

Section 6.1

Underserved Narrative

The Tennessee SSBCI 2.0 program, administered by the Tennessee Department of Economic and Community Development (TNECD), aims to support and expand an inclusive continuum of access to capital for small businesses and entrepreneurs throughout Tennessee. The mission of the program aligns with a vision to provide capital access to eligible business, at any stage, in any part of the State, owned by any eligible Tennessean.

The Tennessee Secretary of State reports a 73 percent increase in the creation of Tennessee businesses since 2019, increasing from 35,300 to 61,000. Though demographic data detailing the makeup of these business owners is not available, TNECD speculates a considerable portion of this population meets the SEDI criteria and would benefit from programs which work to eliminate barriers to access in every part of the State. According to the Sycamore Institute, as of late June 2021, there were 40 percent fewer small businesses in Tennessee than before the pandemic – even after an historic surge of new filings earlier this year [2021]¹.

The Economic Innovation Group (EIG) reports that 1.1 million TN residents live in prosperous zip codes while 1.8 million reside in some of the country's most distressed which factors in poverty, employment, new business starts, and adults without a high school diploma². In addition, the distressed counties are on course to never recover the jobs they lost in the Great Recession of 2007 - 2009. Even within prosperous zip codes, there remains persistent technical assistance and access to capital challenges in debt and equity.

Tennessee businesses continue to work through ongoing COVID-19 related impacts across many areas. It is evident that greater access to resources, education, and tools, as well as capital, are crucial for our State's DBEs, small businesses and entrepreneurs. An interesting and beneficial outcome of the pandemic and other recent declared disasters that have impacted TN is that new relationships were established, linking broader networks, and strengthening existing networks across the State. Our ESOs (entrepreneur support organizations) are better connected and able to tap into their respective expertise and resources. This is an advantage to lenders that may not have direct technical assistance available within their organizations.

TNECD has crafted a program structure for SSBCI 2.0 which addresses both debt and equity challenges currently facing our partners and business owners throughout the state. Our goal is to develop a Tennessee capital continuum to connect, support, and expand already established partners, networks, and programs to quickly and effectively reach the underserved and underrepresented in our state. These partnerships will allow access to the continuum to a wider, more inclusive constituency of small businesses and entrepreneurs.

¹ <https://www.sycamoreinstituten.org/tennessee-covid-economic-recovery/>

² Source: EIG's "Distressed Communities Index" <https://eig.org/dci/interactive-map>

With the partnership of our public-private entity, LaunchTN and the state's robust CDFI network, TNECD plans to deploy these federal contributions to help provide access to capital for small businesses in low- and moderate-income, minority, and other underserved communities, including women- and minority-owned small businesses.

Current Network and Partnerships

TNECD is in an advantageous position as a statewide entity to address the underserved needs of small business and entrepreneurs within the state. A major tenant of TNECD's strategy is to develop dynamic diverse economies and thriving communities for generations of Tennesseans. As a department, we have statewide programs which impact urban, medium-sized, rural and distressed communities. We will utilize existing networks, programs, and administrative infrastructure to educate citizens on the SSBCI 2.0 program. Current programming provides training on under-funded, under-banked business, and unbanked, Main Street communities, rural and distressed communities, small business development, equity capital and commercialization. Additionally, TNECD will provide disseminate education, tools and resources on SSBCI 2.0, including, but no limited to education opportunities, updated information through websites, social media avenues, meetings and visit statewide to explain the program.

TNECD also has a long-standing public/private partnership with LaunchTN, which will lead Tennessee's equity programmatic offering. LaunchTN is a statewide organization whose vision is to make Tennessee the most startup-friendly state in the nation. Their aim is to stimulate the statewide economy by facilitating capital formation, market building and nurturing Tennessee's entrepreneurial ecosystem

As a state department, we partner with other state departments to achieve network effect. Currently, we have a relationship with the Department of Financial Institutions (TDFI), which regulates state banks and credit unions. This will provide an outlet to educate banks and credit unions about the debt and equity programs being offered through the SSBCI programs. TDFI has already been active in helping TNECD to convene banks, MDIs banks and MDI credit unions to inform them of SSBCI 2.0. In conjunction with this effort, the Tennessee Banker's Association (TBA) and the Credit Union League (The League) have been active in convening small and community banks and credit unions to inform them of the planned debt and equity program offerings. These partnerships are providing real time information about the needs of lending institutions statewide and servings as channel to educate lending institutions.

TNECD has a long-term relationship with the State's network of CDFIs that provide loans and technical assistance (TA) to small businesses. TNECD has contracted with the state's largest CDFI to provide additional access to capital and TA to small businesses in rural areas of the state CDFIs will be an integral component of our plan. They have relationships with consumers, small businesses, and nonprofit organizations give them a unique perspective on the challenges facing the low -and moderate- income (LMI) communities they serve. In addition, CDFIs provide a range of financial services and TA to their clients which align closely with the small businesses that meet the SEDI-owned business definition.

Programmatic Offerings

Debt

TNECD's programmatic offerings in debt are designed to flexible and include the CDFIs and MDIs as vehicles for allocating capital and providing TA. The CDFIs and MDIs will serve SEDI population, LMI

communities, and CDFI investment areas. The structure will allow banks, credit unions and CDFIs to access the program and strengthen the financial and small business ecosystem within TN. This credit enhancement program will be agile to address microenterprise needs up to larger loan deals. The equity program will incorporate a regional approach which reaches every corner of the state. This will allow regional collaborations, leverage the network effect, and seeks to bring new equity investors into the state.

We will monitor these activities to understand the training needs, the leverage required for each program, and assess for compliance with SSBCI guidelines. The state will monitor loan and investment activity to understand the market trends and needs and assess where and what types of training is needed. We also monitor the impact on created and retained jobs as well. Our monitoring and compliance review will occur at least quarterly, and we will have regular partnership calls to discuss activity within the debt and equity markets.

Equity

LaunchTN's BuildTN Fund is designed to leverage LaunchTN's statewide network and program partners to invest in minority communities, including Black, LatinX, women, persons with disabilities, veteran and rural founders to exceed this objective. The Fund will have a goal for BuildTN Tech Fund and Regional Fund portfolios to comprise of at least 55 percent SEDI owners and operators or whatever the established SEDI objective is established, whichever is higher.

Additional SEDI incentive funds are available upon successful achievement of the SEDI Objective discussed in the SSBCI program guidelines. The proposal works towards achieving those goals through the following means:

Outreach

- All of LaunchTN's Network Partners offer one or more programs that support SEDI populations. LaunchTN's Network Partners will attract early-stage companies that fit the SEDI criteria into the pipeline.
- For the BuildTN Seed and Tech Fund LaunchTN will leverage the networks of mid- to late-stage support organizations that specifically work with SEDI populations in Tennessee including: USDA, AgLaunch, Twende, BuildinSE and Bunker Labs. More information about each of these programs and how they reach SEDI founders is included below.
- For the BuildTN Multi-Fund program, LaunchTN will leverage Tennessee investors with strong investment theses focused on SEDI populations, including The Jump Fund and Jumpstart Nova.

Targets

- The goal for the BuildTN Tech fund program and Regional Seed Funds will be at least 55 percent of the founding teams receiving investment should represent SEDI populations, or whatever the established SEDI objective is established whichever is higher. At an average per company allocation of \$1.3 million for the BuildTN Tech fund and \$125,000 for the Regional Seed funds, investments in approximately 18 companies will be needed to meet that goal. A strong pipeline of, at minimum, 144 applicants from SEDI populations will need to be generated through the above sources in order to capture at least 38 qualified investments.

- For the Multi-Fund programs, we will ensure that we are either investing in 100 percent SEDI-investment funds, or in the case of vertical-specific or geographic-specific funds, a minimum SEDI floor of 55 percent will be maintained to qualify for SSBCI investment

The new BuildTN program will also continue LaunchTN's historic focus of investing in minority, veteran, persons with disabilities, and rural entrepreneurs to create a balanced portfolio. LaunchTN quarterly reviews portfolio composition to maintain diversity in terms of industry, geography, and founder demographics

Since its inception in 2012, LaunchTN has diligently worked to ensure access to all entrepreneurial resources for founders of all backgrounds and situations. LaunchTN identifies the importance of diversity, equity and inclusion, and has aligned with partners throughout the state that serve founders of each region of the state and various industry verticals. Each of LaunchTN's 12 Network Partners serve startups and existing businesses, that have programming and mentorship opportunities for SEDI populations. LaunchTN's success to date is a direct correlation of the success of its key partners and the startups they serve. To ensure that SEDI communities are served through SSBCI, LaunchTN will continue to work with the TN entrepreneurial ecosystem, who are Network Partners, to engage and enhance these programs to reach more SEDI founders. LaunchTN hosts monthly meetings with our Network Partners with a goal to synergize content and ensure opportunities in one region/industry are highlighted across the state. Through this best practice sharing and regular monitoring and reporting of SEDI objectives, outreach and investments LaunchTN will continue to identify, develop, and expand existing programs to meet the needs of SEDI businesses.

LaunchTN Network Partner SEDI Community Historical Work:

SEDI communities aren't a new focus to LaunchTN. Founders from all backgrounds are integral to our success as a state and have been since the start. One of the most recent examples of helping ignite a successful program across the state is with LaunchTN's partner the Nashville Entrepreneur Center through Twende. "Twende" is Kiswahili for "let's go," and represents the spirit of the statewide program passionately and strategically driving the growth of Tennessee's entrepreneurs of color. Twende is a year-long program for entrepreneurs of color in all industries looking to significantly grow their businesses and gain access to world-class curriculum, a supportive community, and individualized mentorship." Most recently, LaunchTN partnered with Twende to help it expand statewide and has secured additional \$100,000 private funding to continue the statewide push.

Epicenter, LaunchTN's Network Partner in Memphis, in 2020 provided direct support to businesses 87 percent of which were black-owned, and 93 percent represented minority businesses. In Jackson, LaunchTN's Network Partner theCO partners with SOUL Collective to host events and has recently secured a lease to transform a train depot into an entrepreneurial incubator for black and minority-owned businesses. CO.LAB, Network Partner in Chattanooga, features a Black-Owned Business directory to ensure visibility of founders and encourage shopping local.

Rural businesses are integral to Tennessee's economic growth and impact and are served by certain LaunchTN Network Partners in particular. Sync.Space serves the tri-cities in Northeast Tennessee. The Biz Foundry fosters rural entrepreneurs in the Upper Cumberland through programming, mentorship, and coworking space through 3 locations in the region.

Bunker Labs, another LaunchTN Network Partner, serves military veterans and military spouses nationally to start and grow businesses. Bunker's Veterans in Residence program serves TN veteran entrepreneurs in a business incubator model. Sync.Space also partners with universities to host the STRIVE Program for veterans.

Powered By Her, a community and podcast for sharing women's entrepreneurial stories, is led by LaunchTN's Network Partner The Biz Foundry's Vice President. The Knoxville Entrepreneur Center (KEC), another Network Partner, features the Let Her Speak program dedicated to driving conversations within the community to drive change and increase connection for women entrepreneurs. As reported by KEC, "The conversations are growing louder, and women are continuing to speak up regarding various issues such as sexual harassment, mental health, seeking funding for a new business, and climbing the corporate ladder. In the last year, we have witnessed an 18 percent increase in women-owned businesses across the US, yet these businesses only account for 26 percent of all small businesses. Women-owned businesses generate \$1.7 trillion in sales each year and employ nearly 9 million people. In Corporate America, the story is a little bleaker. As recently as 1995, there were no female CEOs at a Fortune 500 company. In 2017 we saw the share of female CEOs of Fortune 500 companies at an all-time high of 6.4 percent. However, this year we saw that share drop to 4.8 percent with several women leaving these positions."

LaunchTN will also utilize the strong presence we have through digital and free media to attract SEDI founders to the program. This includes website updates, media stories, social media, direct email, and other communications.

Technical Assistance

The feedback from our lending institutions and equity providers reiterated the substantial need for technical assistance for small businesses and entrepreneurs. Technical Assistance (TA) will be a focal point for the State's SSBCI 2.0 program overall. In periodic check-ins with grantees and other ESOs (entrepreneur support organizations) a corollary outcome we have identified is that businesses that participated in some type of small business or entrepreneurial training, business counseling, or other formalized program are weathering better overall.

Fifty five percent of Tennessee business establishments have fewer than five employees³. Prior to the onset of the COVID-19 pandemic, access to capital needs were identified in Tennessee's entrepreneurial and small business ecosystem. The needs identified include microlending which is defined as loans of \$50,000 and under. Here in the United States, the Small Business Administration (SBA) considers anything under \$50,000 a microloan. That said, the SBA reports that their average microloan runs about \$13,000. Due to the pandemic, the need for microenterprise lending has increased.

Regarding access to debt capital TA will be used to assist underfunded, non-banked, and under banked small businesses become capital ready; While non-traditional and some traditional lenders can help fill the gap, these lenders and small business owners frequently encounter administrative challenges, paperwork issues, and missing documentation which delays or terminates the loan process. In this regard, TA and education to usher the loan process along allows for timely execution on a loan.

³ Source: U.S. Bureau of Labor Statistics, Quarterly Census of Wages and Employment 2020

Most traditional lenders have no interest in microloan customers because it costs them too much to evaluate the creditworthiness of borrowers and underwrite small business loans. Those overhead costs eat into their opportunity for profit, as do the relatively low-interest rates of microloans. Our debt programs will allow for microenterprise lending, de-risk the loans, and assist the small business in becoming bankable.

Regarding access to equity capital, training and education will factor heavily in our efforts. The TA component will produce a pipeline of capital ready businesses needing debt and equity capital. Our equity programs will be led by LaunchTN. LaunchTN has a statewide network of entrepreneur centers (EC) and Network Partners in the state. These ECs are physical locations where small businesses and entrepreneurs can receive TA and be assisted with raising equity capital. The reach of the TA dollars will be expanded to train new and existing investors and small businesses and entrepreneurs on equity investing in a systemic statewide methodology. Talent is everywhere, but opportunity is not. While equity investing is not a novel capital tool, the understanding and mechanics of this tool are not always present and readily accessible. We will seek to level the playing field and demystify the tenants of equity investing in all communities through training. We assert that by educating communities, this will increase the pipeline of investors and businesses seeking equity infusion throughout the state.