in companies, commented Costello.

"We need to invest in Black and Brown women venture capitalists," emphasized Jennings O'Byrne. Let's get creative in whom we think limited partners—investors in VC funds—can be. Whether you're Asian, Black, or Jewish, there is cultural precedent for members of a community to invest in other members' businesses. There is legal precedent, too. If average Americans—87% of all households*— can invest in crowdfunded companies, why can't they invest in venture capital funds?

These funds are professionally managed, which de-risks them. Perhaps funds could include one or two special purpose vehicles that aggregate dollars from investors investing as little as \$1,000. "Venture capital funds have the potential for outsized gains," Jennings O'Byrne noted. "This has a secondary benefit of creating a new generation of investors who currently aren't part of the investment process." As with investment crowdfunding, the amount of capital Main Street investors invest could be limited.

Get State And Local Governments Involved, Too

Through WE Fund Venture, New York City co-invests—alongside five women-led venture funds—in technology startups founded by women and minorities. WOCStars is one of the five funds. "How can the new administration replicate this across the country?" asks Jennings O'Byrne.

How will you advocate for meaningful policies to support entrepreneurs and their funders?

Follow me on [Twitter](#) or [LinkedIn](#). Check out my [website](#).

Gerri Stengel