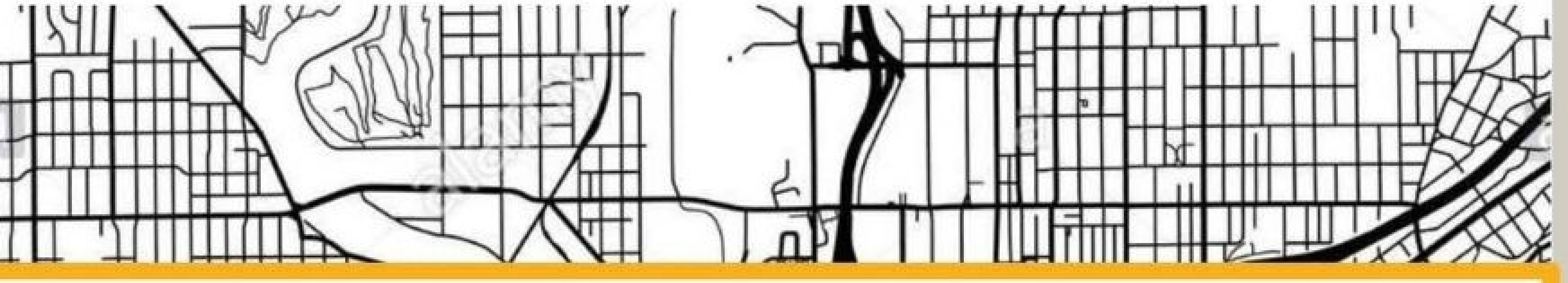
Atlanta

Equitable Entrepreneurial Capital Ecosystem Assessment



Proposed Path Forward + Final Materials

March 2021

AWBI ATLANTA WEALTH BUILDING INITIATIVE

COMMONFUTURE.

next street

JPMorgan Chase & Co.

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Project Overview

With the support of JPMorgan Chase & Co., Common Future and Next Street are partnering with the Atlanta Wealth Building Initiative and the Partnership for Southern Equity to ***assess the local small business capital landscape*** and ***co-develop impactful and inclusive strategies with local stakeholders for supporting Black- and People of Color-owned small businesses in Atlanta***

Over the course of this project, we seek to:

1. Understand the **capital and services needs for Black- and People of Color-owned small businesses in accessing business financing** and the **gaps in the small business support system, which have been heightened by the COVID-19 crisis**
2. Co-create strategies with local stakeholders to **address the historical inequities in access to capital being deepened by the COVID-19 crisis**, including programs that could be developed or amplified such that the ecosystem produces **equitable outcomes** and opportunities for collaboration and investment
3. Catalyze the implementation of the strategies identified by **fostering a network of people and organizations** on the ground prepared to take up the work

Our Project Approach

Over the next month, we will be engaged in four tracks of work, split into a research phase and a solutions brainstorming phase; ***this work will culminate in a final deliverable summarizing research findings and the set of community-informed solutions to address capital and financing needs for small business owners of color in Atlanta***

Research Phase

Track 1: Baseline Analysis

Assess the state of supply and demand for capital for small businesses in Atlanta, examining the availability of debt and equity

Review existing research on small business capital needs among entrepreneurs of color in Atlanta

Track 2: Deep Dive Analysis

Conduct interviews with local capital and business support providers to identify opportunities to enhance access to capital for entrepreneurs of color in Atlanta

Track 3: Needs Assessment & Opportunity Identification

Synthesize findings to identify needs among small businesses and the capital ecosystem

Develop a prioritized list of opportunities and considerations for each identified need

Solutions Phase

Track 4: Solutions Brainstorm

Brainstorm solutions that align to capital landscape needs identified

Begin to catalyze implementation of solutions by discussing implementation considerations, financing requirements, and prospective launch strategies

Solutions Development Process

We have been working through an iterative and collaborative process to identify the highest priority needs in the Atlanta's entrepreneurial capital ecosystem and create a robust set of solutions over the past two months

Where we have been… ***…Where we are going***

Research entrepreneurial capital ecosystem	***Identify and refine ecosystem needs***	***Prioritize ecosystem needs***	***Solutions refinement and finalization***	***Final research and recommendations***	***Solutions execution***
Nov 2020 – Feb 2021	Jan – Feb 2021	Feb 17	Feb 24	Mid-March	Ongoing
Conducted extensive research to understand the state of entre-preneurial capital and corresponding small business support in Atlanta	Worked with Advisory Group to identify and refine 17 ecosystem needs limiting access to entre-preneurial capital	Conducted survey of Advisory Group to align on 10-12 highest priority needs to address	Work with Advisory Group to create and refine solutions to address high priority needs	Final set of PowerPoint materials summarizing research, needs, and solutions	Advisory Group to do further planning and execute recommended solutions if desired

Key Research Parameters

To assess the local entrepreneurial capital landscape, we will set the following key parameters to focus our research on the elements that most impact underserved small business owners

Geography	Based on availability of quantitative data, focus on **Fulton and Dekalb counties;** we will supplement with additional insights based on the qualitative research through interviews
Demographic Breakdown	Double down on **business owners of color** (with a specific focus on Black business owners and intersectional women business owners)
Defining "Small Business"	Define small businesses as **businesses with <50 employees**; we will include micro-businesses, mom and pop businesses, sole proprietor / non-employee businesses, and business owners without business licenses in our analysis when possible
Capital	Given availability of quantitative data, primarily focus on availability of **debt**; we will also produce insights around the availability of **equity**, where available

Key Research Sources

For this assessment in Atlanta, we interviewed local stakeholders and leveraged numerous secondary sources to inform our research and findings

Secondary research sources

- Crunchbase
- Federal Reserve Small Business Credit Survey
- FFIEC
- Georgia Social Impact Collaborative
- ImpactDeals Forum
- Maximpact Ecosystems
- PwC MoneyTree & CB Insights
- S&P Global Market Intelligence
- Small Business Administration 504 and 7(a) lending
- The Aspen Institute
- U.S. Annual Survey of Entrepreneurs
- U.S. Census Bureau, Survey of Business Owners and Self-Employed Persons
- U.S. Census County Business Patterns
- U.S. Department of the Treasury CDFI Fund
- U.S. Department of the Treasury SBA
- U.S. Survey of Non-Employer Statistics

Local stakeholder interviews

- Managing Director, Accenture
- President and CEO, Access to Capital for Entrepreneurs
- President and CEO, Aerotropolis Atlanta
- Executive Director, Atlanta Wealth Building Initiative
- CEO and Executive Director, The EDGE Georgia
- Senior Advisor, Federal Reserve Bank of Atlanta
- CEO and Co-Founder, The Gathering Spot
- Founder and CEO, Goodie Nation
- Senior Vice President of Economic Development, Invest Atlanta
- Fund Advisor, Kendeda Fund
- Executive Director, LISC Atlanta
- Chief Innovation Officer, Metro Atlanta Chamber
- President and CEO, Russell Center for Innovation and Entrepreneurship
- Program Director, Start:ME Accelerator
- Atlanta Market President, Truist
- Area Director, University of Georgia Small Business Development Center
- Founding General Partner, Valor Ventures
- Vice President, Georgia Community Affairs, Wells Fargo

Advisory Group: Overview

The Advisory Group consisted of 18 stakeholders, inclusive of community lenders and investors, business support organizations, and anchor and philanthropic institutions

Atlanta Equitable Entrepreneurial Capital Ecosystem Advisory Group

- Adrienne White, Citizens Trust Bank
- Cicely Garrett, Strategic Consultant
- Dale Royal, LISC Atlanta
- David Jackson, Federal Reserve
- Donte Miller, Village Microfund
- Grace Fricks, Access to Capital for Entrepreneurs
- Jay Bailey, Russell Center for Innovation and Entrepreneurship
- Joey Womack, Goodie Nation
- Kristina Christy, Wells Fargo
- Latresa McLawhorn Ryan, Atlanta Wealth Building Initiative
- Lauren Jeong, Atlanta Wealth Building Initiative
- Lisa Calhoun, Valor Ventures
- Mark Crosswell, Community Foundation for Greater Atlanta
- Paul WIlson, Jr., UGA SBDC at Georgia State University
- Ron Alston, Truist
- Ryan Wilson, The Gathering Spot
- Tsedey Betru, Partnership for Southern Equity
- Yonina Gray, Reinvestment Fund

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Executive Summary

Atlanta historically has had robust small business capital demand; COVID-19 has shifted demand dynamics

- Atlanta had ~$13-15B in historical annual capital demand in 2016 to 2019, with **demand declining moderately, in part, due to diminishing trust in traditional financial institutions**
- Since the advent of COVID-19, **demand surged for emergency capital in 2020 Q2**, but is **expected to be lower through the end of 2021** due to significantly diminished demand for traditional debt products

Capital supply has not met historical capital demand, despite supply increasing steadily since the financial crisis

- The estimated **gap between capital supply and demand is ~$9-12B annually**

Of the capital supplied, distribution has been inequitable by capital type, product size, and geography

- Capital in Atlanta has been **driven by bank lending often inaccessible to entrepreneurs of color**; **CDFI lending has grown** from new market entrants, but has significant room to grow to meet entrepreneurs' needs
- Angel and venture capital investments in local technology-enabled businesses have grown in Atlanta, but **Atlanta's BIPOC founders face racial biases and structural barriers to accessing equity investments**
- There are disproportionately **low rates of lending in neighborhoods with high concentrations of Black and Latino(a) residents, such as Pittsburgh and the Buford Highway Corridor**
- Capital supply is **historically concentrated in microloans and large loans and equity investments**, creating a **"missing middle" for entrepreneurs seeking financing to grow and scale their businesses**

The COVID-19 pandemic and recent calls for racial equity have exposed critical needs in the Atlanta entrepreneurial capital ecosystem, leading to shifts in the capital support landscape

- Emergency capital programs exposed the **need to further capitalize local community lenders and investors who have significant capacity constraints and have historically relied on mission-oriented funding sources**

Emerging Needs: Prioritization

After surveying the Advisory Group, we aligned on the following prioritized needs to address support of entrepreneurs of color and the corresponding entrepreneurial capital ecosystem in Atlanta

Debt / Grant Capital

Needs among small businesses in accessing financing and guidance within banks and community financial institutions

1. Need for more debt products with relationship based underwriting standards and flexible repayment and re-borrowing terms
2. Need for more community financial institutions (including CDFIs, CDCs, credit unions, and minority depository institutions) offering micro- and mid-sized loans in market

Equity / Equity-like Capital

Needs among small businesses in accessing financing and corresponding guidance within equity investor networks

1. Need additional "friends and family" capital (convertible notes, pre-seed equity, grants) for startup and early-stage businesses
2. Need for more "equity-like" capital funds (revenue-based financing, crowdfunding) dedicated for moderate-to-high growth potential Black- and POC-owned businesses

Ecosystem Infrastructure

Needs among entrepreneurship ecosystem stakeholders to better support small businesses with capital and services

1. Need a platform of capital aggregation pools and blended finance investment structures among local community financial institutions and equity investors
2. Need shared resources and capacity building for local community financial institutions and equity investors
3. Need to integrate landscape of capital and service providers to provide wraparound support to small businesses
4. Need an ecosystem-wide platform on city, state, and federal public policy positions that promote ecosystem objectives

Proposed Solutions (I of II)

The following solutions are designed to improve access to capital and corresponding support services and build a more cohesive entrepreneurial capital ecosystem for BIPOC entrepreneurs in Atlanta

	Priority needs	Proposed solutions
Debt / Grant Capital	Need for more debt capital products with relationship-based underwriting standards and flexible repayment and re-borrowing terms	• Establish innovation grants for community financial institutions in Atlanta to experiment and institutionalize alternative flexible underwriting policies • Introduce a new line of credit product offered by local community financial institutions to support entrepreneurs of color
	Need for more community financial institutions offering micro- and mid-sized loans in the market	• Establish loan loss reserve funds and guarantees to loosen balance sheet constraints among local community financial institutions
Equity / Equity-like Capital	Need additional "friends and family" capital for startup and early-stage businesses	• Form new "friends and family" pre-seed funds and corresponding support programs for pre-venture and early-stage entrepreneurs
	Need for more "equity-like" capital funds dedicated for moderate-to-high growth businesses	• Encourage entries of revenue-based financing providers focused on entrepreneurs of color through grant and go-to-market support

Proposed Solutions (II of II)

The following solutions are designed to improve access to capital and corresponding support services and build a more cohesive entrepreneurial capital ecosystem for BIPOC entrepreneurs in Atlanta

	Priority needs	Proposed solutions
Ecosystem Infrastructure	Need a platform of capital aggregation pools and blended finance investment structures	• Form catalytic capital pools for community financial institutions and investors to deploy flexible capital to entrepreneurs of color
	Need shared resources and capacity building for local community financial institutions and equity investors	• Form a community of practice of capital providers to share best practices, form partnerships to refer BIPOC-owned portfolio companies, and collectively fundraise for blended capital pools
	Need to integrate landscape of capital and service providers to provide wraparound support to small businesses	• Foster forums among an integrated network of capital and service providers connecting entrepreneurs of color with advice, networks, and prospective investments
	Need an ecosystem-wide platform on city, state, and federal public policy positions that promote ecosystem objectives	• Establish an ecosystem-wide advocacy platform with shared local and state policy stances that promote equitable access to small business financing in Atlanta

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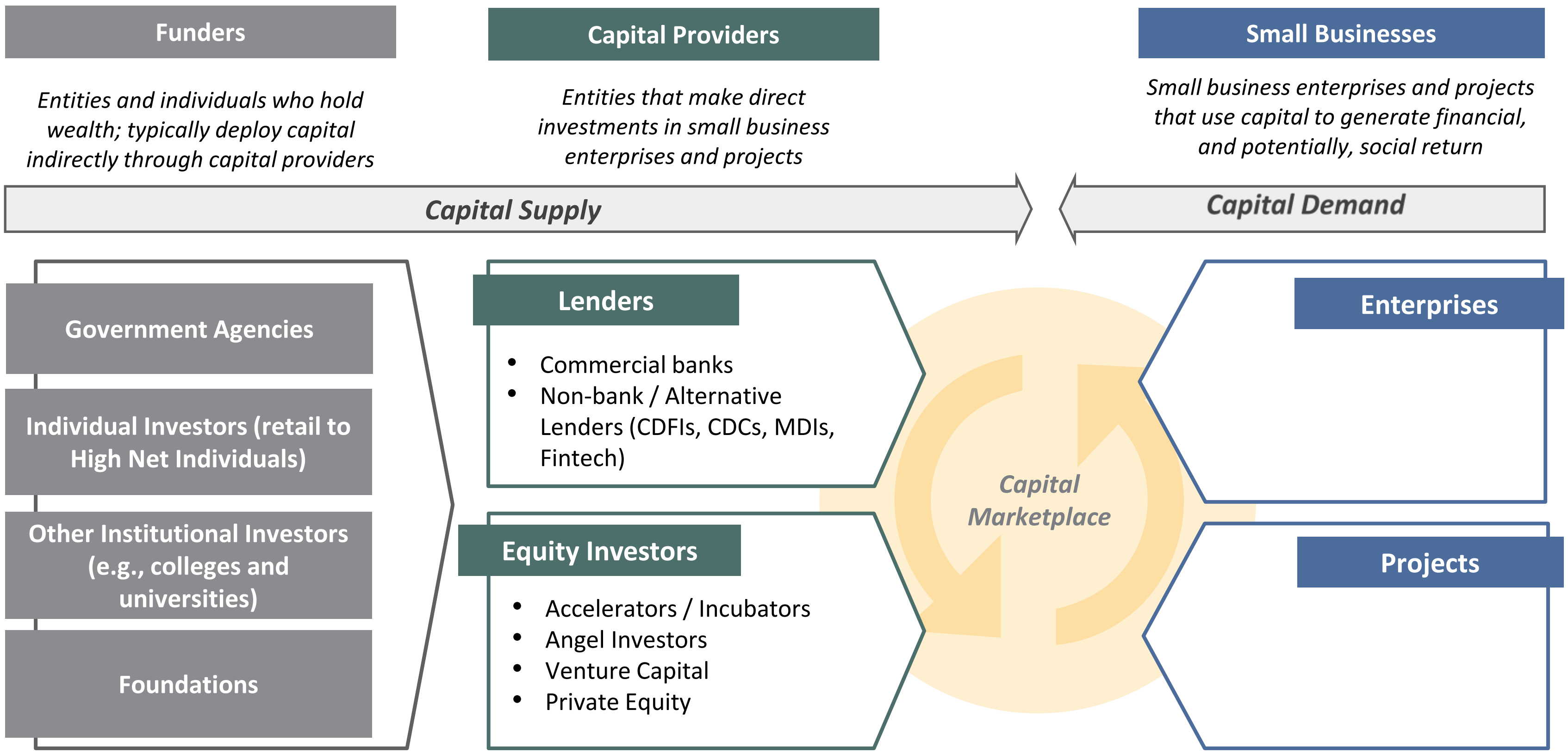
ILLUSTRATIVE

Capital Ecosystem: Overview

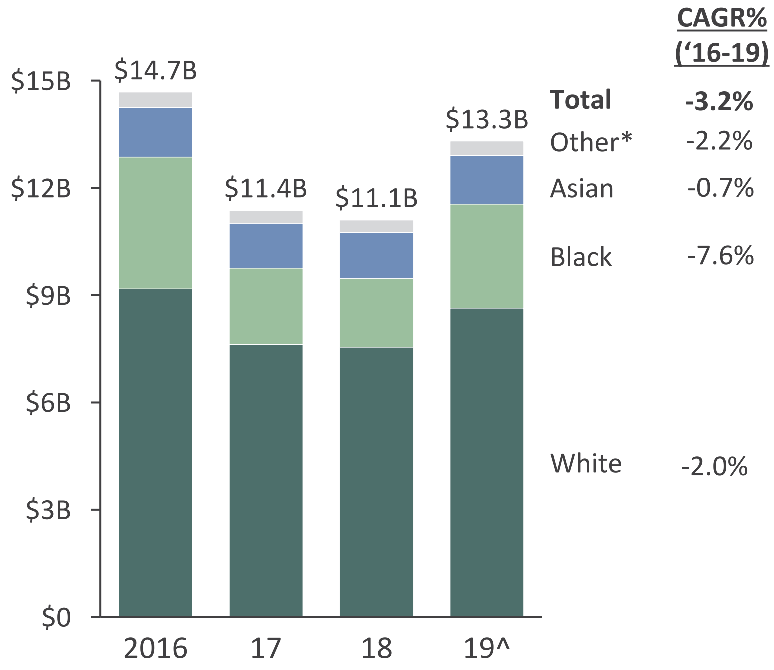
The research and analysis are structured through an illustrative model for the flow of impact capital in the city, taking into consideration existing assets and unique features of the regional landscape



Capital Demand: Historical

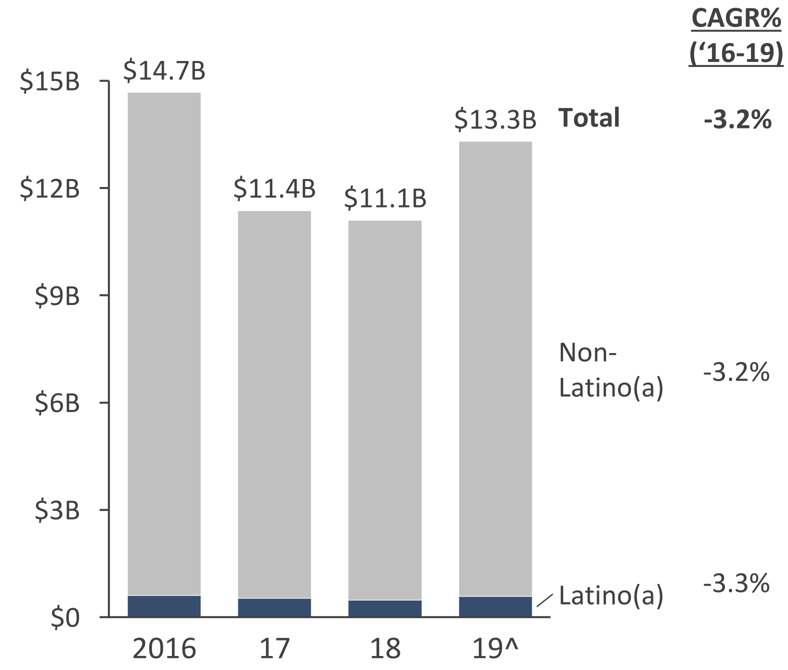
Capital demand has declined across markets since 2016, driven by the 2017 Tax Relief Bill and declining trust in traditional financial institutions among some affinity groups

Small business capital demand in Atlanta
By race, in billions of USD (2016-19)



Demand among non-employers	$7B	$5B	$5B	$7B

Small business capital demand in Atlanta
By ethnicity, in billions of USD (2016-19)



Demand among non-employers	$7B	$5B	$5B	$7B

Source: U.S. Census County Business Patterns, U.S. Survey of Non-Employer Statistics; U.S. Annual Survey of Entrepreneurs; Federal Reserve Small Business Credit Survey

Capital Demand: Methodology

We used a bottoms up methodology to estimate the demand for financing from small businesses in Atlanta across demographic groups

Number of small employer and non-employer firms in Atlanta

Asian	Black	Latino(a)	White	Other*

×

% of firms that apply for capital by race and ethnicity

=

Number of small employer and non-employer firms seeking capital

Asian	Black	Latino(a)	White	Other*

×

Average amount of financing sought by race and ethnicity

=

Historical demand for capital in Atlanta

Sources

U.S. Census County Business Patterns, Survey of Non-Employer Statistics, Annual Survey of Entrepreneurs, Survey of Business Owners

Number of businesses 2018 and 2019 estimated to be increased by 2014-17 annualized growth rate

Federal Reserve, Small Business Credit Survey (2016-19)

Federal Reserve, Small Business Credit Survey (2016-19)

Capital Demand: Impact of COVID-19

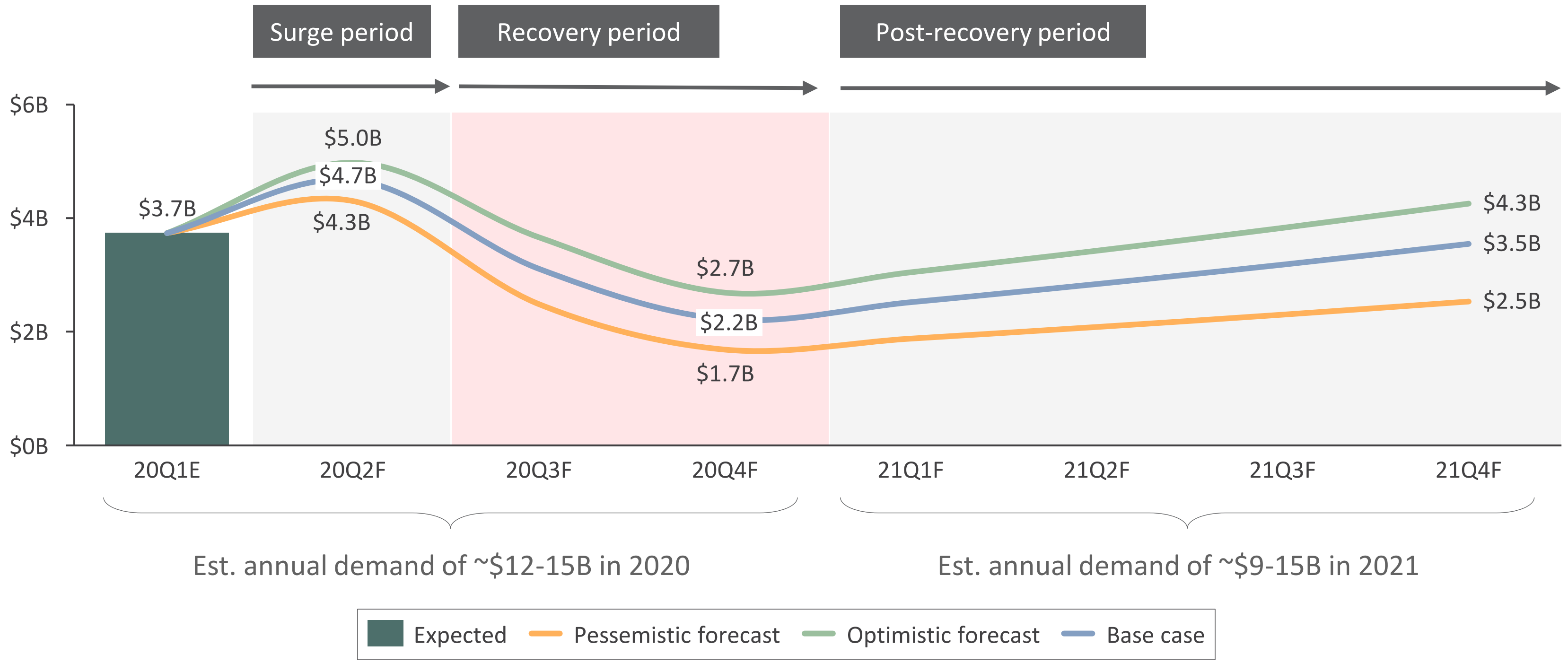
The effects of COVID-19 are expected to increase demand for emergency no-to-low cost funding in the near term, while reducing demand for traditional small business financing in the longer term

Demand Drivers	Change due to COVID-19		Est. impact on demand: *Near-term* *(20Q2-20Q3)*	Est. impact on demand: *Longer term* *(20Q3-21Q4)*
Number of small business	Job losses will compel some unemployed to start new businesses	↗	↓	↓
	Reduced sales and limited access to emergency funding will force many small businesses to close	↓		
Proportion seeking financing	New emergency funds and increased capitalization of existing funds will increase near-term demand for low cost debt and grants	↑	↑	↓
	Small businesses pivoting their businesses models (e.g., switching to manufacturing PPE) will need additional working capital	↗		
	Lower sales as economy recovers in medium-to-long term will lower demand for investment capital	↓		
	Emergency debt funding will increase leverage and prevent many businesses from taking on additional debt capital	↓		
Amount of financing sought	Businesses pivoting their business models will have higher capital needs	↗	↓	↓
	Uncertain sales expectations and macro economic conditions will create fears of “over-leveraging” and lower appetite in debt products, while reducing needs for working capital or growth-related investments	↓		

Capital Demand: Forecast

Demand will fluctuate in the coming months, as we are experiencing an initial emergency surge that will likely flatten to pre-COVID levels as we enter the recovery and post-recovery periods

Atlanta small business capital demand forecast
(2020-21F, Billions of USD)

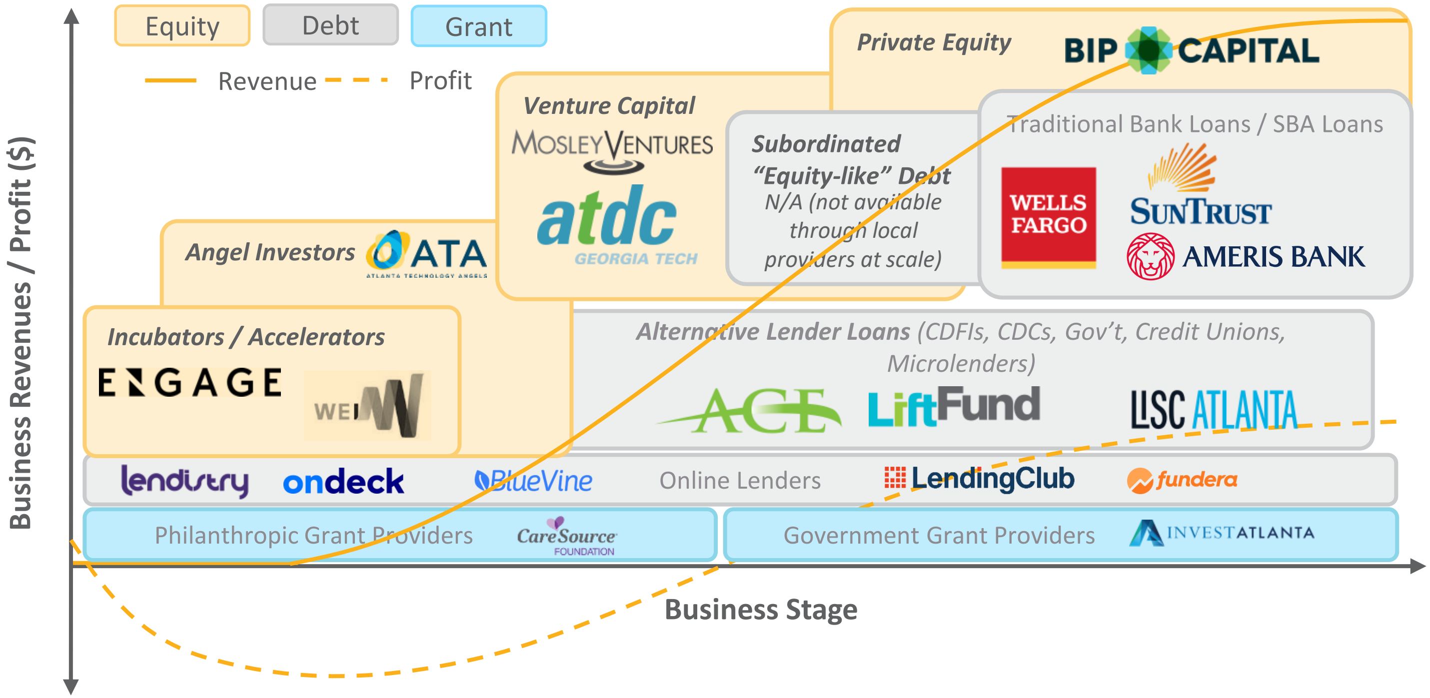


Source: U.S. Census County Business Patterns, U.S. Survey of Non-Employer Statistics; U.S. Annual Survey of Entrepreneurs; Federal Reserve Small Business Credit Survey

NON-EXHAUSTIVE // ILLUSTRATIVE

Capital Supply: Overview of Providers

Atlanta has a broad mix of capital providers serving businesses across different stages, but there is room to grow the number of alternative lenders and grant providers



Key Takeaways

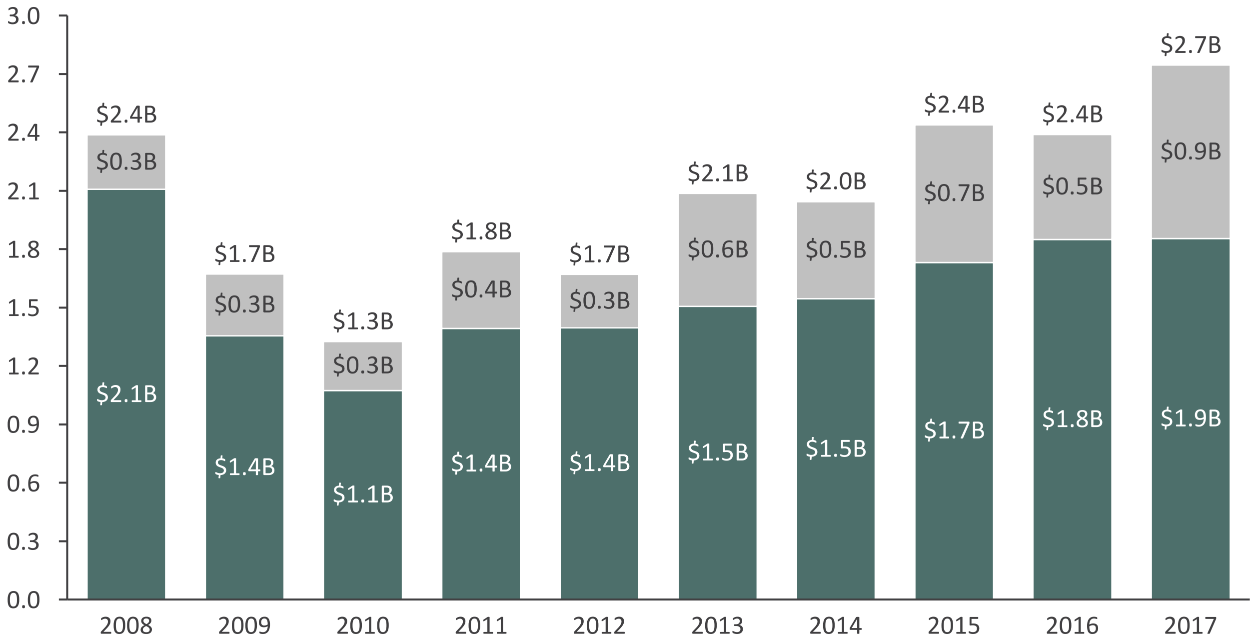
- Access to Capital for Entrepreneurs (ACE) is among the only Atlanta-based community development financial institutions (CDFIs) providing small business loans, and provides the majority of CDFI lending in the city
- SBA loans are made by large regional or national banks; there is a limited community bank presence
- Few grants were provided to small businesses before the pandemic

Capital Supply: Historical

Capital supply has grown since 2010, driven by traditional non-SBA bank lending and equity investment; however, there is still an annual gap of ~$9-12B between supply and demand, with Black business owners having the highest levels of unmet demand

Small business investment in Atlanta, by capital type

(In USD, 2008-17)



	CAGR% (2008-12)	CAGR% (2012-17)
Total	-8.5%	10.5%
Equity capital^	-0.6%	26.6%
Debt capital*	-9.8%	5.9%

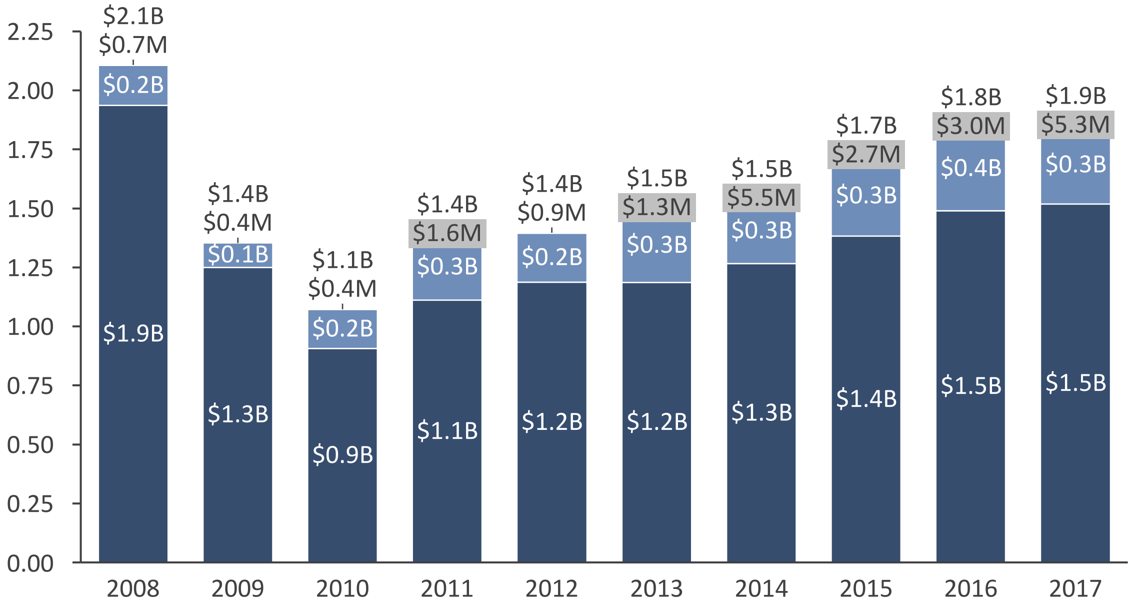
Note: * Figures include lending from traditional sources (non-SBA bank lending, SBA lending, and CDFI lending) on a county-level; ^ Figures calculated on a Metropolitan Statistical Area level

Source: Freedom of Information Act (FOIA) to the Small Business Administration for all 504 and 7(a) lending data, CDFI Fund; PwC / CB Insights MoneyTree Report

Debt Capital: Overview

Small business lending in Atlanta is primarily sourced from non-SBA bank lending, which has grown incrementally in the aftermath of the financial crisis in 2010; CDFI lending makes up the smallest source of funding in the region but has shown significant growth since 2008

Small business lending in Atlanta
(In USD, 2008-18)



	CAGR% (2008-12)	CAGR% (2012-17)
Total	-8.7%	6.1%
CDFI*	27.6%	33.5%
SBA**	5.0%	9.8%
Non-SBA Bank^	-11.5%	5.0%

Note: * CDFI Lending includes all lending by CDFI Fund recipients; ** SBA Lending includes SBA lending, excluding SBA loans made by CDFIs; ^ Non-SBA Bank Lending includes all bank lending, except for SBA loans made by banks or FFIEC institutions

Source: Freedom of Information Act (FOIA) to the Small Business Administration for all 504 and 7(a) lending data, CDFI Fund

Debt Capital: Landscape Characteristics

Atlanta's debt landscape is driven by national and regional banks typically inaccessible to local entrepreneurs of color; meanwhile, an emerging CDFI and mission-driven landscape is embedded in communities, but has significant room to grow to meet entrepreneurs' needs

Banks supply the majority of small business lending, historically inaccessible to entrepreneurs of color

- In Atlanta, ***small business lending is concentrated among national and regional banks*** who supply over 90% of Atlanta's small business loans by value
- This market concentration is a result of a long-term trend of community bank consolidation, resulting in ***fewer banks with dedicated community-based relationships***
- As a result, ***bank lending is often inaccessible to Black and POC-owned businesses*** due to inflexible underwriting criteria that prioritize credit histories and personal collateral

"Banks aren't built to take an inordinate amount of risk. Banks want to see three years of financial performance, personal guarantee, etc. That's the way that federally regulated credit boxes are built, so there's limited opportunity within the structure to broaden it."

Alternative community lenders have a growing presence, but significant gaps in the market remain

- ***Community development financial institutions (CDFIs) offer flexible loans to businesses in the early-to-mid growth stages*** and pairing lending with business services and education
- Access to Capital for Entrepreneurs (ACE) has historically supplied most of the city's CDFI lending, with national CDFIs, such as LISC and Lendistry, recently entering the market and expand total CDFI lending for the city's small businesses
- Despite market entries, ***many CDFIs have constrained balance sheets and operating capacity issues*** and seek new avenues to better integrate into capital markets and garner operating support via philanthropic grants

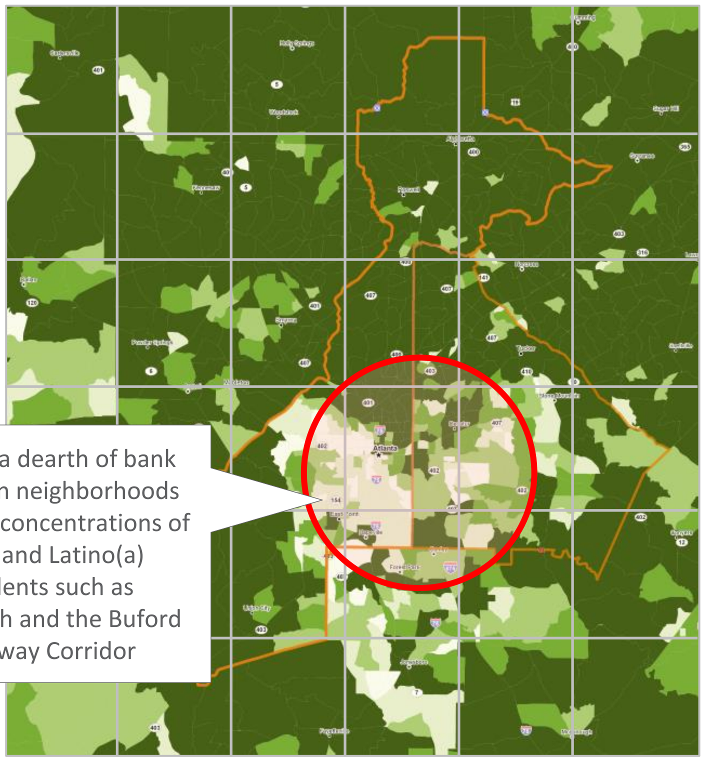
"Access to Capital for Entrepreneurs does great work in the city and communities but does not have capacity to fill the need among the city's Black entrepreneurs and entrepreneurs of color."

Source: Freedom of Information Act (FOIA) to the Small Business Administration for all 504 and 7(a) lending data, CDFI Fund; PwC / CB Insights MoneyTree Report ; Next Street and Common Future interviews and analysis

Debt Capital: Lending by Geography

There are disproportionately low rates of bank lending in neighborhoods with high concentrations of Black and Latino(a) residents; CDFI lending has filled some gaps, but significant unmet demand remains

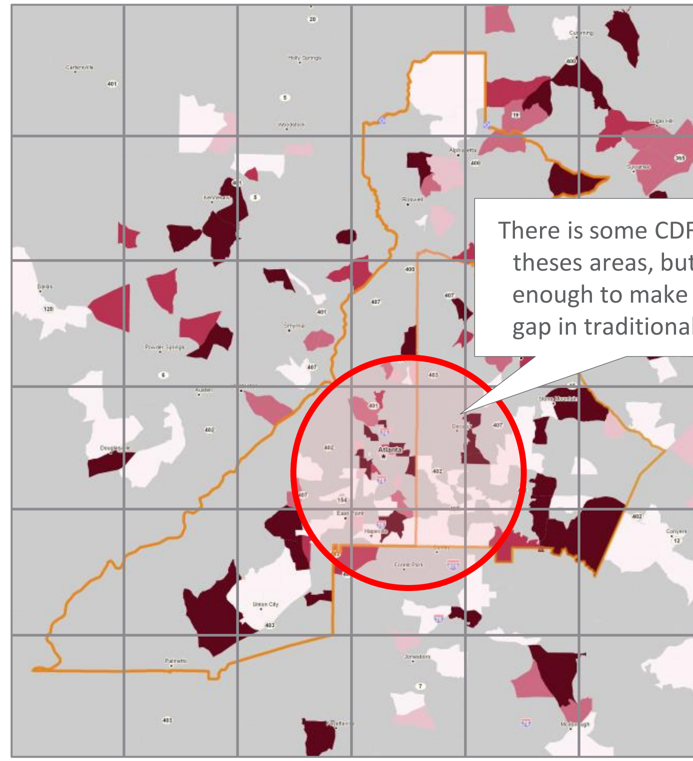
Small Business Bank Loans under $100k (2017)



There is a dearth of bank lending in neighborhoods with high concentrations of Black and Latino(a) residents such as Pittsburgh and the Buford Highway Corridor

Insufficient data | < 25 loans | 26-50 loans | 51-75 loans | 76-100 loans | 100+ loans

Aggregate CDFI Business Lending (2017)



There is some CDFI lending in theses areas, but likely not enough to make up for the gap in traditional financing

Insufficient data | <$5k | $5-10k | $10-25k | $25-50k | $50k+

Source: CRA and CDFI Fund data for Atlanta (2017), accessed through PolicyMap

Debt Capital: Lending by Geography

Bank closures and community lending capacity constraints contribute to this inequitable lending distribution, presenting new opportunities to rethinking their community engagement through partnerships with community-based organizations

Role of Banks

- Supplying the majority of the city's lending, ***banks play a significant role in geographic imbalances***, with disproportionately lower lending in majority Black neighborhoods
- Since the financial crisis, ***bank branch closures in the city's predominately Black neighborhoods have contributed to this lending imbalance***
  - — From 2010 to 2018, there were 48 net closures in majority Black neighborhoods (representing ~23% of the city's total branch footprint)

Community Lender Presence

- ***Local CDFIs have had a growing presence*** in the city's predominantly Black communities
- However, ***local CDFIs lack the scale to make up for gaps in traditional lending in these neighborhoods***
- National CDFIs are starting to build pipelines and operations in these neighborhoods, but still are limited in effectively assessing risk and building trust among local entrepreneurs

"Businesses in communities south of the 20 are viable, but we (CDFIs) need additional capacity to serve more of them."

Integrating with Community Based Organizations

- Local banks and CDFIs have ***launched programs dedicated to providing capital access to businesses in the city's neighborhoods of color***
- Banks and CDFIs often ***source deals through referrals from community-based organizations***; however, local providers point toward biases on sourcing through more sophisticated community organizations
- To expand lending, local banks and CDFIs indicate ***a need for integrated referral partnerships with community-based organizations***

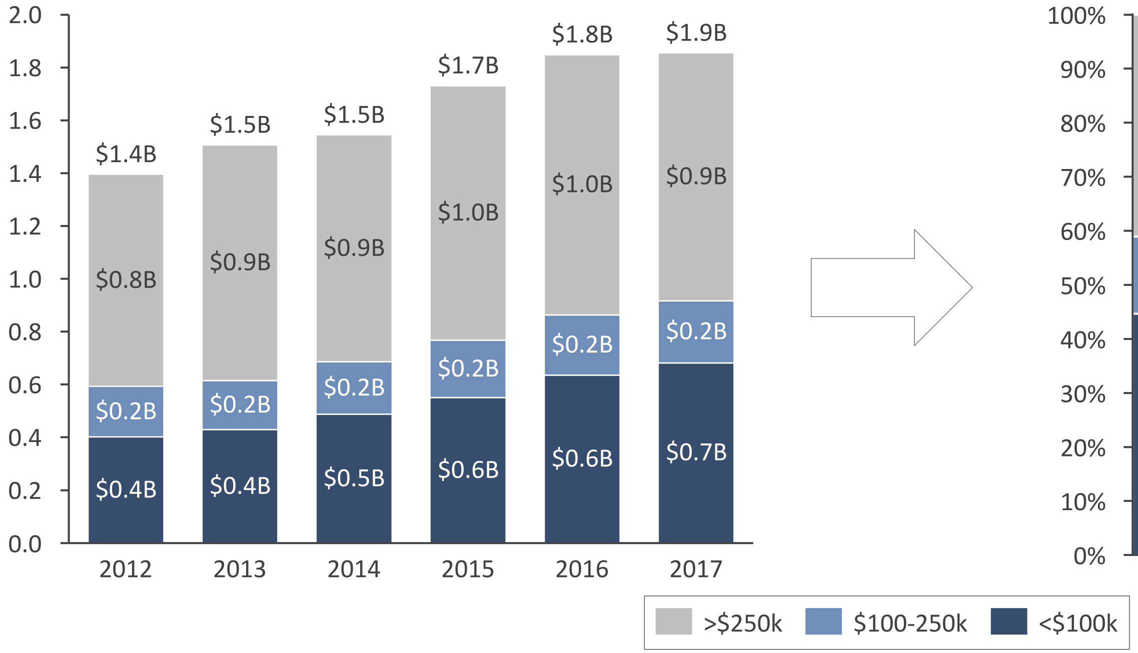
Source: S&P Global Market Intelligence; Next Street and Common Future interviews and analysis

Debt Capital: Lending by Loan Size

The majority of small business lending is split between microloans and loans larger than $250k - leaving a "missing middle" in loan sizes $100-250k. Nearly 95% of SBA lending is made through loans larger than $50k, leaving a gap in smaller loans

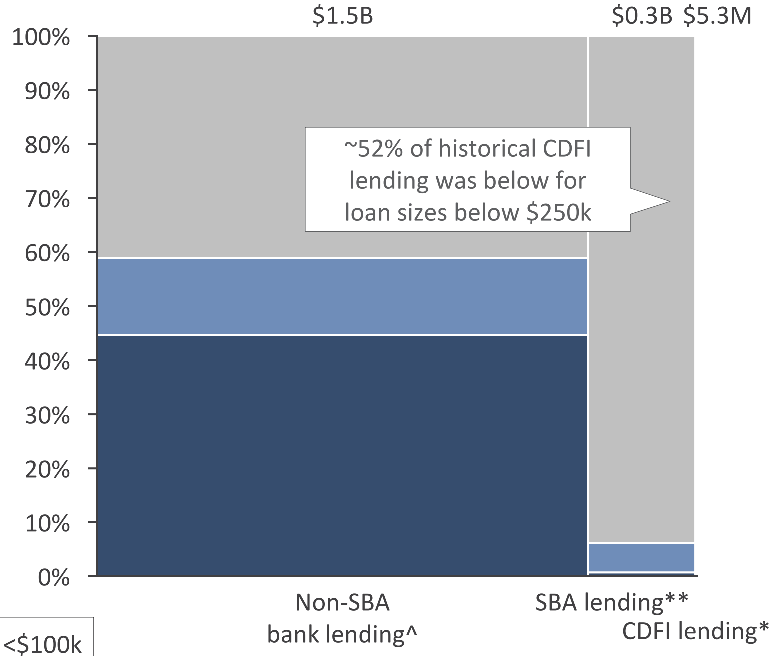
Small business lending, by loan size

(In USD, 2012-17)



Small business lending, by loan size and source

(in USD, 2017)



Note: * CDFI Lending includes all lending by CDFI Fund recipients; ** SBA Lending includes SBA lending, excluding SBA loans made by CDFIs; ^ Non-SBA Bank Lending includes all bank lending, except for SBA loans made by banks or FFIEC institutions

Source: Freedom of Information Act (FOIA) to the Small Business Administration for all 504 and 7(a) lending data, CDFI Fund

Debt Capital: Lending by Size

The "missing middle" in debt capital is driven by market dynamics for providers, who are unable to serve that segment of the market at scale while maintaining financial sustainability

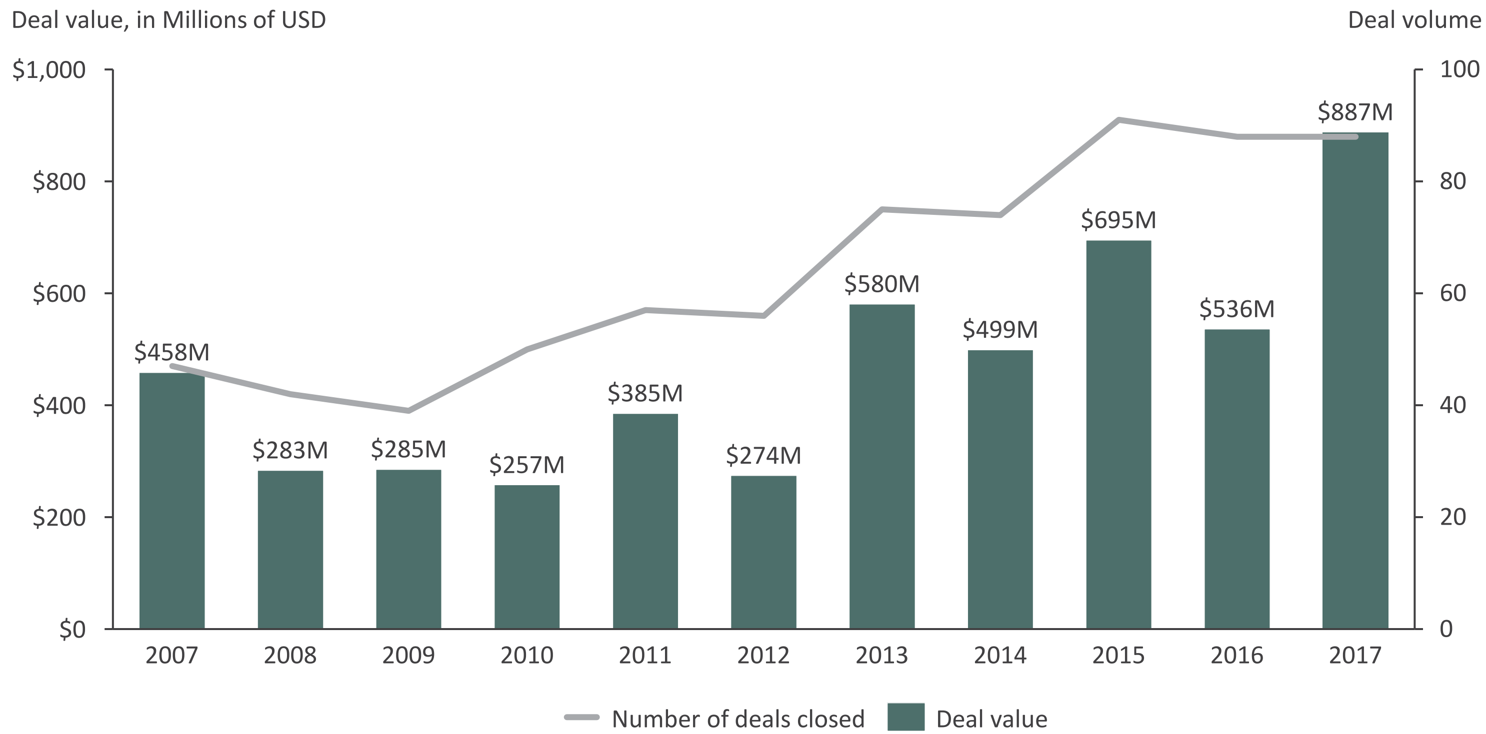
Lenders face challenges offering small dollar loans sustainably	• Bank and community lenders in Atlanta ***face unit economic challenges offering small- to mid-sized loans sustainably and at scale***, given fixed loan origination and servicing expenses which make the unit economics of smaller dollar loans unprofitable – Businesses seeking mid-sized loans tend to have revenue between \$0.5M – 1.5M and are in moderate-growth industries such as food and accommodation *"It's hard to make mid-sized loans. The economics of handling a \$100K loan are about the same as a \$1M loan. We have to pay for the underwriting, legal fees, cost to close and costs to service the loan"*
Philanthropy has helped subsidize some lending among CDFIs, but gaps remain	• Community lenders have ***historically looked to philanthropic sources and capital aggregation pools to supplement their loan revenues on small- to mid-sized loans***; this has enabled lenders to offer loans under \$100k but limits mid-sized lending *"Philanthropies are interested in supporting microlending and small dollar loans. While this is supportive of microlenders, when you are getting to the mid-sized loans over \$100k, philanthropies do not view that type of lending as part of their mission of expanding access to capital"*
Addressing the "missing middle" requires new capital products and solutions	• To sustainably address the "missing middle", market participants indicated a ***need for solutions that create more efficient loan operations***, including utilizing tech-enabled platforms and forming partnerships with new fintechs and online lenders • There are also opportunities to ***bring alternative capital products to market, including flexible debt products like lines of credit and revolving loans***

Source: Next Street and Common Future interviews and analysis

Equity Capital: Overview

Both the volume and value of equity investment deals has risen steadily since the aftermath of financial crisis, reaching a high of $887M in 2017

Atlanta Angel Investment and Venture Capital Deal Value ($) and Volume (#) (2007-18)

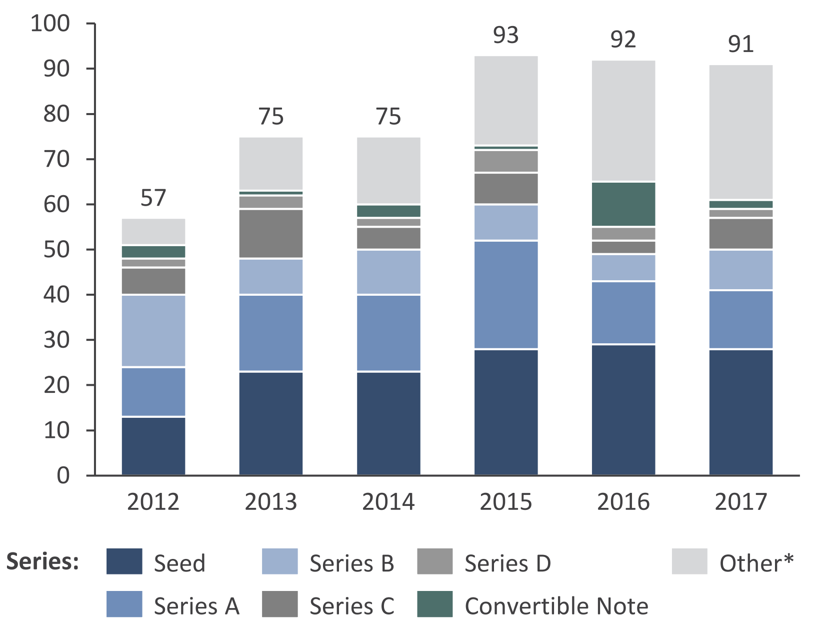


Source: PwC / CB Insights MoneyTree Report

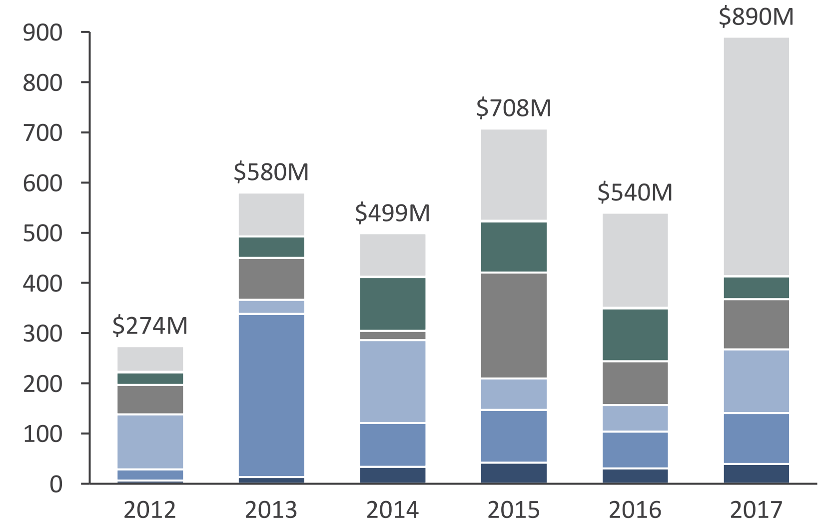
Equity Capital: Investments by Series

The majority of equity deal volume is in Seed and Series A investments, with Series A and Other equity investments representing the highest proportion of total deals by value

Atlanta Angel Investment and Venture Capital Volume (#), by series



Atlanta Angel Investment and Venture Capital Value ($), by series



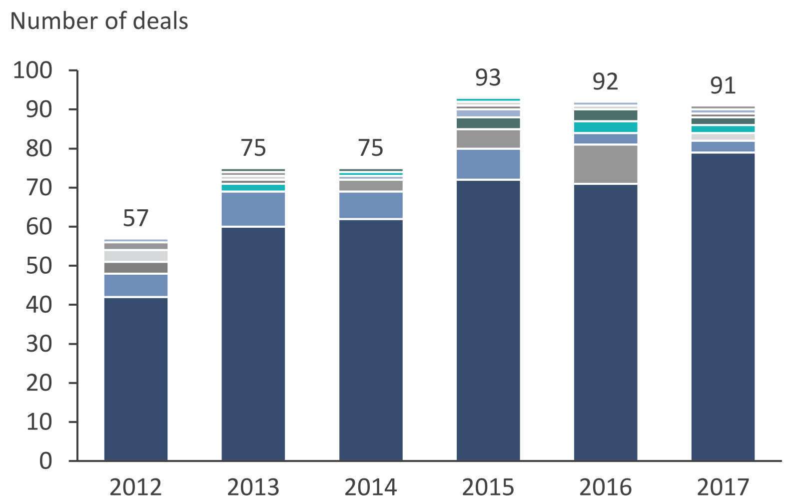
There are 247 equity providers headquartered in Atlanta

Note: * Other includes Growth Equity, and other forms of equity capital, as defined by PwC / CB Insights MoneyTree Report
Source: PwC / CB Insights MoneyTree Report, Crunchbase

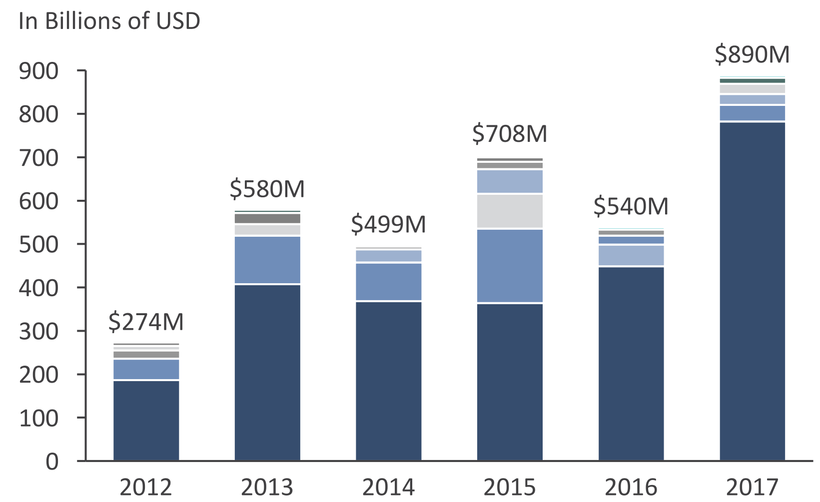
Equity Capital: Landscape by Industry

The majority of equity investments in both volume and value are made to businesses in tech industries followed by healthcare businesses

Atlanta Angel Investment and Venture Capital <u>Volume (#)</u>, by industry



Atlanta Angel Investment and Venture Capital <u>Value ($)</u>, by industry



Industry: Tech* | Agriculture | Environmental Services | Healthcare | Food & Accom.^ | Retail** | Financial Services | Other*^

Note: * Tech includes Computer Hardware & Services, Electronics, Internet, Mobile & Telecommunications and Software; ^ Food & Accom. Includes Food & Beverages and Leisure; ** Retail includes Consumer Products & Services and Retail; *^ Other includes Automotive & Transportation, Business Products & Services, Industrial and Media industries

Source: PwC / CB Insights MoneyTree Report, Crunchbase

Equity Capital: Landscape Characteristics

Atlanta's Black and POC founders face racial and structural barriers to accessing equity investments; emerging initiatives and alternative capital products present opportunities to address these challenges, but require additional financial and operating support

Historical structural barriers

- In Atlanta, Black founders report facing ***racial biases among White fund managers who perceived them as riskier investments***
- ***Few equity investors historically have had a dedicated racial equity focus***, limiting access into investor networks
- Atlanta also has an ***underdeveloped angel and seed investor landscape***, making it difficult for early-stage businesses to secure growth capital

"Investing in all startups is risky, but investors associate Black startups as having more risk. We need investors who take bets on Black startups just like they take bets on White startups"

Emerging initiatives

- Atlanta has ***an emerging investor landscape focused on serving underrepresented founders***, including seed stage investors like Valor VC
  - Valor VC's investment mandate and Startup Runway Foundation are dedicated to supporting early-stage and seed-stage underrepresented founders in the Southeast U.S.
- Organizations such as Atlanta Tech Village and the Gathering Spot have also ***established forums for BIPOC-founders to build social capital, engage equity investors, and showcase their successes***

New "equity-like" capital products

- Atlanta's ***venture investments are concentrated in high-growth tech businesses***, driven by fund structures that require 10x returns on investments
- This dynamic presents ***limited investment opportunities for bus-inesses outside these industries*** due to their more limited growth trajectories
- To better serve moderate-growth businesses, there is an opportunity to introduce ***new non-dilutive equity-like capital products, such as revenue-based financing, that meet their needs***

Source: Next Street and Common Future interviews and analysis

Capital Supply: Peer City Comparison

Atlanta has low levels of non-SBA Bank lending relative to its peer cities, while having comparable levels of SBA bank lending and CDFI lending; the volume of equity investments in Atlanta is high when compared to peer cities

Estimated Small Business Capital Supply* (2017)

	# of small businesses	Non-SBA bank lending	SBA lending	CDFI lending^	Equity investments
Atlanta	53k SBEs	$1.7B	$0.3B	$4.2M	$0.9B
San Antonio	34k SBEs	$1.1B	$0.1B	$5.1M	$0.1B
Dallas	61k SBEs	$2.8B	$0.4B	$5.7M	$0.3B
Houston	93k SBEs	$4.5B	$0.5B	$4.5M	$0.5B
Chicago	125k SBEs	$5.3B	$1.0B	$14.1M	$1.9B

Note: * Debt lending figures calculated on a county-level. Equity investment figures are calculated on the Metropolitan Statistical Area level; ^ CDFI lending calculated as 2012-17 average; Bankable SBA loans are categorized under SBA lending, not CDFI lending

Source: Freedom of Information Act (FOIA) to the Small Business Administration for all 504 and 7(a) lending data, CDFI Fund; PwC / CB Insights MoneyTree Report

NON-EXHAUSTIVE

Capital Supply: Non-Traditional Sources

Alternative sources and funding products will become increasingly important financing options for small businesses, as traditional sources are expected to contract in the coming months

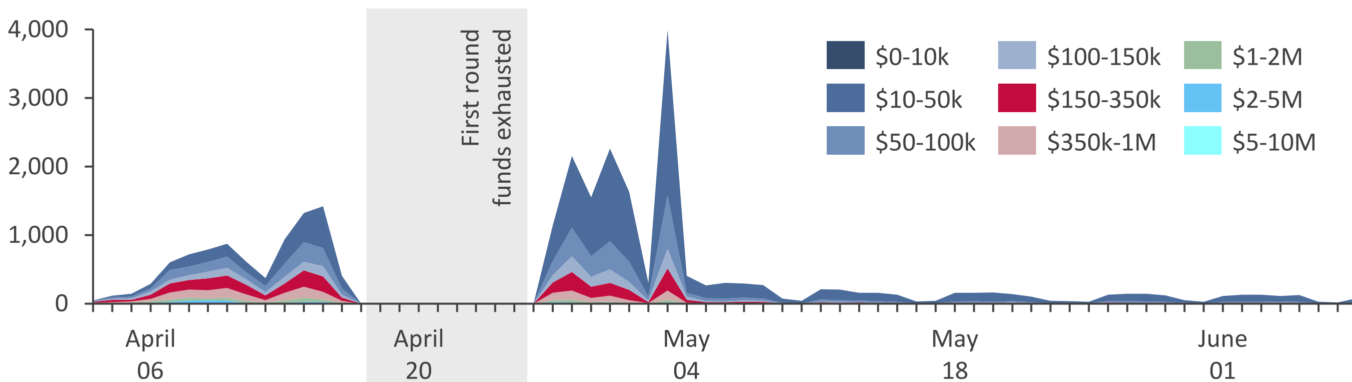
	Online lending	Grants	Revenue-Based Financing
Description	• Online lending has played an increasingly important role in small business lending, with **total online lending growing to ~$7-8B annually across the U.S.** • Balance sheet lenders, peer-to-peer lenders, and invoice and payables financing providers **offer traditional debt products to small businesses** • Multi-lender marketplaces also **meet demand by matching investors to small business**	• Small business grants are **non-repayable funds directly to small businesses through public or nonprofit sources** • Prior to COVID-19, **small business grant programs were limited in Atlanta and throughout Georgia** • During and following COVID-19, **supply of grants is expected to increase to support recovery**	• Revenue-Based Financing (RBF) is **a form of capital where investors provide capital to businesses in exchange for a percentage of monthly gross revenues** • RBFs are **"equity-like" in nature, as businesses repay investors based on financial performance** • Unlike equity, **RBFs do not require businesses to give up ownership**
Illustrative providers	ondeck, LendingClub, BlueVine, fundera		Founders First Capital Partners, LLC, lighter capital, Decathlon Capital Partners

Source: Organization websites

Capital Supply: PPP Loans

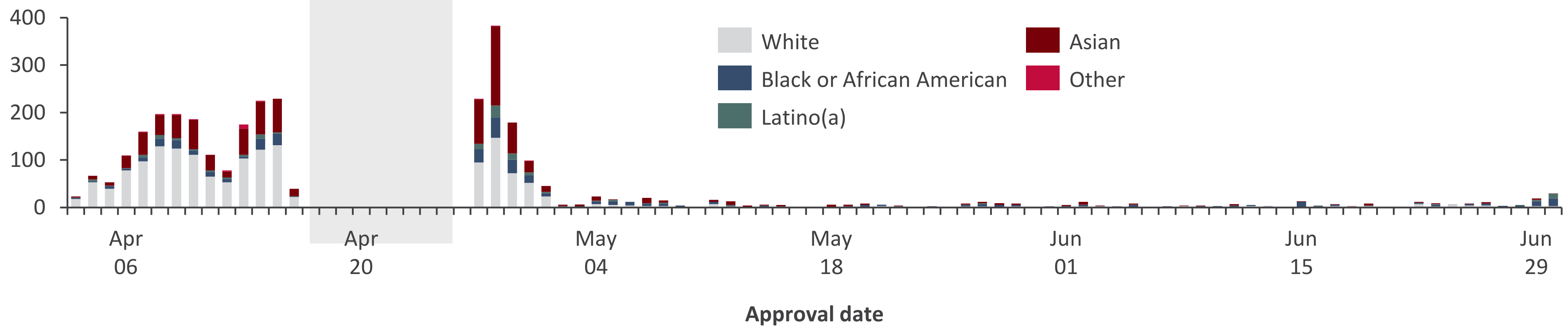
PPP loans were difficult for Black business owners in Atlanta to access in the first rounds of funding, as lenders prioritized existing and larger borrowers with access to more support and resources – characteristics of White-owned businesses in Atlanta

Daily distribution of Paycheck Protection Program loans in Atlanta



The second distribution round of PPP loans from began in January 2021; to distribute the relief more equitably, applications opened in advance for CDFIs making loans to first-time borrowers, while requirements for bank lending borrowers were loosened

Distribution of loan applicants in Atlanta, by race and ethnicity*



Note: * Does not include applicants who did not report race or ethnicity; 89% of borrowers in Atlanta did not report race and ethnicity. Data may be skewed based on demographic participation in survey
Source: U.S. Treasury Small Business Administration

NON-EXHAUSTIVE

Capital Supply: Local COVID-19 Funds

Local and municipal funds are administered directly by government agencies or through a local intermediaries, providing low-cost loans and grants to small businesses

	Fulton County Emergency Loan Program	Atlanta Cares Revolving Loan Fund	AWBI COVID-19 Small Business Relief Fund	RESTORE ATL Fund
Description	ACE and Fulton Co. loan program providing working capital to businesses in Fulton County outside of ATL	Invest Atlanta-run revolving loan fund to provide COVID-19 relief to small businesses	AWBI-led grant and loan program focused on providing Black-owned businesses relief and TA	Partnership between the Metro Atlanta Chamber and CareSource Foundation to provide grants to Black-owned small businesses
Capitalization	$1.5M in funding	$760K in funding	Initial $500K in funding	$180K in funding
Distribution time	Applications reviewed and awarded on rolling basis	Applications reviewed and awarded on rolling basis	Applications reviewed and awarded on rolling basis	Grants awarded in one round
Distribution intermediary	Access to Capital for Entrepreneurs	Invest Atlanta	Various small business lenders	Metro Atlanta Chamber
Fund status	Closed	Open	Closed	Closed

Source: Access to Capital for Entrepreneurs, Invest Atlanta, AWBI, The Metro Atlanta Chamber

Integration with Business Support Landscape

BSOs and capital providers have strong, individual relationships, but there is opportunity to formally integrate BSOs into the capital landscape and add capacity to provide tailored technical assistance

Role of business support

- Market participants indicate that entrepreneurs of color with less sophisticated business operations ***struggle to access financing due to inexperience in financial planning and management***
- Meanwhile, more-sophisticated, tech-enabled entrepreneurs of color often ***seek equity investments prematurely before understanding the venture investor landscape***
- Responding to these dynamics, ***business support organizations (BSOs) play a complementary role in the capital landscape***, offering financial readiness and navigational services to local entrepreneurs

Partnerships across the ecosystem

- ***Local capital providers note having strong informal relationships with the business support organizations***, who serve as referral partners for loans and investments
- Formal collaborative structures can build on this collaboration and ***foster relationships that build pipelines of capital-ready businesses***

"The formal working groups organized by House ATL among affordable housing groups, CDFIs, and funders have been excellent in developing pipelines for financial institutions. A similar collaborative structure in the small business space would be powerful"

Tailored business support

- Atlanta is home to a ***wealth of pre-venture incubators that support startups in the ideation stage***
- There, however, are ***few BSOs that pair capital with tailored industry-specific support for later stage entrepreneurs of color*** due to capacity and fundraising challenges
- There is an opportunity to build upon existing accelerators to ***create industry hubs where entrepreneurs secure capital and tailored business support***

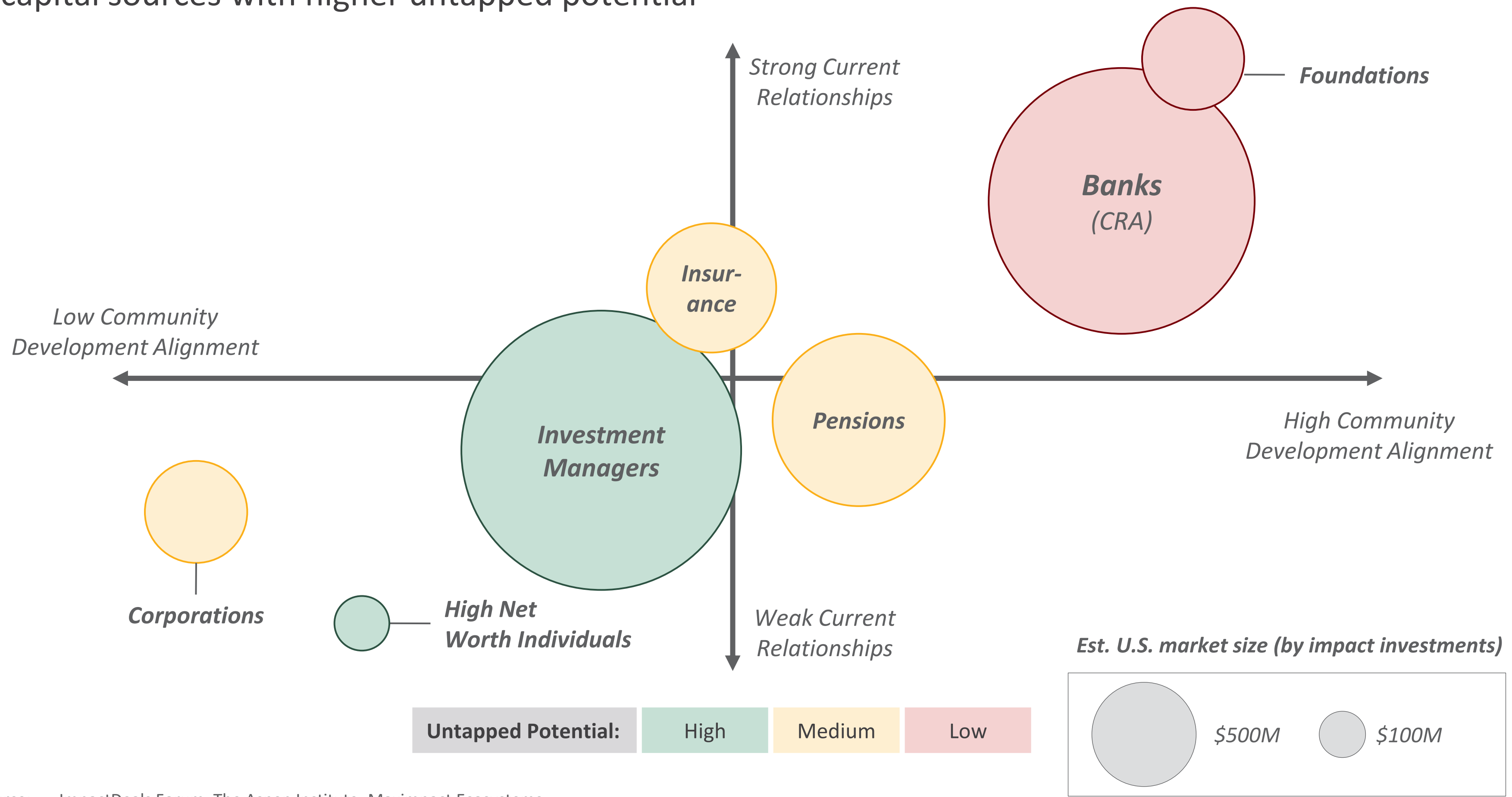
"There are a ton of pre-venture incubators for Atlanta's Black entrepreneurs, but few accelerators that offer tailored support and connections to investors in their industries. Those accelerators are expensive to operate."

Source: Next Street and Common Future interviews and analysis

ILLUSTRATIVE // DIRECTIONAL

Private Funders: Ecosystem Overview

Today, Atlanta's small business community lenders and investors have relationships with the funders most aligned with community development, presenting an opportunity to seek other capital sources with higher untapped potential



Source: ImpactDeals Forum; The Aspen Institute; Maximpact Ecosystems

Private Funders: Philanthropy

COVID-19 has shifted philanthropic priorities toward inclusive small business initiatives; there is opportunity to build off this momentum with greater coordination and innovative investments

Philanthropies have historically focused on initiatives outside of small business development	• Market participants indicate that prior to the pandemic, ***philanthropies in Atlanta have prioritized funding community development initiatives outside of small business development***, requiring that local capital providers philanthropic funding from out of the state *"Before COVID-19, local philanthropies primarily focused on lending to CDFIs focused on affordable housing and other community development priorities – less so for small business development. This has positioned CDFIs focused small business lending to look outside of the region for funding"*
COVID-19 and recent focus on racial equity has spurred philanthropic support for small business owners of color	• During the COVID-19 pandemic and recent protest calling for racial justice, ***local philanthropies have mobilized to provide relief for small businesses in Atlanta through emergency capital funds***, such as through the RESTORE ATL Fund *"During the pandemic and the recent focus on racial equity, you have seen more activity among philanthropies – including corporate philanthropies – to support small business initiatives for entrepreneurs of color. That is certainly something to build on"*
Philanthropies can build on this momentum through funder collaboratives and innovative investments	• There is an opportunity to sustain momentum and funding beyond COVID-19 by ***creating collaboratives with shared funding opportunities*** and standardized impact frameworks to build the business case for supporting small business initiatives • Moreover, philanthropy can ***consider innovative investment structures*** via mission-drive investments and program-related investments to direct additional investible dollars to the small business support landscape

Source: Next Street and Common Future interviews and analysis

NON-EXHAUSTIVE

Private Funders: Impact Investors

Atlanta has an emerging institutional impact investment landscape supporting direct investments into community financial institutions and investors, with significant room to grow

Impact Investment Funds	Description	Investment vehicles			
		Debt / Loans	Equity	Guarantees	Social Impact Bonds
Community Foundation for Greater Atlanta GoATL Fund	The GoATL Fund is designed to accelerate and sustain social outcomes in our community through impact investing, the concept that strategically invested capital can achieve both a positive social impact and a financial return	✗	✗	✗	✗
BOARDWALK CAPITAL MANAGEMENT	Boardwalk Capital Management is an independent Registered Investment Advisory firm specializing in environmentally-sustainable and social impact investments	✗	✗		✗
THE ANNIE E. CASEY FOUNDATION	The Annie Casey Foundation's Social Investments team makes investments that generate positive results for people and positive financial returns to channel back into doing good, directing a portion of their endowment into projects and investments that further their social goals	✗	✗		

Source: Georgia Social Impact Collaborative

Role of Government

Government plays a large role in Atlanta's capital landscape before and during the pandemic; there shared policy and advocacy platform to facilitate and streamline future government-led initiatives

Government has historically played a significant role in the local capital landscape

- ***The City of Atlanta has played a significant role in supporting local entrepreneurs*** with loan programs through Invest Atlanta and facilitating capital through the community development block grants from the U.S. Department of Housing and Urban Development
- Meanwhile, with the growing CDFI presence and significant SBA lending in market, ***federal government programs also fostered resources and loan guarantees*** for local CDFIs and capital providers to grow their lending in underserved communities

COVID-19 has expanded government interventions to support small businesses

- ***Federal and local government have mobilized to provide relief for small businesses in Atlanta through emergency capital funds***, such as the SBA PPP and EIDL programs, and the Atlanta Cares Revolving Loan Fund
- Moreover, the federal government has provided additional capacity to CDFIs by increasing their liquidity through opening the Federal Reserve Discount Window and paying off CDFIs' delinquencies for SBA CRA and Microloan clients

Policy shifts could catalyze additional institutional capital to market, resulting in more entrepreneurial capital

- To build off governmental focus on small business owners of color, Atlanta has an opportunity to ***establish a shared policy platform to address structural changes to the banking and institutional investment landscapes***, joining federal and state advocacy efforts

"To expand capital to Atlanta's entrepreneurs of color, we need to join federal and state advocacy efforts to change public policies that limit the flow of capital to entrepreneurs. In Georgia, for example, you cannot become an institutional investor unless you have $100M to start a fund. Those types of policies are at the detriment of entrepreneurs, particularly underrepresented founders."

Source: Next Street and Common Future interviews and analysis

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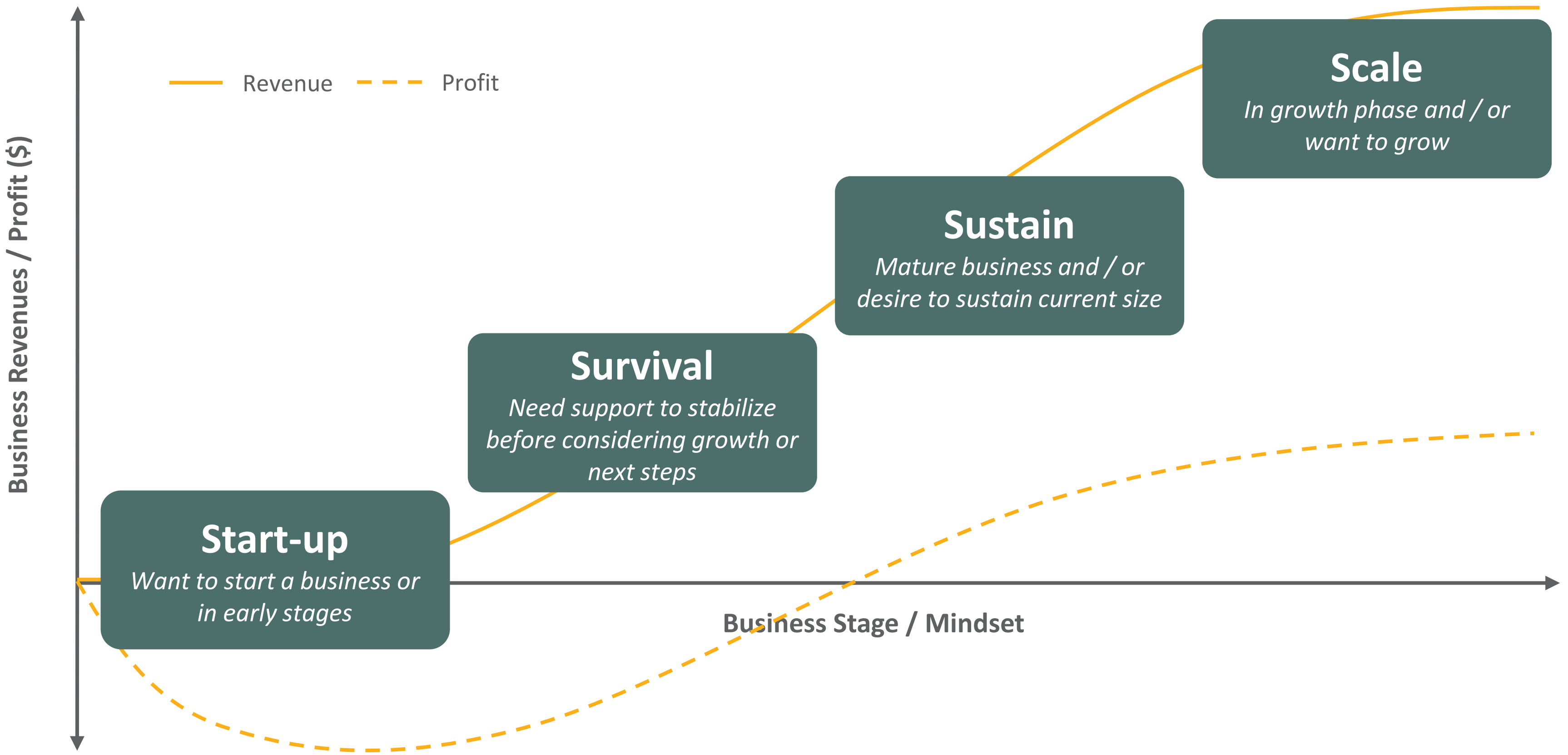
Small Business Segments

Small businesses (<50 employees) owned by people of color fall into four core segments based on their current needs – these segments help us get a more nuanced understanding of the needs of particular segments and gaps in support

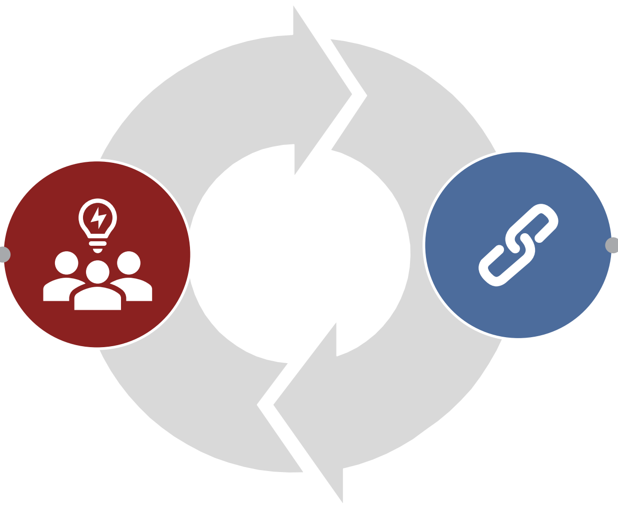


Small Business + Ecosystem Needs

We segmented small business ecosystem needs in Atlanta based on an assessment of critical gaps in the ecosystem among small businesses and the supporting ecosystem stakeholders

Small business needs

Needs among small businesses in accessing financing, technical assistance, and markets



Ecosystem infrastructure needs

Needs among ecosystem stakeholders to better support small businesses with capital, customers, and services

Emerging Needs: Small Business

		Emerging needs: Derived from small business and ecosystem gaps	**Start-up**	**Survival**	**Sustain**	**Scale**
Debt and Grant Capital	1.1	Need more lending volume for Black- and POC-small business owners seeking mid-sized loans ($100-250k)			✓	✓
	1.2	Need for a standardized loan orientation platform connecting entrepreneurs with banks, CDFIs, and other alternative lenders	✓	✓	✓	✓
	1.3	Need for more debt capital products with relationship-based underwriting standards and flexible repayment and re-borrowing terms (e.g. revolving credit for working capital and liquidity)	✓	✓	✓	✓
	1.4	Need for more community financial institutions (including CDFIs, CDCs, credit unions, and minority depository institutions) offering micro- and mid-sized loans in the market	✓	✓	✓	✓
	1.5	Need for place-based funds (including equity, grants, low-cost debt) with designated sourcing pipelines in Black neighborhoods	✓	✓	✓	✓
Equity Capital	1.6	Need additional "friends and family" capital (convertible notes, pre-seed equity, grants) for startup and early stage businesses	✓			
	1.7	Need for more "equity-like" capital funds (revenue-based financing, crowdfunding) dedicated for moderate-to-high growth potential Black- and POC-owned businesses			✓	✓
	1.8	Need for expand emerging networks of equity investors (i.e. angel investors, venture capital, impact investors, etc.) sourcing and connecting Black and POC entrepreneurs with advice, networks, and prospective investments	✓		✓	✓
	1.9	Need for additional Opportunity Funds in federally designated Opportunity Zones	✓		✓	✓
	1.10	Need for more equity investors and funds (seed equity and above) focused on dedicated for venture ready Black- and POC-owned businesses				✓

Emerging Needs: Ecosystem

	Emerging needs: Derived from small business and ecosystem gaps	Start-up	Survival	Sustain	Scale
2.1	Need a platform of capital aggregation pools and blended finance investment structures among local community financial institutions and equity investors (including loan guarantees, loan loss reserves, credit enhancements, and loan purchasing structures)	✓	✓	✓	✓
2.2	Need shared resources and capacity building support for local community financial institutions and equity investors for personnel and operating capabilities (including supporting digital capabilities via marketing, CRM systems, etc.)	✓	✓	✓	✓
2.3	Need formal modes of collaborations / communities of practice across the continuum of capital (among banks, CDFIs, fintech, equity investors, institutional funders) with marketing / public commitments and corresponding accountability mechanisms	✓	✓	✓	✓
2.4	Need to integrate landscape of capital and service providers to provide wraparound support to small businesses (including financial navigation support, loan readiness and financial management resources and training programs, and credit building programs)	✓	✓	✓	✓
2.5	Need more peer-to-peer networks among Black- and POC-business owners to promote entrepreneurial success stories, share resources, and build collective action to engage and influence the local ecosystem	✓	✓	✓	✓
2.6	Need an ecosystem-wide platform on city, state, and federal public policy positions that promote ecosystem objectives and financial regulatory reforms that expand institutional capital to Black- and POC-entrepreneurs	✓	✓	✓	✓
2.7	Need shared metrics and evaluation tools to measure the degree and efficacy of capital provisions (and corresponding support services)	✓	✓	✓	✓

Survey: Debt and Grant Capital

From the Advisory Group survey, the highest prioritized debt and grant capital needs for small business include the need for flexible underwriting standards and more alternative and community financial institution lending

Atlanta Advisory Group Survey (N = 10): Highest Priority Needs

Item	Overall Rank	Rank Distribution	Score	No. of Rankings
Need for more debt capital products with relationship-based underwriting standards and flexible repayment and re-borrowing terms (e.g. revolving credit for working capital and liquidity)	1		14	6
Need for more community financial institutions (including CDFIs, CDCs, credit unions, and minority depository institutions) offering micro- and mid-sized loans in the market	2		9	6
Need more lending volume for Black- and POC-small business owners seeking mid-sized loans ($100-250k)	3		8	3
Need for place-based funds (including equity, grants, low-cost debt) with designated sourcing pipelines in Black neighborhoods	4		7	3
Need for a standardized loan orientation platform connecting entrepreneurs with banks, CDFIs, and other alternative lenders	5		4	3

Lowest Rank Highest Rank

Note: Survey question – How would you rank your top three debt and grant capital needs by their relative importance to the Atlanta capital landscape for entrepreneurs of color? (Please rank the needs below from highest priority (1) to lowest priority (3), by dragging and dropping them into the appropriate order)

Survey: Equity Capital

Moreover, the highest prioritized equity capital needs focus on filling the "friends and family" capital gap and expand the availability of "equity-like" capital funds for moderate-to-high growth businesses

Atlanta Advisory Group Survey (N = 10): Highest Priority Needs

Item	Overall Rank	Rank Distribution	Score	No. of Rankings
Need for more "equity-like" capital funds (revenue-based financing, crowdfunding) dedicated for moderate-to-high growth potential Black- and POC-owned businesses	1		7	5
Need additional "friends and family" capital (convertible notes, pre-seed equity, grants) for startup and early stage businesses	2		6	3
Need for more equity investors and funds (seed equity and above) focused on dedicated for venture ready Black- and POC-owned businesses	3		4	3
Need for additional Opportunity Funds in federally designated Opportunity Zones	4		2	1
Need for expand emerging networks of equity investors (i.e. angel investors, venture capital, impact investors, etc.) sourcing and connecting Black and POC entrepreneurs with advice, networks, and prospective investments	5		2	2

Lowest Rank   Highest Rank

Note: Survey question – How would you rank your top two equity capital needs by their relative importance to the Atlanta capital landscape for entrepreneurs of color? (Please rank the needs below from highest priority (1) to lowest priority (2), by dragging and dropping them into the appropriate order)

Survey: Ecosystem Infrastructure

The highest prioritized <u>ecosystem infrastructure needs</u> focus on capacity building support for community financial institutions and equity providers, integration with service providers to provide wraparound financial support, and collective action on public policy reforms

Atlanta Advisory Group Survey (N = 10): Highest Priority Needs

Lowest Rank   Highest Rank

Item	Overall Rank	Rank Distribution	Score	No. of Rankings
Need a platform of capital aggregation pools and blended finance investment structures among local community financial institutions and equity investors (including loan guarantees, loan loss reserves, credit enhancements, and loan purchasing structures)	1		17	7
Need to integrate landscape of capital and service providers to provide wraparound support to small businesses (including financial navigation support, loan readiness and financial management resources and training programs, and credit building programs)	2		12	5
Need shared resources and capacity building support for local community financial institutions and equity investors for personnel and operating capabilities (including supporting digital capabilities via marketing, CRM systems, etc.)	3		7	4
Need formal modes of collaborations / communities of practice across the continuum of capital (among banks, CDFIs, fintech, equity investors, institutional funders) with marketing / public commitments and corresponding accountability mechanisms	4		3	2
Need more peer-to-peer networks among Black- and POC-business owners to promote entrepreneurial success stories, share resources, and build collective action to engage and influence the local ecosystem	5		2	2

From Advisory Group input, we also include the need for an ***ecosystem-wide platform on city, state, and federal public policy positions that promote ecosystem objectives and financial regulatory reforms that expand institutional capital to Black- and POC-entrepreneurs***

Note: Survey question – How would you rank your top three ecosystem infrastructure needs by their relative importance to the Atlanta capital landscape for entrepreneurs of color? (Please rank the needs below from highest priority (1) to lowest priority (3), by dragging and dropping them into the appropriate order)

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Proposed Solutions (I of II)

The following solutions are designed to improve access to capital and corresponding support services and build a more cohesive entrepreneurial capital ecosystem for BIPOC entrepreneurs in Atlanta

	Priority needs	Proposed solutions
Debt / Grant Capital	Need for more debt capital products with relationship-based underwriting standards and flexible repayment and re-borrowing terms	• Establish innovation grants for community financial institutions in Atlanta to experiment and institutionalize alternative flexible underwriting policies • Introduce a new line of credit product offered by local community financial institutions to support entrepreneurs of color
	Need for more community financial institutions offering micro- and mid-sized loans in the market	• Establish loan loss reserve funds and guarantees to loosen balance sheet constraints among local community financial institutions
Equity / Equity-like Capital	Need additional "friends and family" capital for startup and early-stage businesses	• Form new “friends and family” pre-seed funds and corresponding support programs for pre-venture and early-stage entrepreneurs
	Need for more "equity-like" capital funds dedicated for moderate-to-high growth businesses	• Encourage entries of revenue-based financing providers focused on entrepreneurs of color through grant and go-to-market support

Proposed Solutions (II of II)

The following solutions are designed to improve access to capital and corresponding support services and build a more cohesive entrepreneurial capital ecosystem for BIPOC entrepreneurs in Atlanta

	Priority needs	Proposed solutions
Ecosystem Infrastructure	Need a platform of capital aggregation pools and blended finance investment structures	• Form catalytic capital pools for community financial institutions and investors to deploy flexible capital to entrepreneurs of color
	Need shared resources and capacity building for local community financial institutions and equity investors	• Form a community of practice of capital providers to share best practices, form partnerships to refer BIPOC-owned portfolio companies, and collectively fundraise for blended capital pools
	Need to integrate landscape of capital and service providers to provide wraparound support to small businesses	• Foster forums among an integrated network of capital and service providers connecting entrepreneurs of color with advice, networks, and prospective investments
	Need an ecosystem-wide platform on city, state, and federal public policy positions that promote ecosystem objectives	• Establish an ecosystem-wide advocacy platform with shared local and state policy stances that promote equitable access to small business financing in Atlanta

PRELIMINARY – Based on Advisory Group feedback

Debt Capital: Innovation Grants

1 Establish innovation grants for community financial institutions in Atlanta to experiment and institutionalize alternative flexible underwriting policies

Target Business Owner(s): Startup, Survival, Sustain, Scale

Value proposition

Expand access to flexible lending among local entrepreneurs of color from community financial institutions reforming their underwriting policies assessing prospective small business borrowers

Local context on emerging solutions

- In Atlanta, small business capital is concentrated among banks who supply over 90% of Atlanta's small business loans by value
- This bank lending is often inaccessible to Black and POC-owned businesses due to inflexible underwriting criteria that prioritize credit histories and personal collateral
- Meanwhile, local community financial institutions have had a growing presence in the city's predominantly Black communities; however, local community lenders lack the scale to make up for gaps in traditional lending in these neighborhoods
- Due to capacity constraints, these community lenders also rely on underwriting policies that utilize credit histories and personal collateral, presenting an opportunity to seek alternative policies to better serve local entrepreneurs of color

Comparable national example

- The Kauffman Foundation's Capital Access Lab is a national pilot initiative that aims to find, promote, and scale innovative investment managers providing new kinds of capital to underserved entrepreneurs and communities in the U.S.
- The Capital Access Lab works in conjunction with ImpactAssets to invest in funds that do not resemble traditional venture capital or lending
- These investments aim to spur the formation of new financing mechanisms that increase capital investment to underserved entrepreneurs who have been historically left behind due to their race, ethnicity, gender, and/or socioeconomic class

EWING MARION KAUFFMAN FOUNDATION

capital access lab

PRELIMINARY – Based on Advisory Group feedback

Debt Capital: Innovation Grants

1 Establish innovation grants for community financial institutions in Atlanta to experiment and institutionalize alternative flexible underwriting policies

Est. Annual Funding Required: >$1M

Key success factors

- **Consortium of local community financial institutions:** Build upon and expand existing coalitions of community lenders for combined fundraising and advocacy for innovation grants
- **Seed funding:** Engage public and private funders to secure seed funding dedicated to establishing grants pools for community lenders
- **Active fundraising and distribution:** Ensure capital pools have active fundraising and distribution management among the consortium of community lenders
- **Impact measurement:** Establish a way to track and measure outcomes created from new funding resources
- **Integration with policy:** Need to ensure ecosystem-wide policy efforts incorporate a platform advocating for long-term public commitment to community financial institutions

Key elements for launch strategy

- **Structure + collaboration:** Define grant management and distribution structures and build upon existing collaboration among community-based lenders interested in accessing shared grant pools
- **Funder pitch + engagement:** Define rationale for philanthropic and public funders for offering grants, highlighting the value of community financial institutions and building equity on their corresponding balance sheets
- **Joint fundraising:** Align on joint fundraising strategy among repre-sentatives of existing collaboratives of community financial institutions

Key stakeholders involved

- Community Development Financial Institutions (CDFIs)
- Credit Unions
- Minority Depository Institutions
- Funders (including local government agencies, philanthropic institutions, corporate anchors)

PRELIMINARY – Based on Advisory Group feedback

Debt Capital: Line of Credit

2 Introduce a new line of credit product offered by local community financial institutions to support entrepreneurs of color

Target Business Owner(s): Sustain and Scale

Value proposition

Brings to market a flexible debt product with terms and repayment schedules needed among local entrepreneurs of color to manage and sustain their businesses during and post-COVID-19 pandemic

Local context on emerging solutions

- In Atlanta, the majority of small business lending is split between microloans and loans larger than $250k, leaving a "missing middle" for entrepreneurs of color seeking to elevate from startup to scale
- Meanwhile, during the COVID-19 pandemic, local entrepreneurs have sought and become accustomed to flexible capital with longer repayment terms to manage through this economic crisis
- This dynamic, combined with a need for more flexible underwriting, presents an opportunity to introduce new revolving lines of credit products to market for local entrepreneurs of color with longer terms as they seek to scale their businesses beyond the pandemic

Comparable national example

- Ponce Bank, a CDFI headquartered in Bronx, N.Y., paired with Fintech company Grain Technology in 2020 to provide small business owners with a line of credit using their existing debit cards
- These lines of credit are in addition to the CDFI's existing revolving line of credit products, which starting at $5,000 and are accessible for low-and-moderate communities of color in the Bronx
- The revolving credit products do not require borrowers to pay interest until they draw funds and gives borrowers the option to pay in full or over time

Ponce Bank

PRELIMINARY – Based on Advisory Group feedback

Debt Capital: Line of Credit

2 Introduce a new line of credit product offered by local community financial institutions to support entrepreneurs of color

Est. Annual Funding Required: >$1M

Key success factors

- **Consortium of local community financial institutions:** Build upon and expand existing coalitions of community lenders for combined fundraising and shared product structuring
- **Entrepreneurial input:** Seek local entrepreneurial input to determine the appropriate terms and repayment schedules that fit the needs of local business owners
- **Seed funding:** Engage public and private funders to secure seed funding dedicated to introducing these revolving lines of credit products among community lenders
- **Marketing campaign:** Market and amplify efforts to raise awareness of this new capital product in market
- **Real-time assessments:** Track and measure uptake and performance of these products to determine long-term sustainability of products

Key elements for launch strategy

- **Ecosystem collaboration + mapping:** Bring together local community financial institutions and map out current debt capital products from existing institutions (building off this assessment)
- **Product structuring:** Align a shared guidance on the structure of these revolving line of credit products, including terms and return expectations
- **Seed funding:** Engage public and private funders to seed the introduction of these capital products among local community lenders
- **Entrepreneurial pipeline:** Build a pipeline of potential borrowers through partnerships with stakeholders that interface with business owners that were unable to receive flexible capital products in the past

Key stakeholders involved

- Community Development Financial Institutions (CDFIs)
- Credit Unions
- Minority Depository Institutions
- Funders (including local government agencies, philanthropic institutions, corporate anchors)

Debt Capital: Loan Loss Reserves / Guarantees

3 Establish loan loss reserve funds and guarantees to loosen balance sheet constraints among local community financial institutions

Target Business Owner(s): Startup, Survival, and Sustain

Value proposition

Enhance liquidity of local community financial institutions' balance sheets which, in turn, increases total volumes of responsible loan capital available to small business owners of color in Atlanta

Local context on emerging solutions

- In 2010, Georgia's state legislature passed The Small Business Jobs Act, which introduced the **Georgia Small Business Credit Guaranty** offering a state sponsored loan guarantee for participating lenders; however, few deals have been processed via the program due to limited capitalization and operating capacity
- Meanwhile, local CDFIs and nonprofit lenders (including **Access to Capital for Entrepreneurs** and **LISC Atlanta**) have secured credit enhancements from funders outside of Georgia to increase lending dedicated to underserved business owners nationally
- New investments into new loan loss reserves and guarantees would help local CDFIs further de-risk investments and increase lending to entrepreneurs of color

Comparable national example

- The Cuyahoga County government committed a $230k loan loss guarantee to the Urban League of Greater Cleveland's financial arm, UBIZ Venture Capital, to leverage a $1 million capital injection from JumpStart
- This capital injection supports UBIZ's ongoing Capital Access Fund lending to businesses owned by people of color in the Greater Cleveland region
- The Capital Access initiative is a partnership between Cuyahoga County and the Urban League of Greater Cleveland, with support and assistance from other economic development support organizations

County of Cuyahoga Ohio

Urban League of Greater Cleveland

PRELIMINARY – Based on Advisory Group feedback

Debt Capital: Loan Loss Reserves / Guarantees

3 Establish loan loss reserve funds and guarantees to loosen balance sheet constraints among local community financial institutions

Est. Annual Funding Required: >$1M

Key success factors

- **Consortium of local community financial institutions:** Build upon existing CDFI collaboratives to continue combined fundraising and advocacy for loan loss reserves
- **Sustainable funding:** Engage funders to ensure sustainable funding to expand available pools of capital in loan loss reserve funds
- **Market awareness:** Increase awareness of the value of loan loss reserves and credit enhancements for community lending
- **Integration with policy:** Need to ensure advocacy efforts to expand Georgia's State Small Business Credit Initiative integrate with ecosystem advocacy platform of state government policies

Key elements for launch strategy

- **Structure + collaboration:** Define loan loss reserve structure / management and build collaborative among community-based lenders interested in accessing the loan loss reserve
- **Investment rationale + pitch:** Define investment rationale highlighting the value for expanding loan loss reserves, building upon value established from current credit enhancements among the existing CDFI collaborative
- **Joint fundraising:** Align on joint fundraising strategy among representatives of the existing CDFI collaborative to secure additional funds for loan loss reserves

Key stakeholders involved

- Community Development Financial Institutions (CDFIs)
- Credit Unions
- Minority Depository Institutions
- Funders (including local government agencies, philanthropic institutions, corporate anchors)

PRELIMINARY – Based on Advisory Group feedback

Equity Capital: "Friends and Family" Funds

1 Form new "friends and family" pre-seed funds and corresponding support programs for pre-venture and early-stage entrepreneurs

Target Business Owner(s): Startup, Sustain, and Scale

Value proposition

Expand access to "friends and family" pre-seed capital and corresponding support programs that enable entrepreneurs of color to startup and sustain business ventures without risking their personal financial health

Local context on emerging solutions

- Startup capital available in Atlanta is primarily concentrated in microloans, with less than $40M in pre-seed and seed equity investments made annually to local businesses
- Of these equity investments, Atlanta's Black and POC founders face racial and structural barriers to accessing equity investments, including racial biases among equity investors
- Meanwhile, entrepreneurs of color in Atlanta, on average, have fewer personal savings and access to friends and family capital to invest in their business compared to their white counterparts
- Emerging initiatives like **Valor VC's Startup Runway Foundation** and **The Gathering Spot** have expanded access to angel investor and growth startup capital pipelines, presenting opportunities to build from these investment forums

Comparable national example

- The Epicenter in Memphis launched a Friends and Family Fund in 2015 to offer non-dilutive, targeted investments of $1,000 to $20,000 to local entrepreneurs
- This fund aims to support entrepreneurs to achieve growth milestones with laser-focused infusions of capital to acquire needed equipment or services
- This accessible funding is dedicated to both tech-enabled and community-based businesses in Memphis

EPICENTER
HUB OF THE GREATER MEMPHIS ENTREPRENEURSHIP MOVEMENT

PRELIMINARY – Based on Advisory Group feedback

Equity Capital: "Friends and Family" Funds

1 Form new "friends and family" pre-seed funds and corresponding support programs for pre-venture and early-stage entrepreneurs

Est. Annual Funding Required: >$1M

Key success factors

- **Clear focus on racial equity:** Engage investors of color to advise on investing decisions; align objectives of new funds to ensure focus on supporting communities of color
- **Engagement from existing networks:** Encourage angel and venture capital investor to form new pre-seed and seed funds by clearly communicating social and business value
- **Seed funding:** Engage public and private funders to secure seed funding to catalyze investments from initial pools of funds
- **Active fund management:** Ensure new funds have active management to deploy capital, secure repayment, and fundraise as needed
- **Impact measurement:** Establish a way to track and measure outcomes created from new funding resources (e.g., entrepreneurial activity)

Key elements for launch strategy

- **Capital provider collaborative:** Form a collaborative of local financial institutions (including angel investors, venture capital, and CDFIs) interested in becoming prospective fund managers
- **Investment thesis:** Define the appropriate investment focus for new funds, including target social impact (i.e., affinity groups, industries, etc.) and financial returns (market vs. sub-market returns)
- **Fund management + structure**: Develop guidance for prospective fund managers to identify general partners and define corresponding fund and organizational structures
- **Lead funders:** Identify public and private funders from within and outside of Atlanta to secure seed funding commitments (including securing impact investments, philanthropic / public grants)

Key stakeholders involved

- Angel investors
- Venture capital investors
- Alternative community lenders (including local CDFIs)
- Impact investors (including philanthropies, family offices, corporate anchors)
- State and local government

Equity Capital: Revenue Based Financing

2 Encourage entries of revenue-based financing providers focused on entrepreneurs of color through grant and go-to-market support

Target Business Owner(s): Sustain and Scale

Value proposition

Introduce a new form of capital tailored for BIPOC-owned businesses seeking to scale within moderate growth industries not typically eligible for venture capital investments

Local context on emerging solutions

- Equity investments in Atlanta have risen steadily since the aftermath of the financial crisis, reaching a high of $887M in 2017
- Of the equity in the market, the vast majority are investments in technology-enabled businesses and often do not align to local BIPOC entrepreneurs' growth profiles and needs
- Local funds like **Collab Capital** have introduced innovative non-dilutive profit-share investments to market, garnering fundraising success for Black-owned businesses
- There is an opportunity to further introduce new non-dilutive equity-like capital products such as revenue-based financing to expand the availability of capital options to meet BIPOC entrepreneurs' needs

Comparable national example

- Founders First Capital Partners is an investment firm that provides revenue-based financing and accelerator programs for underserved small businesses
- Founders First's revenue-based financing product offers capital to businesses in exchange for a percentage of monthly gross revenues
  - Founders offers funding between $100k and $250k with a five-year repayment term capped at 2x of the amount financed
- Founders First secured grant funds and limited partnership commitments to enter Chicago and Dallas from local philanthropies, expanding from its original Western U.S. presence

Founders First CAPITAL PARTNERS, LLC

PRELIMINARY – Based on Advisory Group feedback

Equity Capital: Revenue Based Financing

2 Encourage entries of revenue-based financing providers focused on entrepreneurs of color through grant and go-to-market support

Est. Annual Funding Required: >$1M

Key success factors

- **Clear focus on racial equity:** Align objectives of prospective equity-like capital entries to ensure focus on support fund managers and entrepreneurs of color
- **Comprehensive due diligence:** Scan the revenue-based financing landscape to assess appropriate investment funds to target for market entry
- **Seed funding:** Engage public and private funders to secure seed funding to catalyze investments into new market entries
- **Active fund management:** Ensure fund has active management to deploy capital, secure repayment, and fundraise as needed
- **Impact measurement:** Establish a way to track and measure outcomes created from new funding resources (e.g., growth, new entrepreneurial activity)

Key elements for launch strategy

- **Landscape mapping:** Map out current offerings from national revenue-based financing investors to identify prospective targets dedicated to supporting BIPOC entrepreneurs to enter the market
- **Investment rationale + pitch:** Define investment rationale highlighting the value for new revenue-based financing in market (building upon the detailed within this assessment)
- **Funder collaborative:** Convene a funder collaborative that will lead fundraising and fund development around new market entry
- **Prospect outreach:** Engage the target revenue-based financing investors with business case to encourage market entry

Key stakeholders involved

- National revenue-based financing investment funds
- State and local government (as prospective investors)
- Impact investors (including philanthropies, family offices, corporate anchors)

Ecosystem: Catalytic Capital Aggregation

1 Form catalytic capital pools for community financial institutions and investors to deploy flexible capital to entrepreneurs and communities of color

Target Business Owner(s): Startup and Sustain

Value proposition

Expand and sustain capital supply among community lenders and investors with trusted relationships with and tailored capital products / services for entrepreneurs of color seeking to start and sustain their businesses

Local context on emerging solutions

- There are disproportionately low rates of small business lending and investments in Black and Latino(a) neighborhoods across Atlanta
- Local investors have catalyzed investments through impact investment funds in targeted low-and-moderate neighborhoods in Atlanta (through funds like the **GoATL Fund**)
- There is an opportunity to build from these fund structures to scale impact investments and catalytic capital pools for community lenders and investors offering small business financing in target neighborhoods

Comparable national example

- The Wisdom Fund is a fixed income vehicle that increases capital access and lending for women-owned businesses
- The Wisdom Fund is a co-created effort among national community development financial institutions (CDFIs) to enable investors to invest in a fixed income note at 3.50% annualized return for low-income and women of color in the U.S.
- Participating CDFIs within the fund include CDC Small Business Finance, Carolina Small Business Development Fund, and LiftFund

Small Business Finance

Carolina Small Business Development Fund

LiftFund DREAM IT. FUND IT.

PRELIMINARY – Based on Advisory Group feedback

Ecosystem: Catalytic Capital Aggregation

1 Form catalytic capital pools for community financial institutions and investors to deploy flexible capital to entrepreneurs and communities of color

Est. Annual Funding Required: >$1M

Key success factors

- **Consortium of local community lenders and investors:** Build upon and expand (as needed) the existing coalitions to continue combined fundraising and advocacy for catalytic capital pools committed to equitable lending practices
- **Seed funding:** Engage public and private funders to secure seed funding to catalyze investments from initial pools of funds
- **Active fund management:** Ensure capital pools have active management to deploy capital, secure repayment, and fundraise as needed
- **Impact measurement:** Establish a way to track and measure outcomes created from new funding resources (e.g., business growth, new entrepreneurial activity, etc.)
- **Integration with policy:** Need to ensure ecosystem-wide policy efforts incorporate a platform advocating for long-term public commitment to community financial institutions

Key elements for launch strategy

- **Structure + collaboration:** Define fund structures and build upon existing collaboration among community-based lenders interested in accessing catalytic capital pools
- **Investment thesis:** Define the appropriate investment focus for the new capital pools, including target social impact (i.e., business types, geographies, etc.) and financial returns (market vs. sub-market returns)
- **Fund management:** Identify general partners and define corresponding fund and organizational management
- **Joint fundraising:** Align on joint fundraising strategy among representatives of the existing CDFI collaborative to secure additional funds from within and outside of Atlanta for these new capital pools

Key stakeholders involved

- Community Financial Institutions (CDFIs, Credit Unions and Minority Depository Institutions)
- Institutional Investors (venture capital and angel investors)
- Funders (including local government agencies, philanthropic institutions, corporate anchors)

PRELIMINARY – Based on Advisory Group feedback

Ecosystem: Investor Community of Practice

2 Form a community of practice of capital providers to share best practices, form partnerships to refer BIPOC-owned portfolio companies, and collectively fundraise for blended capital pools

Target Business Owner(s): Startup and Scale

Value proposition

Expand access to and increase equity deal flow among angel and venture capital investors and corresponding networks for scalable BIPOC-owned businesses in Atlanta

Local context on emerging solutions

- Various ecosystem stakeholder groups and convenings (including partners of **Village Capital's VC Pathways** program and the **Invest Atlanta** conference) connect investors, accelerators and BIPOC-owned businesses in Atlanta
- There is recent momentum in coordinating impact investments in the region through collaboratives including the **Georgia Social Impact Collaborative**
- There is an opportunity to build and learn from existing structures and formalize a community of practice amongst capital providers to connect regularly, make referrals, share best practices, and collectively fundraise for blended capital pools

Comparable national example

- Chicago:Blend is a collaborative of venture capitalists in Chicago who are working to build more inclusivity among startups and venture firms
- Chicago:Blend has mapped assets / gaps in the local equity landscape and share resources dedicated to DEI, including launching the BlendList, a list of BIPOC startup board candidates in Chicago or the Central U.S.
- Chicago:Blend has participation from over 30 Midwest-based angel and venture capital investment firms, with financial support from both local venture capital and philanthropic communities

Chicago:Blend

PRELIMINARY – Based on Advisory Group feedback

Ecosystem: Investor Community of Practice

2 Form a community of practice of capital providers to share best practices, form partnerships to refer BIPOC-owned portfolio companies, and collectively fundraise for blended capital pools

Est. Annual Funding Required: <$500K

Key success factors

- **Clear focus on racial equity:** Ensure community of practice focuses on supporting BIPOC entrepreneurs and brings a racial equity lens
- **Integration with existing ecosystem:** Need to integrate with existing angel and venture investors and corresponding networks that foster collaboration among existing providers
- **Market awareness:** Increase angel and venture capital investor awareness of the market and social returns of supporting entrepreneurs of color in Atlanta to expand buy-in
- **Integrated sourcing pipelines:** Need to build shared sourcing pipelines that integrate within existing ecosystem of capital and service providers serving BIPOC entrepreneurs across industries and business stages
- **Joint financial + impact measurement:** Establish a way to track and measure outcomes to ensure investors have a way to report progress to initiatives resulting from community of practice

Key elements for launch strategy

- **Existing collaboratives:** Build upon existing investor networks, including Invest Atlanta and Village Capital's VC Pathways program, and integrate with existing DEI and racial equity-focused initiatives
- **Ecosystem mapping + partnerships:** Map ecosystem of business support organizations and capital providers across the continuum (building from this initiative) and form partnerships with ecosystem stakeholders with track records of supporting BIPOC entrepreneurs; develop plan to update and share list publicly regularly
- **Joint commitments:** Align on and publish key commitments on DEI initiatives, joint investments and supporting initiatives among the collaborative of equity provider

Key stakeholders involved

- Angel investors
- Venture capital investors
- Business support orgs (including accelerators and incubators)
- Impact investors (including philanthropies, family offices, corporate anchors)

PRELIMINARY – Based on Advisory Group feedback

Ecosystem: Business Support Integration

3 Foster forums among an integrated network of capital and service providers connecting entrepreneurs of color with advice, networks, and prospective investments

Target Business Owner(s): Startup, Survival Sustain, Scale

Value proposition

Enhance integration among capital and service providers in Atlanta, leading to greater connections to services and capital for local business owners and entrepreneurs of color

Local context on emerging solutions

- Strong informal relationships exist between individual capital providers and business support organizations that facilitate referrals for loans and investments
- Formal collaborations between capital providers and housing groups exist under working groups organized by **House ATL**. These working groups have been successful in developing pipelines for financial institutions
- There is an opportunity to build from existing partnerships and learn from the affordable housing collaborative structure to create forums among capital and service providers that foster greater access to advice and capital for entrepreneurs of color

Comparable national example

- ImpactPHL is a nonprofit dedicated to growing the Greater Philadelphia region's impact economy, fostering networks among investors, accelerators, and business owners for prospective investment
- Through these forums, local stakeholders connect to form partnerships, foster connections with local business owners, and share best practices between capital and service providers
- Investments into communities of color in Philadelphia are embedded in ImpactPHL's impact objectives

IMPACTPHL

PRELIMINARY – Based on Advisory Group feedback

Ecosystem: Business Support Integration

3 Foster forums among an integrated network of capital and service providers connecting entrepreneurs of color with advice, networks, and prospective investments

Est. Annual Funding Required: $500K-1M

Key success factors

- **Entrepreneurial engagement:** Identify needs of local business owners of color and co-develop program with their input
- **Flexible programming:** Develop program that is flexible to meet the unique needs of business owners across business stages and industries
- **Tech enabled platform:** Design program that allows for connections virtually
- **Build on existing services:** Structure program to build off and expand existing networks in the ecosystem
- **Sustainable funding and revenue model:** Ensure sustainable funding and revenue model to promote longevity of program

Key elements for launch strategy

- **Program sponsor(s):** Identify the key sponsor organization(s) that will organize, fundraise, and administer programs to facilitate networks among capital and service providers, and BIPOC entrepreneurs
- **Capital + Services consortium:** Create a consortium of capital and service providers to facilitate shared learnings and referrals
- **Funding commitments:** Identify long-term funding commitments (including funding for platform development and operational support) among public, private, and/or philanthropic funders
- **Equitable outreach:** Identify trusted neighborhood-based outreach partners to ensure equitable access to network for BIPOC entrepreneurs through culturally competent outreach

Key stakeholders involved

- Capital providers (including debt and equity capital providers)
- Business support organizations
- Small business owners
- Funders (including local government officials, philanthropic institutions, corporate anchors)

PRELIMINARY – Based on Advisory Group feedback

Ecosystem: Advocacy Platform

4 Establish an ecosystem-wide advocacy platform with shared local, state and federal policy stances that promote equitable access to small business financing in Atlanta

Target Business Owner(s): Startup, Survival Sustain, Scale

Value proposition

Address structural changes to the banking and institutional investment landscapes through an ecosystem-wide advocacy platform with shared local, state and federal policy stances

Local context on emerging solutions

- Historically, the City of Atlanta has increased access to capital among entrepreneurs through **Invest Atlanta** loan programs and by facilitating capital through the community development block grants from the U.S. Department of Housing and Urban Development
- Recently, Federal and local government have mobilized to provide relief for small businesses in Atlanta through emergency capital funds, such as the **SBA PPP** and **EIDL** programs, and the **Atlanta Cares Revolving Loan Fund**
- To build off the recent increase of governmental focus on small business owners of color, Atlanta has an opportunity to establish a shared policy platform to address structural changes to the banking and institutional investment landscapes

Comparable national example

- During the COVID-19 pandemic, Philadelphia's coalition of community financial institutions, led by Community First Fund, collaborated on joint advocacy for funding commitments from Philadelphia's City Council via CARES Act funding
- This joint advocacy platform built upon existing collaboration among local CDFIs to deploy $225 million in emergency grants via Pennsylvania state's CARE Act funding
- As part of this platform, the coalition aims to institutionalize public commitments to local CDFIs by integrating City budget appropriations in support of community small business lending

PRELIMINARY – Based on Advisory Group feedback

Ecosystem: Advocacy Platform

4 Establish an ecosystem-wide advocacy platform with shared local, state and federal policy stances that promote equitable access to small business financing in Atlanta

Est. Annual Funding Required: <$500K

Key success factors

- **Platform messaging and strategies:** Need clear communication on the value proposition of small business development and how it integrates with City community development priorities
- **Racial equity lens:** Advocacy platform should have a racial equity lens to ensure that policies create a more equitable operating environment specifically for BIPOC entrepreneurs
- **Shared perspectives:** Alignment of ecosystem coalition on a single platform that is for the betterment of the ecosystem, not individual organizations
- **Entrepreneurial voice:** Engage business owners of color to uplift entrepreneurial voices and communicate their needs to government officials
- **Tiered focus:** Clear near-, medium-, and long-term-priorities, recognizing that large-scale change will take time

Key elements for launch strategy

- **Alignment on near-term priorities:** Alignment amongst ecosystem coalition members on highest priority policy changes to advocate for, recognizing that they will not be able to push all change at once
- **Advocacy capacity assessment:** Identify advocacy and lobbying capacity among participating organizations within the ecosystem coalition
- **Publication of advocacy platform:** Development and promotion of policy brief or white paper outlining ecosystem coalition's desired changes and corresponding benefits for BIPOC communities
- **Connection to policy makers:** Outreach strategy to elected officials to promote advocacy platform

Key stakeholders involved

- Capital providers (including debt providers and equity investors)
- Business support organizations
- Local, state and federal government officials
- Philanthropic institutions
- Small business owners