



NEW MEXICO  
FINANCE **AUTHORITY**

# New Mexico Small Business Ecosystem Landscape

Presentation to the NMFA  
Oversight Committee

July 28<sup>th</sup>, 2023



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Implications



# Research Methodology: *Key Inputs*

To inform this work we incorporated inputs from a range of quantitative and qualitative data sources in order to develop a robust understanding of the New Mexico small business ecosystem

<b>Literature Review</b>	Reviewed ~15 relevant existing reports covering regional economics, the small business capital ecosystem, and where additional analysis could be needed
<b>Stakeholder Interviews</b>	Interviewed 28 local experts on the small business support ecosystem in New Mexico including government agencies, banks and community development financial institutions, business support organizations and philanthropic foundations
<b>Data Analysis</b>	Analysis of publicly available datasets on small businesses and provision of capital including businesses statistics from the U.S. census, bank businesses lending via the FFIEC, SBA and PPP lending from the Small Business Administration, CDFI lending from the CDFI Fund, and others
<b>Small Business Focus Groups</b>	Focused discussions on challenges accessing capital and support with groups of local small businesses in four key groups: B2B service providers; contractors (construction, wholesale, transportation); rural business owners; and main street industries (service, retail, food and beverage, creative industries)



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# Key Findings: New Mexico Context

## Key Takeaways

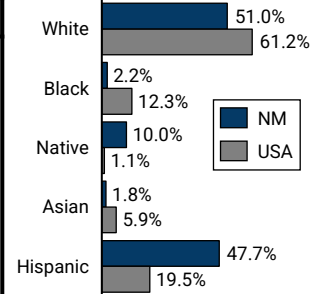
1

**New Mexico is one of the largest (by land area) and most diverse states in the country yet lags on many economic indicators.** Despite having important economic assets for growth such as large anchor employers and low cost of living, New Mexico has the **2nd highest poverty rate in the country** and is in the bottom 3rd of job, wage, and GDP growth. New Mexico has some of the **largest relative population of Native and Hispanic residents** in the country, yet these groups both experience **higher poverty levels than both their white counterparts and national averages for those groups**

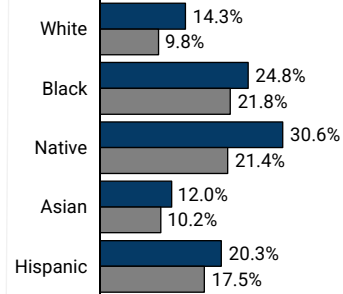
### Economic Indicators

Metric	NM	US
GDP Per Capita	\$57.8K	\$70.2K
10-Year GDP Growth	+7.6%	+23.1%
Poverty Rate	18.4%	12.8%
Unemployment Rate	3.5%	3.4%

### State Demographics



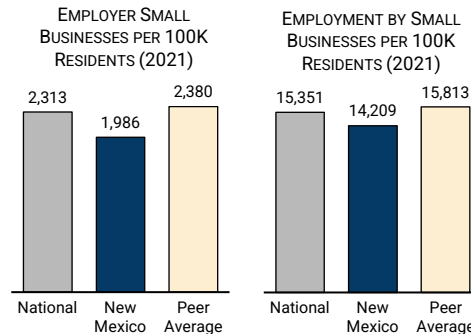
### Poverty Rate by Demo.



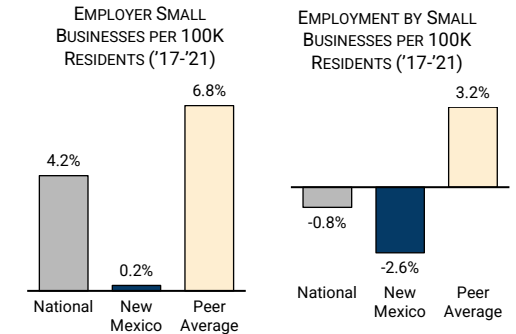
2

**New Mexico trails peer states and national averages in economic contribution from small businesses by a significant margin.** New Mexico ranks at or near the bottom in terms of small businesses and employment by small businesses peer capita, including having the **lowest level of non-employer firms per capita of any state.** Additionally, over a 5-year period New Mexico has seen the **lowest growth rates of economic contribution by small businesses across all metrics**, further exacerbating these deficits.

### Small Business Indicators



### 5-year Growth of Key Indicators



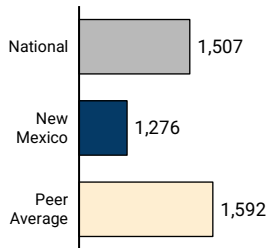
# Key Findings: Businesses in New Mexico



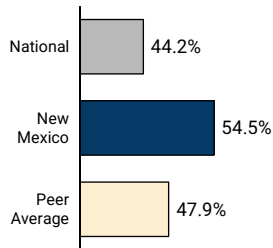
## Key Takeaways

**1** Despite persistent lower relative levels of entrepreneurship, since the COVID-19 pandemic New Mexico has seen faster small business growth than national averages and peers. As new businesses starts have boomed nationally in the wake of the pandemic, New Mexico's growth of business starts has outpaces both national averages and most peers

2022 NEW BUSINESS STARTS PER 100K RESIDENTS

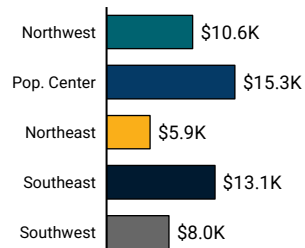


3-YEAR GROWTH OF NEW BUSINESS STARTS ('19-'22)

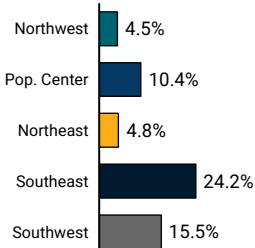


**2** Business activity is largely centered in urban areas of the state around Albuquerque and Santa Fe, yet recent growth has come more from areas around the southern border. Small business contribution per capita is highest in the population center region across all key metrics. Over the past 3 years, however, employment and payroll growth in the Southeast has more than doubled that of the central region.

SMALL BUSINESS PAYROLL PER 100K RESIDENTS BY REGION (2021)



3-YEAR GROWTH OF SMALL BUSINESS PAYROLL ('19-'21)



**3** Compared to national averages, New Mexico's small business community is slightly more made up of "main street" businesses in the retail, food services, construction, and arts sectors. Conversely, both number of business and employment by small businesses in more technical fields like professional services and administrative support are underrepresented in the state

TOP 3 OVER- AND UNDER-REPRESENTED SMALL BUSINESS SECTORS, EMPLOYER BUSINESSES, NM VS. US (2021)

Sector	Delta
Mining, Oil, & Gas	+1.0%
Retail Trade	+0.9%
Accom. & Food Services	+0.8%
Admin & Support	-0.8%
Wholesale Trade	-1.0%
Professional Services	-1.3%

TOP 3 OVER- AND UNDER-REPRESENTED SMALL BUSINESS SECTORS, NON-EMPLOYER BUSINESSES, NM VS. US (2021)

Sector	Delta
Arts & Entertainment	+2.0%
Healthcare	+1.4%
Educational Services	+1.1%
Finance & Insurance	-0.5%
Admin & Support	-0.8%
Transport & Warehouse	-3.9%



# Key Takeaways: Small Business Support

## Key Takeaways

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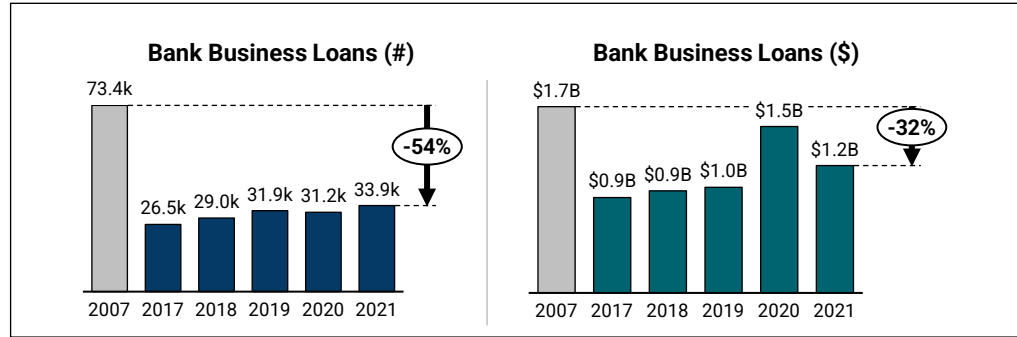
- 1** **New Mexico has seen promising progress in the quality of business support resources available in the state.** With a strong network of regional and local banks, credit unions, and CDFIs, there are a number of assets in the small business funding community to build on. Additionally targeted accelerator and business support programs in the technology, sciences, and food industries have had great success on a small scale.
- 2** **However, several challenges around access to these resources have perpetuated economic inequity.** Due to limited scale of business support resources, quality technical assistance is generally limited to those businesses with the knowledge and networks to access them, and with an ever-increasing number of available programs, finding the correct resources can be difficult for all businesses. Additionally, many existing business support resources have been narrowly focused in specific high-growth industries, limiting overall impact.
- 3** **The largely rural makeup of the state makes it logistically difficult to provide quality business technical assistance at scale.** Many statewide organizations and fundings report struggling to effectively serve rural and Native communities outside of core city centers due to high overhead cost required to meet businesses where they are and gain trust. This inability to effectively be on the ground in rural communities can hurt the ability for these players to effectively serve Native communities especially, where trust is very important. Lack of reliable digital access in rural areas also limits access to national business support resources that are becoming ever more online.
- 4** **While public focus on Native and Hispanic communities in the state is strong, inequities still exist for these groups and this focus can further exclude others.** Mainstream institutions like banks and government have yet to effectively earn the trust of many Native and Hispanic communities statewide, with many still preferring to access resources through trusted community and known networks. Additionally, the “tri-cultural myth” that emphasizes these communities can at times leave behind Black, Asian, immigrant, and other communities in economic development efforts

# Key Findings: Small Business Funding (1/2)

## Key Takeaways

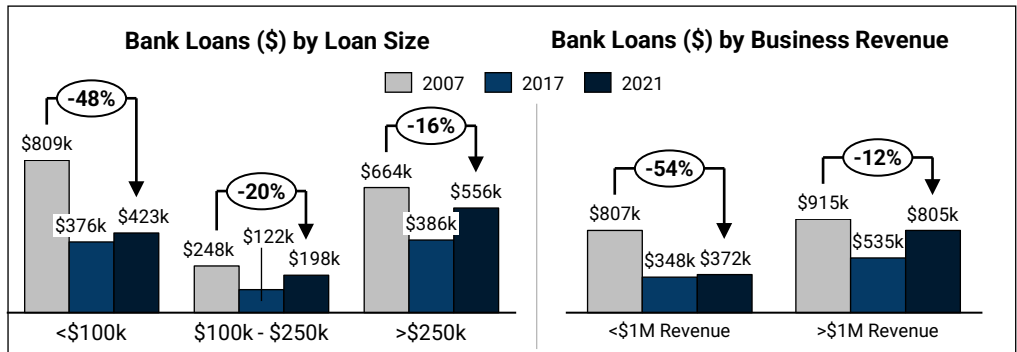
1

**Bank and SBA lending make up most of the capital provided to small businesses in New Mexico yet in the past decade banks have severely decreased risk tolerance, leading to less business lending statewide.** Business lending rates by FDIC insured banks in New Mexico in 2021 were less than half what they were in 2007, resulting in at least \$500M less small business funding provided statewide annually. To avoid risk, banks have focused on larger, safer business investments, nearly doubling their average loan size in the same period.



2

**This credit tightening has been disproportionately felt by smaller businesses, and those in less wealthy areas.** More than one-half of the decrease in bank lending over the past 15 years came in loans of under \$100K; by 2021 banks in New Mexico were deploying more capital via loans of more than \$250K than via loans of less than \$100K. Businesses with <\$1M in annual revenue saw more than half of their funding from banks disappear, while those with over \$1M in annual revenue only saw a 12% decrease.





# Key Findings: Small Business Funding (2/2)

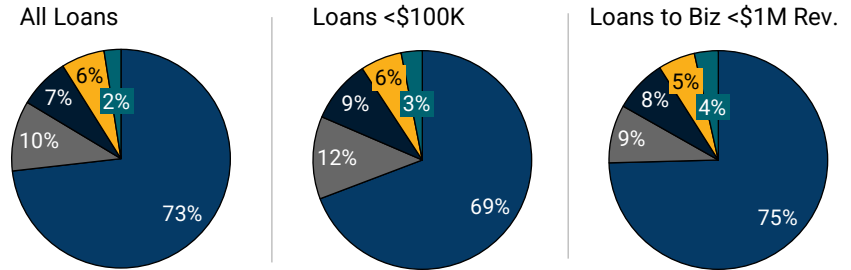


## Key Takeaways

3

**Consistent with business distribution, small business funding statewide is disproportionately focused in the broader Albuquerque and Santa Fe metro regions.** Nearly twice as much small business funding per capita goes to the population center of the state, consisting of 73% of all funding (while containing only 58% of businesses). In the COVID-19 pandemic, Paycheck Protection Program (PPP) funding was distributed along similar breakdowns, though the southern portions of the state actually fared better due to online lending and local Texas lenders.

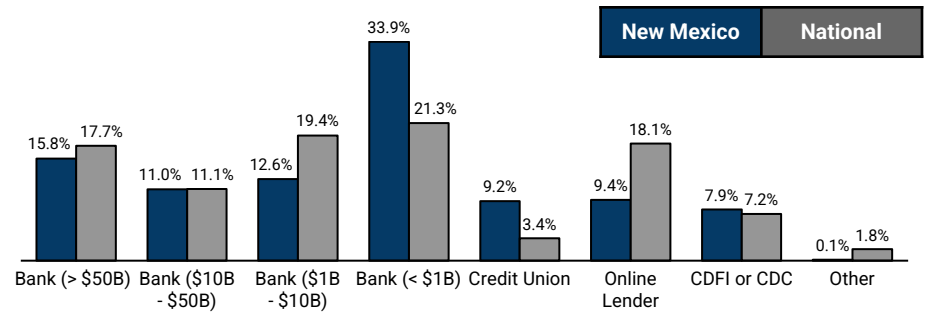
Portion of Statewide Loans, Loan Type, 2021



4

**The COVID-19 pandemic and the Paycheck Protection Program (PPP) highlighted pre-existing strengths and weaknesses of the New Mexico small business funding landscape.** Strong local banks and credit unions did an above-average job of serving NM businesses, decreasing reliance on national banks that often prioritized larger businesses; established CDFIs like DreamSpring effectively deployed PPP capital to smaller and earlier stage businesses across the state by leveraging their existing brand and relationships. However, the digital divide in rural New Mexico caused many business owners to lose out on opportunities to access PPP through online lenders and national CDFIs, which did the best job at equitably deploying the program nationally.

Portion of Loans (#) by Lender Type





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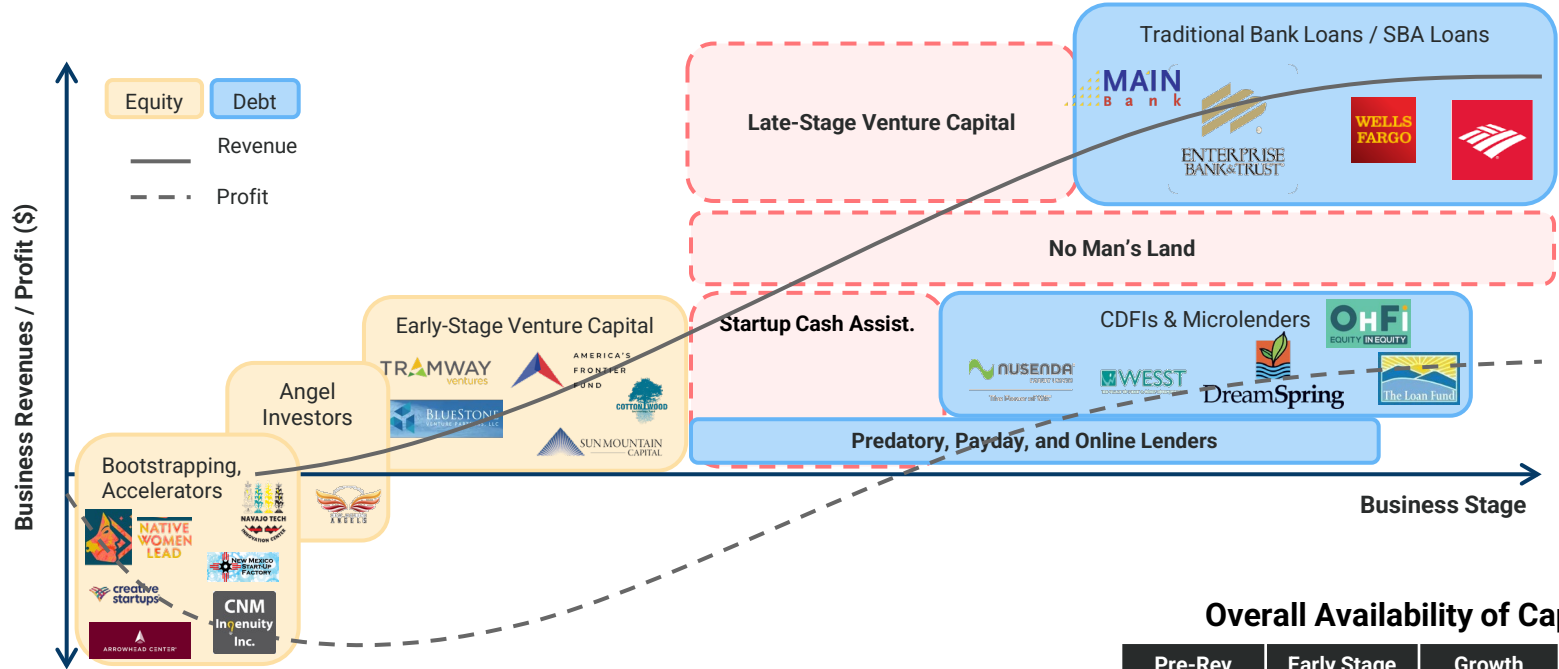


# Capital Landscape: *Key Considerations*

Research into the New Mexico capital landscape has informed several key considerations for design and execution of a new financing vehicle in the state

- > **There is not one problem to solve.** Initiatives to solve for capital gaps will need to be intentional in identifying the specific gaps they look to address within the overall ecosystem. Start-up capital, alternative financing, and growth funding are all different tools to solve different problems, and funders should choose the right tool to accomplish their own target impact, for example:
  1. **No Man's Land** – Funding the missing middle of the capital spectrum can fill a major capital gap but will inherently focus on more established and growth-oriented businesses.
  2. **Alternative Funding** – Introducing new funding products to the state could be hugely impactful, but will focus on specific industries that are better fits for this sort of funding
  3. **Startup Cash** – Additional cash infusions for start-up businesses is one of the most impactful ways to invest in business growth, yet would be difficult to tailor to the goals of a fund
- > **New capital solutions should work through local partners** for several reasons:
  1. **Trust** - As with many places, local trust is important in New Mexico, and even many current capital providers are not trusted by historically underserved communities. Finding the right local partners to bridge these cultural barriers will be very important.
  2. **Technical Assistance** – Given the lack of readily available technical assistance resources, funders should look to support key TA partners to proactively provide businesses ongoing support to ensure their success
  3. **Ease of Navigation** – Accessing the full range of business support and funding resources that exist today is already hard for business owners. Leveraging existing networks and connections will be integral to finding the right businesses to fund
  4. **Ground Game** – Showing up in person is important, especially for tribes, rural, and Hispanic communities and with the size of New Mexico, current statewide organizations are already trying to solve for this. Anyone looking to support these business owners should plan to support and expand their efforts rather than creating its own
- > There are a number of ways to **specifically focus on equity** in small business support in New Mexico:
  1. **Industry Diversity** – By going beyond current core industries emphasized by the state, supporters can reach entrepreneurs that are currently overlooked
  2. **Racial Equity** – By intentionally working with the Asian Business Collaborative, the African American Chamber of Commerce, and more, supporters can more intentionally reach all businesses

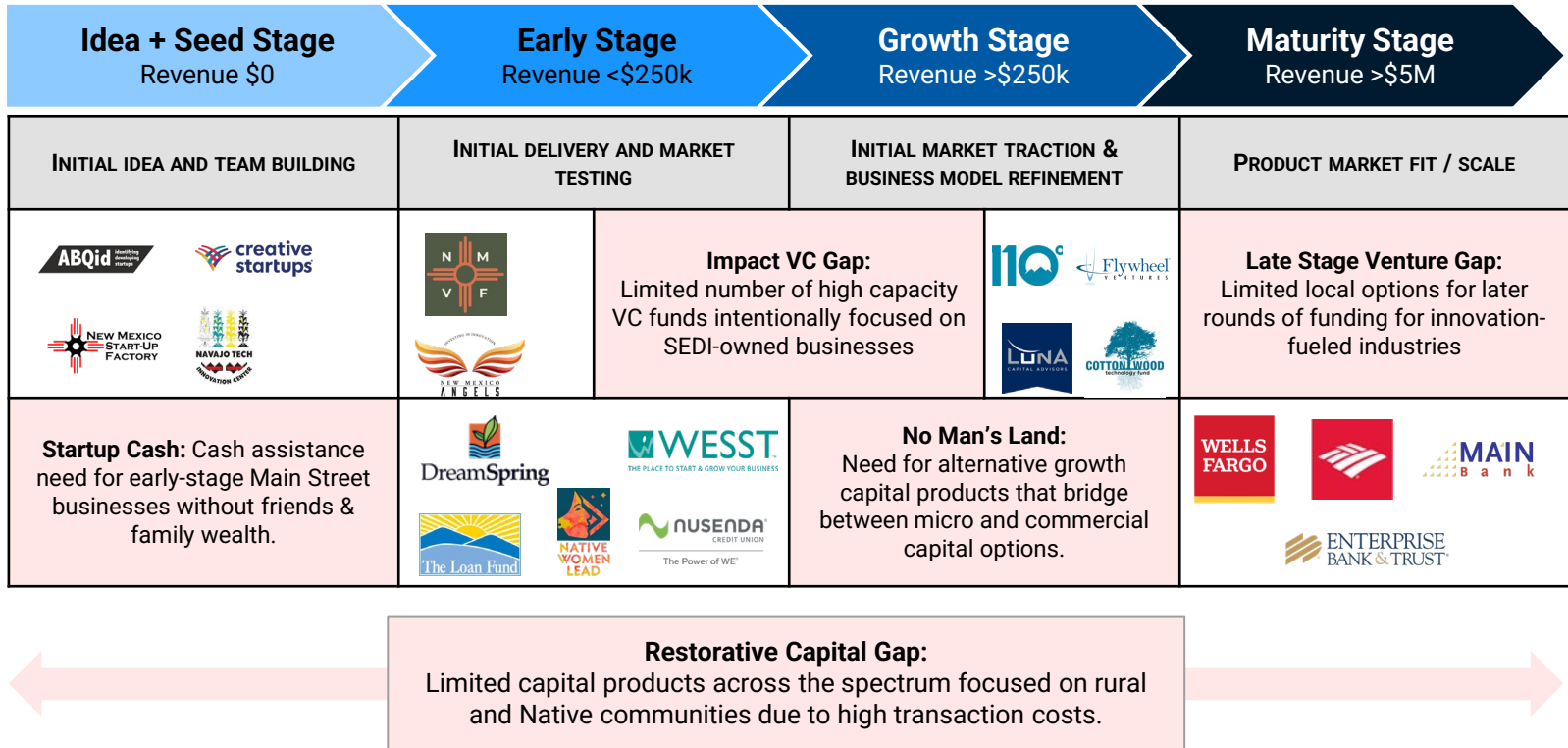
# Capital Landscape: Local Providers



Overall Availability of Capital

	Pre-Rev	Early Stage	Growth	Mature
Main Street Businesses				
Growth Businesses				

# Capital Landscape: *Summary*





# Capital Gaps

Capital gaps surfaced by this research can generally be categorized into two key buckets: opportunities to further economic justice through small business support, and opportunities to bolster the existing growth capital market

1. Cash assistance for early-stage main street businesses in underserved communities
2. Easily-accessible, culturally competent financing for underserved business owners (rural, Native, POC)
3. Alternative underwriting models for businesses boxed out of current capital options
4. Growth investment in non-technology or sciences-focused industries
5. Alternative financing options for growth and venture-oriented businesses that don't create bubble investments
6. Later round venture capital investment for potential unicorn businesses

## **Economic Justice**

Opportunities to build a more equitable small business support ecosystem that can build wealth for all New Mexicans, especially those overlooked by traditional or mainstream funding sources

## **Responsible/Alternative/Gap-Filling Growth Capital**

Opportunities to improve the existing venture capital market in New Mexico by filling capital gaps, increasing access to funding, and introducing alternative tools that better ensure business success

# Introducing Advance New Mexico



## LAUNCHING ADVANCE NEW MEXICO

- > Mission Driven Finance is launching Advance New Mexico, an **investment strategy focused on socially and economically disadvantaged individual (SEDI)-owned businesses in New Mexico** that will intentionally address gaps in the venture financing landscape to create more inclusive and equitable access to capital
- > Anchored by NMFA, the fund will be **structured to aggregate capital** commitments from **multiple investors** (e.g. banks, foundations, impact asset managers, SSBCI) to **create scalable impact**

## COMPLEMENTARY CREDIT & EQUITY INVESTMENT STRATEGIES

- > Focus on **advancing the right capital in the right size at the right time** for SEDI-owned businesses in NM
- > Exploring complementary credit & equity investment strategies will allow for a **range of creative, gap-filling products** being made available to entrepreneurs & intermediaries supporting them (e.g. venture equity, revenue-based financing, contract financing, warehouse lines for emerging managers)

## PROVEN NATIONAL PLATFORM WORKING ALONGSIDE ROOTED LOCAL PARTNERS

- > The MDF platform has over **\$115M in AUA** and deployed over **\$85M into communities** nationally, almost entirely through **flexible, dynamic, and culturally sensitive gap-filling transaction structures**
- > Advance New Mexico will **partner with culturally competent existing community-rooted organizations** to build capacity of these organizations and source dealflow through trusted partners, and will also have a **community advisory committee providing oversight and input**