



# Landscape Your City

# Understanding Local Capital Needs

Before developing and deploying new innovative financial products, funders and investors first need a deep understanding of their community's capital landscape and capital gaps.

Below, we've identified resources and developed step-by-step processes to help communities assess local capital needs and systematically identify new products that could be of the greatest use within their current entrepreneurial ecosystem. While this list is neither exhaustive nor comprehensive, it aims to serve as a starting point for communities that are interested in understanding where capital is flowing and where capital gaps exist.

## Comparative Approach

Given significant data limitations, landscaping efforts can benefit from a comparative frame—finding similar metros areas and comparing estimates across key sources of capital and then measuring and comparing entrepreneurial activity and success within and across given communities across demographic groups and sectors.<sup>16</sup>

**Example within the EDA Innovative Finance cohort:** *In San Antonio, the ratio of Latino/a-owned businesses ready to hire employees ("employer firms") to those doing businesses as sole proprietors ("nonemployer firms") is far lower than the ratio among Latino/a-owned firms in the Seattle MSA, 13:1 versus 5:1, let alone compared to Seattle's white-owned firms, at 3:1. As a corollary, Seattle has nearly three-times the SBA 7(a) lending volume, despite only having a 57% larger population than San Antonio. These comparisons convey current successes, inequities in entrepreneurship, and possible focus areas for improvement.*

### Data limitations:

While the primary goal is to evaluate capital demand and supply within a given community to create a picture of capital gaps, absolute levels of capital demand and supply are difficult to estimate for several reasons, including:

1. Current data provide only rough approximations of the whole access to capital picture, with rise of merchant cash advances, FinTech, and other alternatives.
2. Data releases, particularly government surveys, usually have at least a two- or three-year reporting lag.
3. Reporting varies in the geographic units used; some are by county or MSA, while other sources provide data at only state or national levels.

# The Data

## 1. Debt and Equity Capital Landscape

Capital metrics tend to focus primarily on debt products, traditionally the most widely used financial products (and most consistent, government-supported data) among current forms of startup and small business capital. These measures provide insight into an area's economic activity and, when compared across geographies, the relative availability and connections to capital for entrepreneurs.

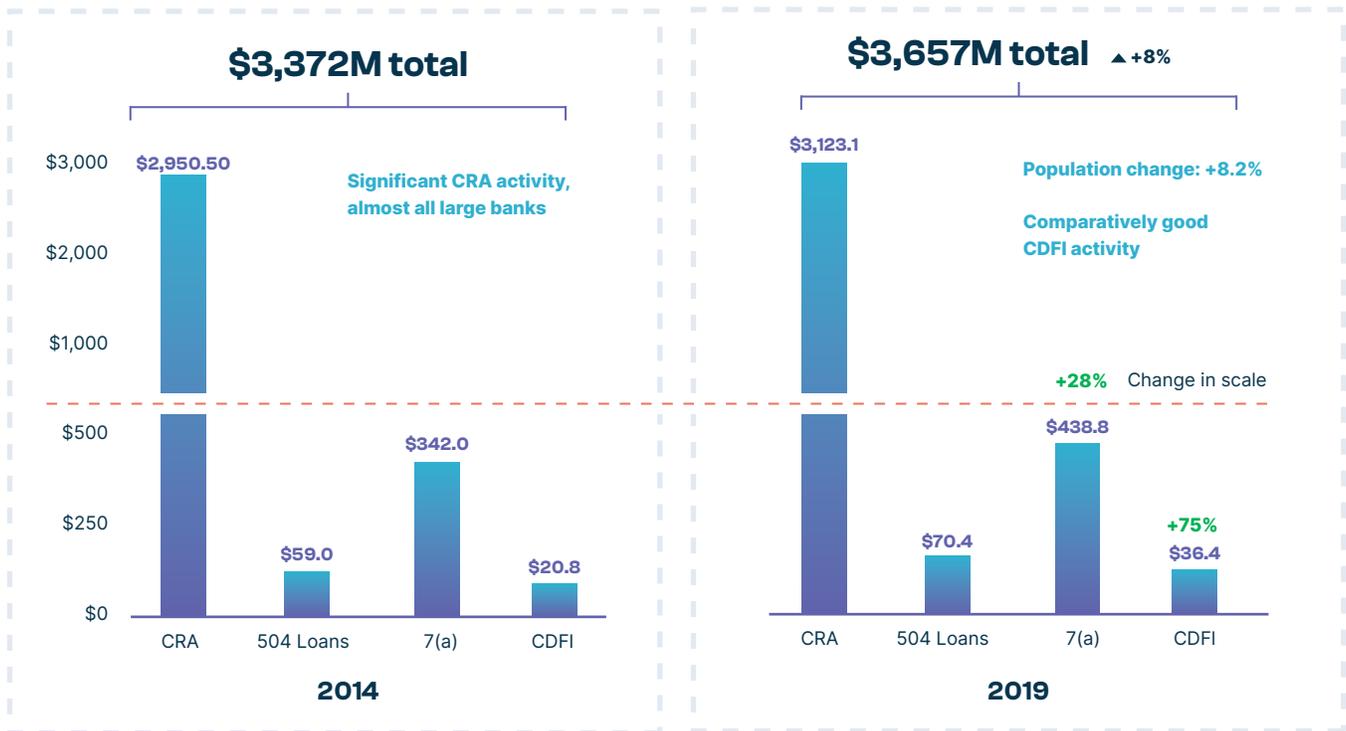
**Debt Capital Metrics:** The federal government supports and consequently tracks several debt products, though this data is not comprehensive, for multiple reasons. Debt product data do not cover all of private sector activity, for one; government reports and national data are also at times self-reported, limited to certain institutions, or too broad in their coverage, including real estate or credit card activity.

- **CRA Small Business Loans.** This includes non-SBA guaranteed bank lending eligible for Community Reinvestment Act (CRA) credit, reported by the Federal Financial Institutions Examination Council (FFIEC). Only banks above a certain asset threshold and insured by the FDIC are required to report CRA activity. CRA defines lending to small businesses generally as CRA transactions below \$1M, and reports lending by subsets of loan amounts (below \$100K, for instance) and microloans to small businesses, i.e., firms with gross annual revenues equal to or less than \$1M.<sup>17</sup>
  - **Data Limitations:** CRA allows banks to count the full lines of credit on business credit cards issued to CRA-eligible businesses (vs. actual amount drawn). This increases the volume and lowers the average “loan” amount for banks that are also large credit card issuers, such as Citi, American Express, Capital One, with products that usually come at a high-interest cost of capital.<sup>18</sup>
- **SBA 504 Loans.** Through its 504 loan program, SBA supports long-term, fixed-rate financing for major fixed assets that promote business growth and job creation (e.g., existing buildings or land, new facilities, and long-term machinery and equipment). 504 loans are primarily used for real estate or large equipment purchases, typically have a lower interest rate and down payment, and do not require additional collateral.<sup>19</sup>
- **SBA 7(a) Loans.** SBA's most common loan program—7(a) loans—help small businesses access working capital, up to \$5M, and are generally considered higher-risk loans, thus requiring a lower down payment and having a variable interest rate.<sup>20</sup>
  - The SBA provides all transaction data for 504 and 7(a) loans online—relatively up-to-date for download through SBA.gov.<sup>21</sup>

- CDFIs Loans.** CDFIs are certified by the US Department of the Treasury and dedicated to delivering responsible, affordable lending to help low-income, low-wealth, and other disadvantaged people—helping communities access capital for small businesses, housing and other construction, and personal banking needs. Compiled by PolicyMap from Community Investment Impact System, communities can identify total dollar amount of CDFI loans to business borrowers.<sup>22</sup> CDFI business lending data can also be disaggregated to show microlending to firms with five or fewer employees, including sole proprietors, i.e., nonemployer firms.

- Data Limitations:** CDFI loan data is among the noisiest used as it is self-reported by CDFIs, underreporting lending, and appears to sometimes include larger real estate transactions, overinflating lending totals, and at least some areas' average loan sizes.

### Small Business Debt Landscape Example: Seattle MSA



The above example from our Seattle MSA landscape analysis shows snapshots for 2014 and 2019 small business lending. Despite limitations in the data, and compared to other cohort members, the Seattle MSA shows strong commercial lending activity through large CRA numbers, robust 7(a) activity, and a substantial increase in CDFI business lending.

**Equity Capital Metrics:** Equity and other private investment data is harder to come by, but there are some sources that can be helpful to gain high-level insight into equity activity in your community:

- **PitchBook, Crunchbase, and other proprietary data:** Pitchbook and other third parties, such as PwC, track and compile data, though often on a one-off and self-reported. Still, funders may find it useful in analyzing their capital landscape.<sup>23</sup>
- **The National Venture Capital Association:** This group breaks down and publishes PitchBook VC activity data by state, a useful tool for VC data that is both granular (by geography) and compiled (versus deal-by-deal data).<sup>24</sup>
- **The 2018 Rise of the Global StartUp City report by Richard Florida and Ian Hathaway:** This report provides further publicly available analysis of PitchBook data to show VC investment by number of deals and total investment dollars by metro area.<sup>25</sup> The report covers more than 100 US metros and investment data from 60 countries. Punto Lab systematized the data in an online spreadsheet available for analysis.<sup>26</sup>

**Other Sources:** Alternative sources of data that could serve further analysis covering developments in FinTech and providing more up-to-date, national data include:

- **The Kabbage Small Business Index:** This index provides state-level data, compiled from its clients up until December 2020.<sup>27</sup>
- **Point-of-sale merchant cash advances:** Some are required to disclose loan amounts and numbers in their filings with the US Securities and Exchange Commission.<sup>28</sup>
- **US Census Bureau's Small Business Pulse Survey:** This survey (also offered at the state level) is based on a high-frequency questionnaire of small businesses on overall effect of the COVID-19, trends in revenues, whether they are open or closed, staffing, and other useful information.<sup>29</sup>
- **The Financial Health Network:** Many FinTech companies are part of this industry group, which is required to share data.<sup>30</sup>
- **Local sources:** Local sources, such as business chambers, local governments, your area's Federal Reserve Bank, or other sources may have data specific to your geography.<sup>31</sup>

## 2. Firm Demographics and Industry Landscape

### Size, Sector, Number of Firms by Demographic Group

Understanding the demographic makeup of business owners and leadership in your community is key to understanding the capital gaps that may exist. The US Census Bureau's Annual Business survey data allow analysis of the **number**, **size**, and **sector** by demographics of business ownership by various geographies.

The Number, Size, and Sector framework was introduced in the Nowak Metro Finance Lab's Small Business Equity Toolkit, to compare business ownership across demographic groups across the United States' 100-largest cities and metros and highlight opportunities through supplier diversity in what the Lab has coined the Procurement Economy, to unlock B2B and B2G contracts for local and diverse suppliers. From this analysis and compared to traditionally well-resourced and -represented entrepreneurs, landscaping shows overall strengths and growth opportunities within an entrepreneurial ecosystem, and "tip of the iceberg" outcomes that could denote underlying capital access and technical capacity gaps decision makers could address.

**Size, Sector, Number Example:** In Seattle, growth opportunities include its large Asian-American and Black communities, as well as support for women entrepreneurs:

- **Number:**
  - Woman-owned businesses lag behind their male counterparts in relative number.
  - Asian-American-owned businesses keep pace with their white counterparts.
  - Firm ownership is lowest among Black Seattleites, as measured on a per resident basis.
- **Size:**
  - Despite their relatively high concentration, Asian-American-owned firms in Seattle fall far behind white business owners in terms of average annual sales.
  - Average sales for women-owned businesses are one-third the amount of men's.
  - Average sales is also lowest among Black-owned businesses in Seattle.
- **Sector:**
  - Asian-American-owned business in Seattle are highly concentrated in low-wage industries, constituting more than half of all Asian-American-owned firms.
  - Women-owned businesses are 50% more likely to be in a low-wage sector compared to their male counterparts.
  - Black-owned businesses are less represented in low-wage sectors, though this
  - may be a feature of very low representation and high margin of error in the Black business ownership.

### Seattle Asian-Owned Business Baseline

Number of Businesses		Business Size		Business Sector*	
22.5	Asian-Owned Businesses per 1,000 Asian Residents	\$1.3M	Avg. Annual Sales from Asian-Owned Businesses	51%	Asian-Owned Businesses in Low-Wage Industries
24.1	White-Owned Businesses per 1,000 White Residents	\$2.6M	Avg. Annual Sales from White-Owned Businesses	43%	White-Owned Businesses in Low-Wage Industries

### Seattle Woman-Owned Business Baseline

Number of Businesses		Business Size		Business Sector*	
9.2	Woman-Owned Businesses per 1,000 Woman Residents	\$1.1M	Avg. Annual Sales from Woman-Owned Businesses	34%	Woman-Owned Businesses in Low-Wage Industries
22.3	Male-Owned Businesses per 1,000 Male Residents	\$3.3M	Avg. Annual Sales from Male-Owned Businesses	22%	Male-Owned Businesses in Low-Wage Industries

### Seattle Black-Owned Business Baseline

Number of Businesses		Business Size		Business Sector*	
4.8	Black-Owned Businesses per 1,000 Black Residents	\$1.0M	Avg. Annual Sales from Black-Owned Businesses	16%	Black-Owned Businesses in Low-Wage Industries
24.1	White-Owned Businesses per 1,000 White Residents	\$2.6M	Avg. Annual Sales from White-Owned Businesses	43%	White-Owned Businesses in Low-Wage Industries

## High Wage, Low Wage, and Industry Metrics

Once you have a picture of the breakdown of firm ownership by demographic, it is important to look at those firms in the context of high wage firms, low wage firms, and general industry.

**“High-wage” industries:** represents the percentage of firms in the professional and technical services sector, among the highest-paid sectors nationally and with consistent data availability

- **Data:** Census Bureau’s Annual Business Survey and American Community Survey

**“Low-wage” industries:** represents the percentage of firms in the four sectors with the lowest average wages in a given MSA.

- **Data:** Census Bureau’s Annual Business Survey and American Community Survey

This level of data analysis can inform both short- and long-term strategies for bringing capital products to larger swaths of underrepresented entrepreneurs. Short-term, we can aim to buoy sectors where there is currently strong representation of underrepresented founders. Long-term, we can target specific, strategic industries with high-wage growth potential where the ecosystem could foster more underrepresented founders.

**Example:** In Seattle, decision makers could tailor longer-term strategies that grow MWBE representation in high-wage industries, either growing upon existing success (for instance, strong woman and Black representation in Seattle’s professional, scientific, and technical services sectors) or an area where MWBEs could improve (e.g., increasing Asian-American business ownership in any of Seattle’s high-wage industries, where they currently lack representation).

### Top 3 Industries by Demographic Ownership Group by Average Wage, 2019

Black	Asian American	Women	Men	Non-minority
Health Care & Social Assistance (21%)	Accommodation & Food Services (24%)	Professional, Scientific, & Technical Services (28%)	Construction (19%)	Professional, Scientific, & Technical Services (18%)
Professional, Scientific, & Technical Services (17%)	Health Care & Social Assistance (16%)	Health Care & Social Assistance (28%)	Professional, Scientific, & Technical Services (18%)	Construction (17%)
Construction (14%)	Retail Trade (14%)	Other Services (17%)	Health Care & Social Assistance (8%)	Health Care & Social Assistance (10%)

Avg. Wages < \$40,000

Avg. Wages >\$80,000

- Asian American-owned businesses concentrated in low-wage sectors
- Strong high-wage representation for Black businesses (Seattle ranks 12th)
- Woman-owned businesses’ sales lag (96th on parity metric)

2018 Annual Business Survey (2018 ABS) and 2019 American Community Survey (2017 ACS)

## 3. Nonemployer firms, employer firms, and opportunities to build wealth

A telling piece of data is the ratio of nonemployer to employer firms by demographic group and how widely they vary across metro areas, sourced from the National Nonemployer Statistics.<sup>31</sup> This ratio underscores the share of entrepreneurs with firms ready to officially hire employees and able to scale. Nonemployer businesses are sole proprietors, ranging from individuals with additional income from a side hustle (e.g., driving for a rideshare app, woodworking for family friends) to businesses that haven’t yet officially hired on employees and instead issue 1099s. Moving from growing into an employer firm is a key path to fully fledged entrepreneurship and stable source of income and wealth, let alone becoming capital-ready.<sup>32</sup>

Ratios of nonemployer to employer firms indeed vary significantly. In Seattle, for example, there are three white-owned nonemployer firms for every one white-owned employer firm; on the other hand, there are 19 nonemployer businesses owned by Black Seattleites for every one Black employer firm—the lowest of any demographic. This ratio is striking, but in line with national numbers of 95% of all Black businesses being nonemployer firms—a huge opportunity to grow Black wealth.<sup>33</sup>

#### 4. Conclusion of capital gaps based on "data steps" above

By collecting and comparing 1) available resources surveying the local availability and utilization, and 2) firm attributes by owner demographics and industry, and 3) current levels and types of entrepreneurial activity of nonemployer vs. employer firms, local leaders can evaluate their capital needs, strengths, and opportunities to grow. This inventory of data available underscores a need for more comprehensive reporting, especially for equity investment.

## Comprehensive Economic Development Strategies (CEDS)

In every community, an important resource for understanding the local capital landscape and regional priorities are the local or regional [Comprehensive Economic Development Strategies](#). CEDS, or a CEDS-equivalent document, are collective roadmaps for regional economic development, prerequisites for communities creating Economic Development Districts (EDDs), multi-jurisdictional entities that convene decision makers and stakeholders around identifying and achieving shared economic development goals.<sup>34</sup> As you landscape your community and understand local opportunities for innovative capital, the CEDS are a useful tool to understand regional entrepreneurial and equity objectives.

#### Examples:

**San Antonio / Alamo Area Council of Governments:** Two core objectives of the San Antonio CEDS are 1) growing businesses in key economic clusters and 2) expanding access to resources, specifically capital, for under-resourced entrepreneurs.

- Alamo Angels, a local angel group, is considering adopting revenue-based financing in their strategy. In doing so, they would be able to both diversify their investments to newly reach Main Street, underserved, often Latino/a businesses, and provide short-term returns and liquidity for investors whose investments are typically tied up in company equity for several years.

**Seattle / Puget Sound Regional Council:** A strategic focus of Seattle’s CEDS is to “expand support for small and medium sized businesses and businesses owned by marginalized communities.”<sup>35</sup>

- A national CDFI, National Development Council, is exploring the implementation of an innovative product in their Seattle-based office: offering revenue-based loans to allow their debt products to reach new businesses with strong cash flow and growth potential but few assets to offer as collateral for a traditional loan.

## A Full Continuum of Capital

Innovative financial products are situated to expand capital access and fill the capital gaps that exist in many communities. The continuum of traditional and innovative capital products covers a large portion of all business types that might exist within a local entrepreneurial ecosystem.

A helpful framework for business categorization is the Delgado and Mills Typology: Dr. Mercedes Delgado and former SBA Administrator Karen Mills collaborated on a 2020 paper presenting a new—and very illustrative—typology of businesses by sector.<sup>36</sup> These categories denote significant differences in the supply chain (business-to-business and -government; B2B and B2G) and direct-to-consumer (B2C) parts of the modern economy.

The seven categories they created relate to businesses with very different average wages, potential for wage growth, current employment, and potential for employment growth within the economy—and they roughly correspond to different innovative financial products.

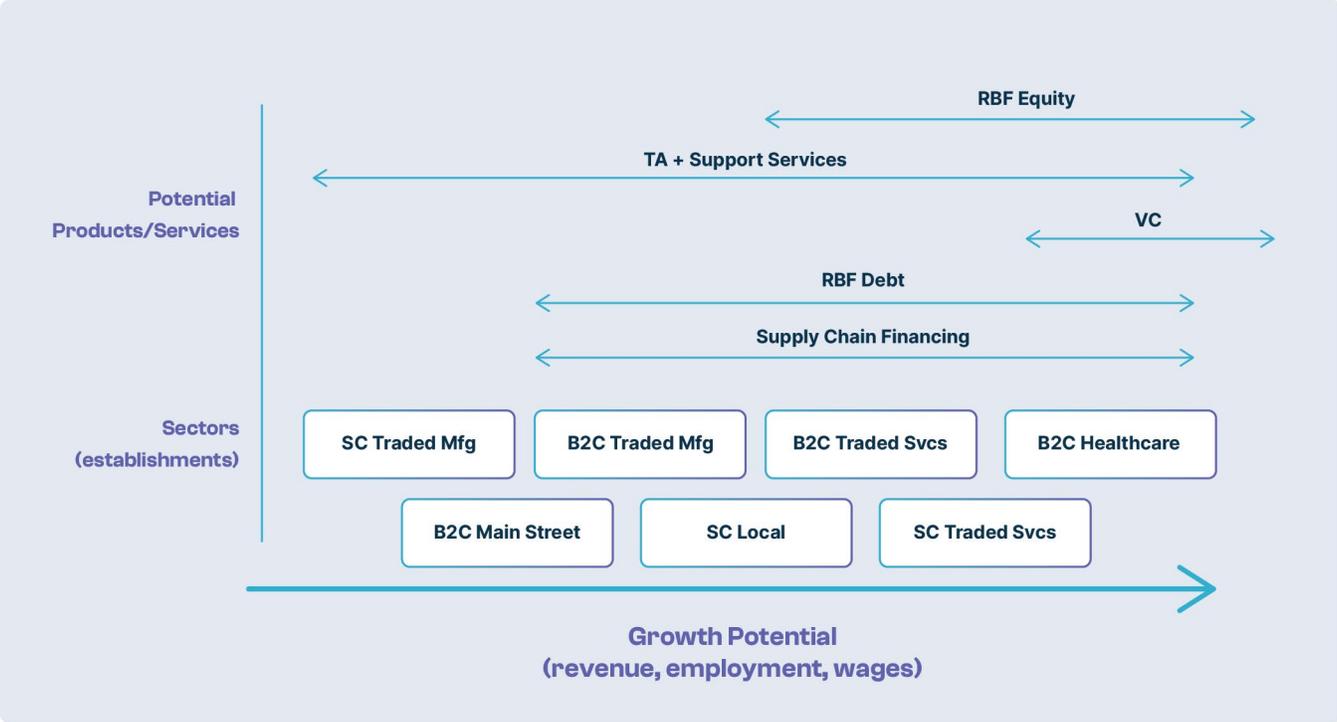
### Examples for Delgado and Mills’s Categories of Firms

- Supply Chain (SC) Traded – Services: engineering services
- Supply Chain (SC) Traded – Manufacturing: semiconductor manufacturing
- Business to Consumer (B2C) Local – Main Street: full-service restaurant
- Business to Consumer (B2C) Local – Health Care: hospital
- Business to Consumer (B2C) Traded – Services: computer training
- Business to Consumer (B2C) Traded – Manufacturing: food processing
- Supply Chain (SC) Local: security guard, janitorial services

For example, RBF reaches across the continuum of enterprises from modest growth B2C Main Street businesses to tech-enabled startups in the Supply Chain Traded industry. Redeemable Equity, meanwhile, reaches a smaller segment of firms but gives access to mission-aligned, growth capital to more firms, with a preference for higher-growth potential businesses so investors can share in large growth prospects, much like traditional venture capital. Similar to RBF Debt, Supply Chain Finance can reach a range of firms, helping them meet short-term cash flow needs, from construction firms (Supply Chain Local), to architecture services (Supply Chain Traded), to even restaurants fulfilling government contracts (B2C Main Street).

Across industries, firms need liquidity to meet accounts receivable and larger business opportunities to grow profits and scale. Communities and mission-aligned capital can provide supply chain financing alternatives that systematize new evaluations of creditworthiness and emphasize historically excluded entrepreneurs to expand financing and growth opportunities.<sup>37</sup>

**Potential for Innovative Finance**



# Resources

## Endnotes

- <sup>16</sup> Small Business Equity Toolkit. (n.d.). [www.smallbusinessequitytoolkit.com](http://www.smallbusinessequitytoolkit.com).
- <sup>17</sup> Federal Financial Institutions Examination Council. (n.d.). Community reinvestment act: Aggregate report search by state. [www.ffiec.gov/craadweb/aggregate.aspx](http://www.ffiec.gov/craadweb/aggregate.aspx); CRA definition of small business lending: [https://www.ffiec.gov/cra/pdf/2015\\_CRA\\_Guide.pdf](https://www.ffiec.gov/cra/pdf/2015_CRA_Guide.pdf).
- <sup>18</sup> <https://www.urban.org/urban-wire/small-business-and-community-development-lending-are-key-cra-compliance-most-banks>
- <sup>19</sup> <https://cdcloans.com/504-vs-7a/>
- <sup>20</sup> <https://www.sba.gov/partners/lenders/7a-loan-program/types-7a-loans>
- <sup>21</sup> U.S. Small Business Administration. (n.d.). 7(a) & 504 FOIA. data. [sba.gov/dataset/7-a-504-foia](http://sba.gov/dataset/7-a-504-foia).
- <sup>22</sup> [https://www.policymap.com/data/our-data-dictionary/#CDFI%20\(Community%20Development%20Financial%20Institutions\)%20Fund%20CDFI%20Program](https://www.policymap.com/data/our-data-dictionary/#CDFI%20(Community%20Development%20Financial%20Institutions)%20Fund%20CDFI%20Program)
- <sup>23</sup> In Q1 of 2021, PwC discontinued the publication of its MoneyTree Report, which segmented Venture Capital investment by metro area and state: <https://www.pwc.com/us/en/industries/tmt/technology/moneytree.html>; PitchBook compiles data on private equity and venture capital investment by firm: <https://pitchbook.com/>.
- <sup>24</sup> <https://nvca.org/research/regional-data/>
- <sup>25</sup> <https://startupsusa.org/global-startup-cities/#data>
- <sup>26</sup> <https://docs.google.com/spreadsheets/d/1kCEJW6uRE2n4iO-ZEkaVulUsYEvDrG22/edit#gid=1388615308>
- <sup>27</sup> <https://www.kabbage.com/small-business-revenue-index/>
- <sup>28</sup> <https://ncrc.org/fact-sheet-on-section-1071-small-business-loan-data/>
- <sup>29</sup> <https://portal.census.gov/pulse/data/>
- <sup>30</sup> <https://finhealthnetwork.org/>
- <sup>31</sup> <https://www.census.gov/programs-surveys/nonemployer-statistics.html#:~:text=NES%20is%20an%20annual%20series,and%20total%20receipts%20by%20industry>
- <sup>32</sup> [https://www.nlc.org/resource/future-of-cities-a-roadmap-to-inclusive-entrepreneurship/?utm\\_campaign=Meetings-Events&utm\\_medium=email&utm\\_source=informz&utm\\_content=inclusive-entrepreneurship-day-of-20220110&utm\\_term=teaxt-read-guide&\\_zs=Di8Jd&\\_zl=6Xxt2](https://www.nlc.org/resource/future-of-cities-a-roadmap-to-inclusive-entrepreneurship/?utm_campaign=Meetings-Events&utm_medium=email&utm_source=informz&utm_content=inclusive-entrepreneurship-day-of-20220110&utm_term=teaxt-read-guide&_zs=Di8Jd&_zl=6Xxt2)
- <sup>33</sup> [https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-cares-act2-smallbusiness-apr2020.pdf?mod=article\\_inline](https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-cares-act2-smallbusiness-apr2020.pdf?mod=article_inline)
- <sup>34</sup> <https://eda.gov/edd/>
- <sup>35</sup> [https://www.psrc.org/sites/default/files/2022-2026\\_ceds\\_central\\_puget\\_sound\\_region\\_-\\_final\\_adopted.pdf](https://www.psrc.org/sites/default/files/2022-2026_ceds_central_puget_sound_region_-_final_adopted.pdf)
- <sup>36</sup> Delgado, M., & Mills, K.G. (2020). The supply chain economy: A new industry categorization for understanding innovation in services. Res Pol, 49(8). [doi.org/10.1016/j.respol.2020.104039](https://doi.org/10.1016/j.respol.2020.104039).
- <sup>37</sup> <https://www.thenewlocalism.com/newsletter/supply-chain-finance-innovations-for-supporting-inclusive-entrepreneurship/>

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