

Real Deals

SSBCI 2.0 Product Playbook

Bonding + Supply Chain Finance

Drexel's Nowak Metro Finance Lab & Kauffman Foundation

Executive Summary

Background

*The **State Small Business Credit Initiative (SSBCI 2.0)** is a federal program authorized by the 2021 American Rescue Plan that gives **\$10 billion to states** to create programs that invest in — and help grow — small businesses. Each state is tasked with designing the programs and products that reach a broad range of diverse entrepreneurs from this unprecedentedly large program.*

Challenge

*How do states structure capital, administer programs, and build the partnerships necessary to successfully leverage this federal investment to create jobs, support businesses, and **permanently** strengthen their state economies?*

Opportunity

***Supply Chain Finance (SCF)** is an innovative and underutilized approach that states should consider in their SSBCI 2.0 portfolio. SCF ties financing to the promise of future cash flows (e.g., contracts, invoices), providing critical working capital to small supplier (e.g., B2B, B2G) businesses.*

About the Nowak Metro Finance Lab

*The Nowak Metro Finance Lab is a research lab based at Drexel University to help local governments identify and implement public finance strategies to support strong and inclusive cities and states. The Lab's current and founding director is Bruce Katz, co-author of *The New Localism* and *The Metropolitan Revolution: How Cities and Metros are Fixing Our Broken Politics and Fragile Economy*.*

*The Lab has partnered with the **Ewing Marion Kauffman Foundation** to provide free research and support to states as they implement the \$10 billion State Small Business Credit Initiative, with the goals of:*

- 1) **Strengthening and building local small-business capital ecosystems;***
- 2) **Reaching underserved entrepreneurs without access to capital; and***
- 3) **Driving catalytic innovation in metropolitan regions and states***

Definitions

Capital Product: *An agreement wherein one entity or firm invests money into another; examples included loans, equity investments, and other means of extending credit and capital to businesses.*

Supply Chain Finance (SCF): *A capital product that helps businesses access working capital by borrowing against existing customer orders, such as receivables for future work or invoices for goods or services already delivered/rendered.¹*

Surety Bond: *A form of insurance intended to indicate firms' ability to undertake and perform work specified in a contract and protect the procurer against non-performance, often required for construction and government-purchased work; **typically underwrites against firms' cash reserves, limiting access.***

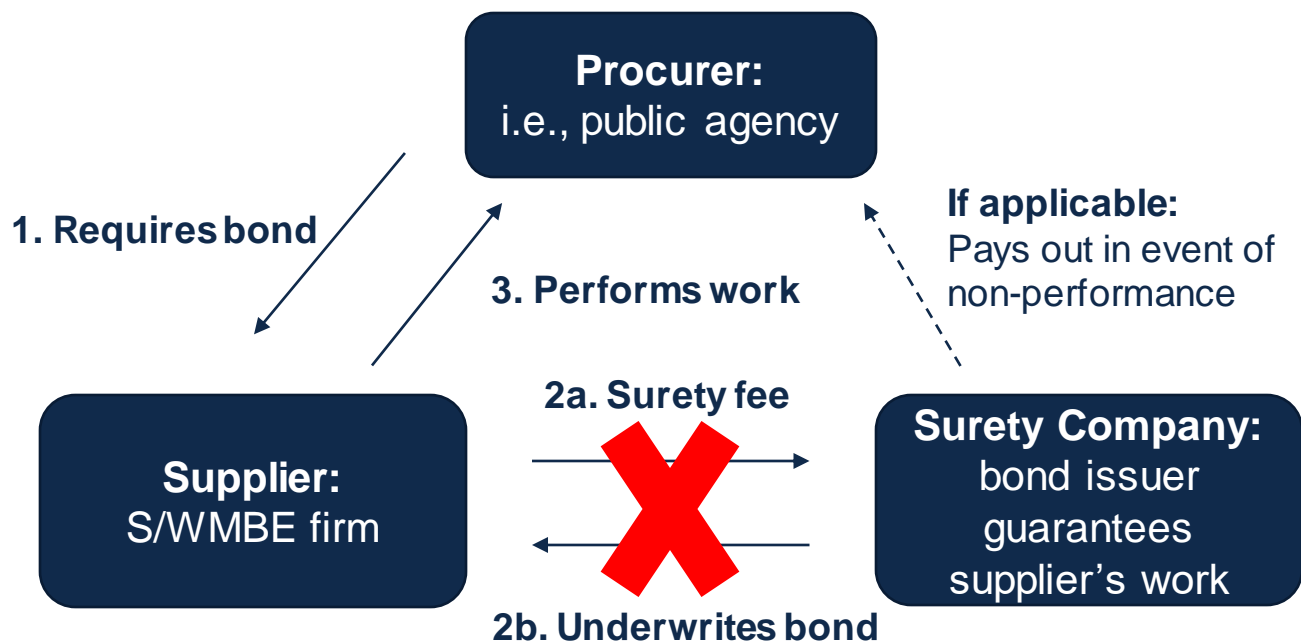
Bid Bond: *A subset of Surety Bonds that indicates a firm is able and qualified to perform work, and will perform the work, as specified in a bid if accepted by the procurer.*

Performance and Payment Bonds: *Once a bid is awarded, the Performance Bond gives surety that the contractor will perform and complete the work as specified; the Payment Bond guarantees pay to all entities, most commonly subcontractors and suppliers; both Bonds are subsets of Surety Bonds.*

¹ Aunnie Patton Power's *Adventure Finance* (2021) helped guide these definitions

Typical Bond Structure & Agreement

Limits Access for Small and Underrepresented Firms



Policy Objective:

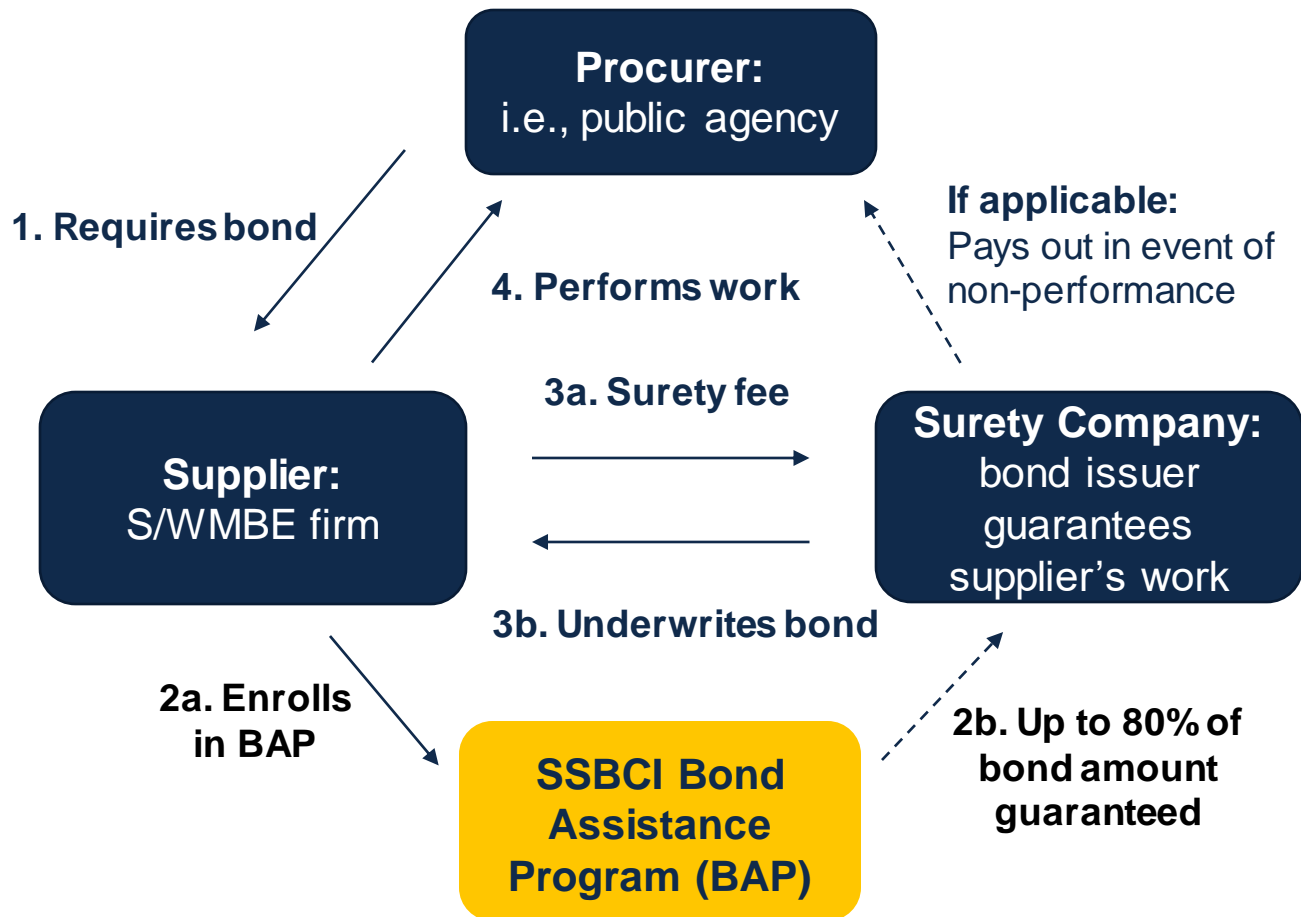
Public agency aims to expand S/WMBE participation in procurement.

Policy Challenge:

Bonding capacity primarily depends on cashflow, a limiting factor for S/WMBEs.

SSBCI Bond Guarantee Program Structure

Guarantees Up to 80% of Bonds to Expand Access



Policy Objective:

Public agency aims to expand S/WMBE participation in procurement.

Policy Challenge:

Bonding capacity primarily depends on cashflow and liquid assets, a limiting factor for S/WMBEs.

Policy Tool:

SSBCI-supported bond assistance program guarantees up to 80% of project cost, lowering risk to surety and making bond more accessible to S/WMBE contractors

Ex: NY State Bond Guarantee Assistance Program

Sample Deal: SSBCI Bond Guarantee Program

Sample Deal + Fund Structure

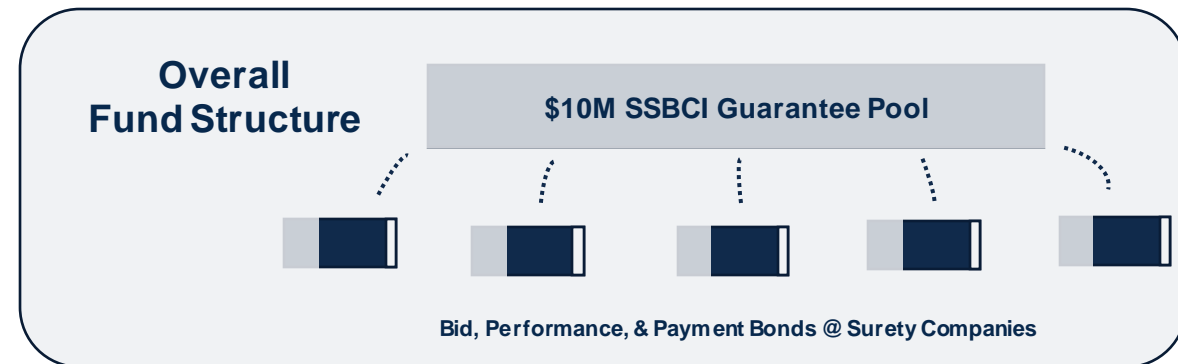
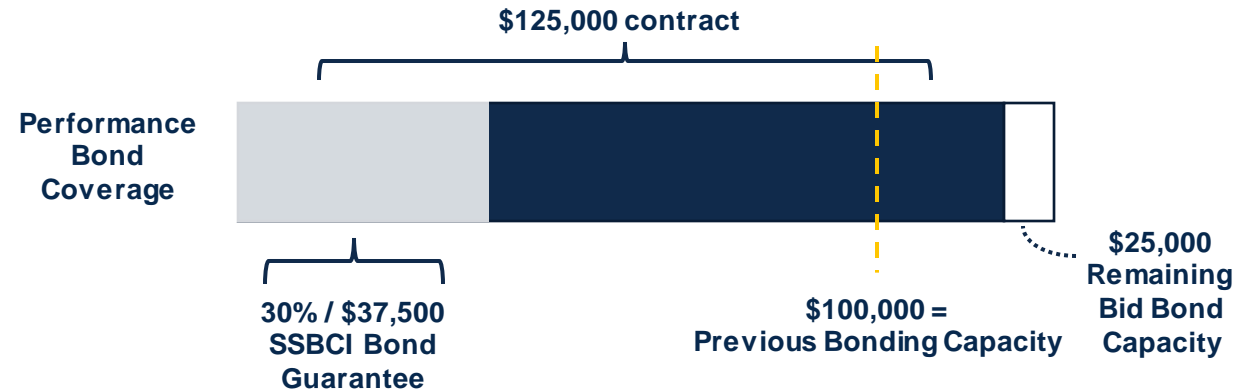
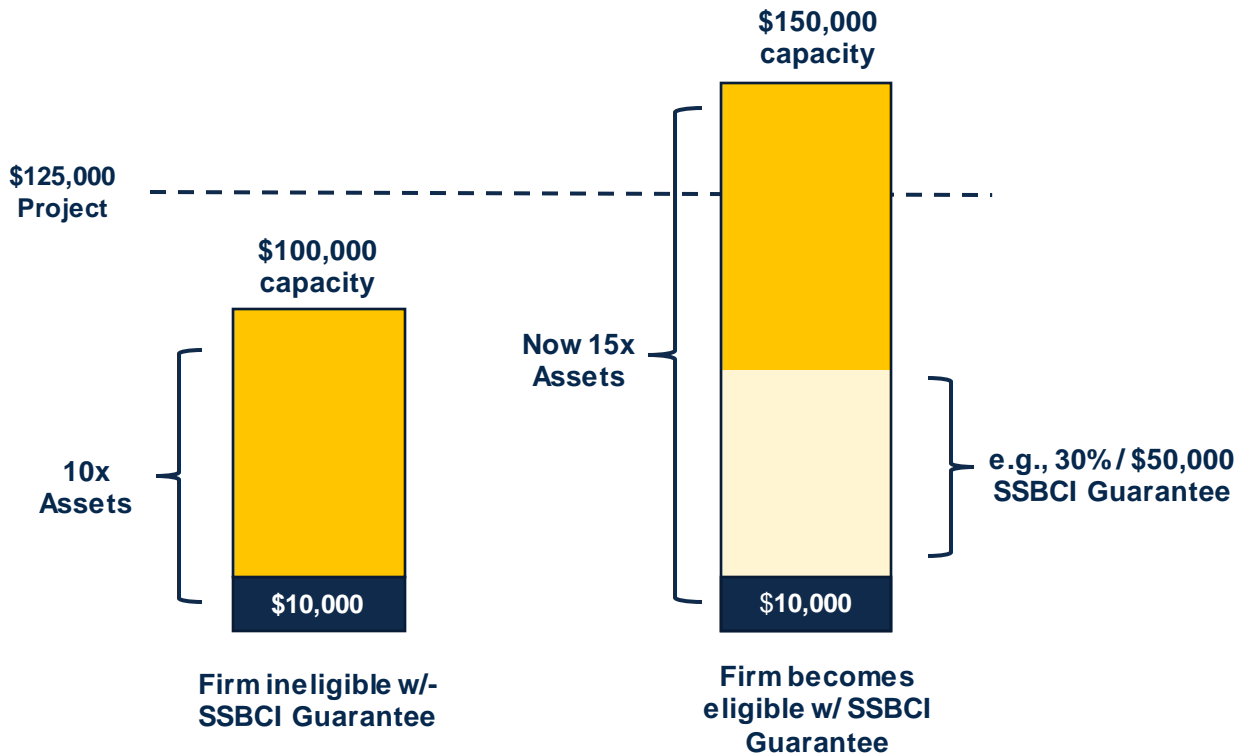
1. Bid Bond:

- S/WMBE is looking to begin contracting
- Firm has \$10,000 in current assets
- 10x assets industry standard for bond capacity



2. Performance/Payment Bond:

- S/WMBE wins \$125,000 contract
- Needs Performance Bond



Supply Chain Finance in Action

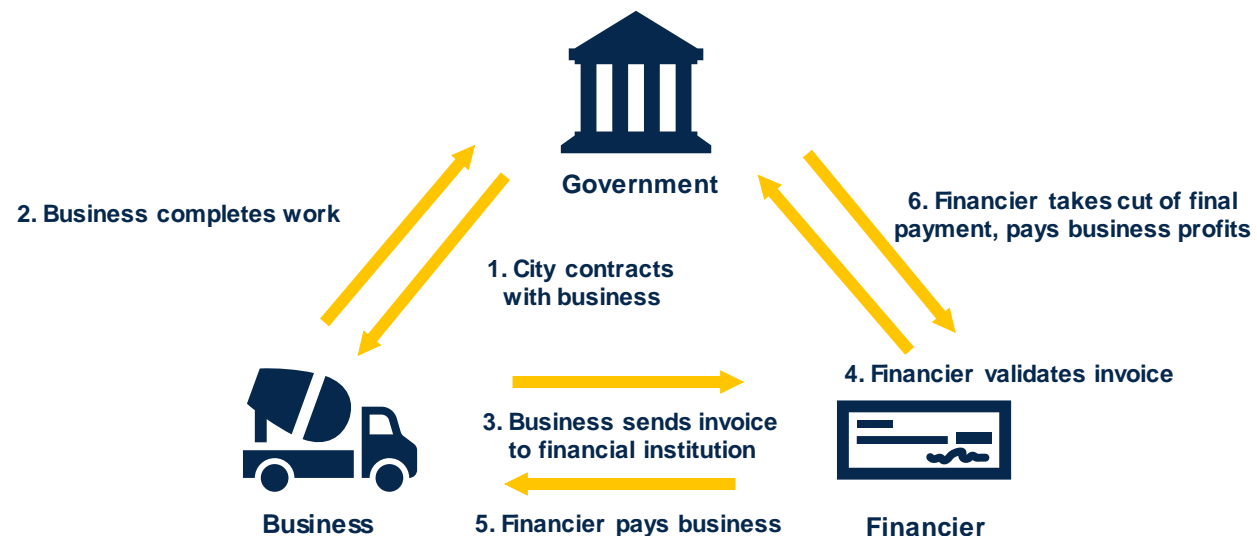
Funds Administrator Model w/ Invoice Payment

Need: government can take as long as 90 days *after* work is completed to pay contractor invoices

Opportunity: new federal infrastructure dollars could boost local, diverse firms if correctly channeled

Solution: create capital products and vehicles to front payment for contractor invoices and other SCF mechanisms to smooth small business cashflow

Ex: LA's Contractor Development and Bonding Program



SCF works best at scale: financier gets surety doing *all* contracts for city/region, keeps % cut low with volume

Revenue-Based Integration: can also be structured as full payment with revenue-based repayment (i.e., repaid when government pays contractor); **See our Revenue-Based Lending deck for more**

Supply Chain Finance in Action

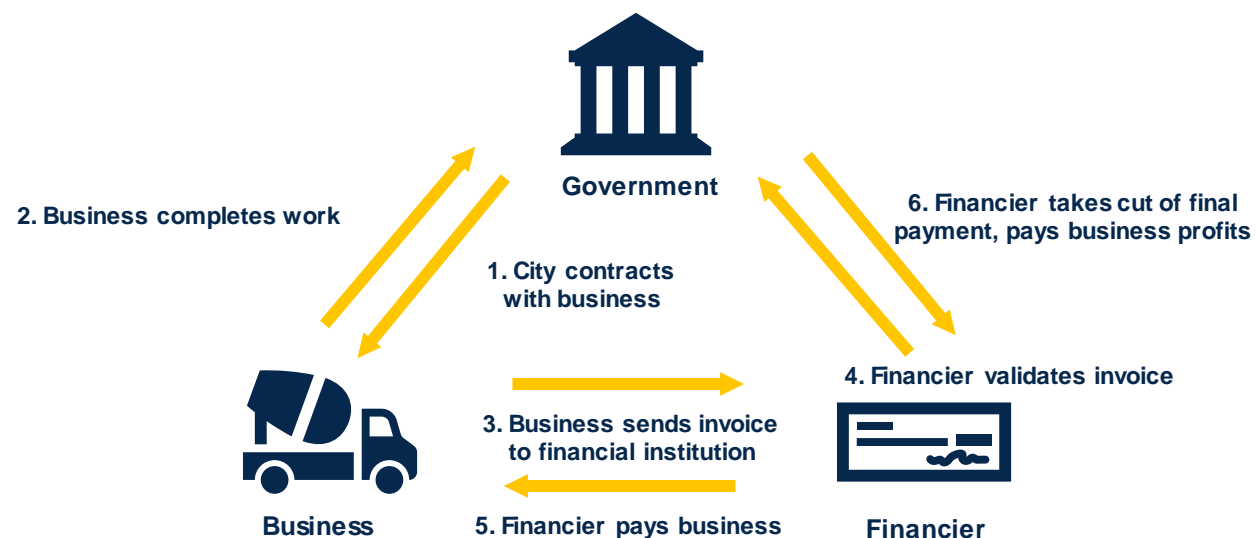
SSBCI Integration

Loan Guarantee Program: SSBCI Guarantees Financier against losses

Capital Access Program: SSBCI creates loan loss reserve for financier, up to 14%

Loan Participation Program: SSBCI buys into existing/new Funds Administrator w/ new capital

Collateral Support Program: SSBCI deposits enhance surety, allow for earlier payment of receivables, not just invoices

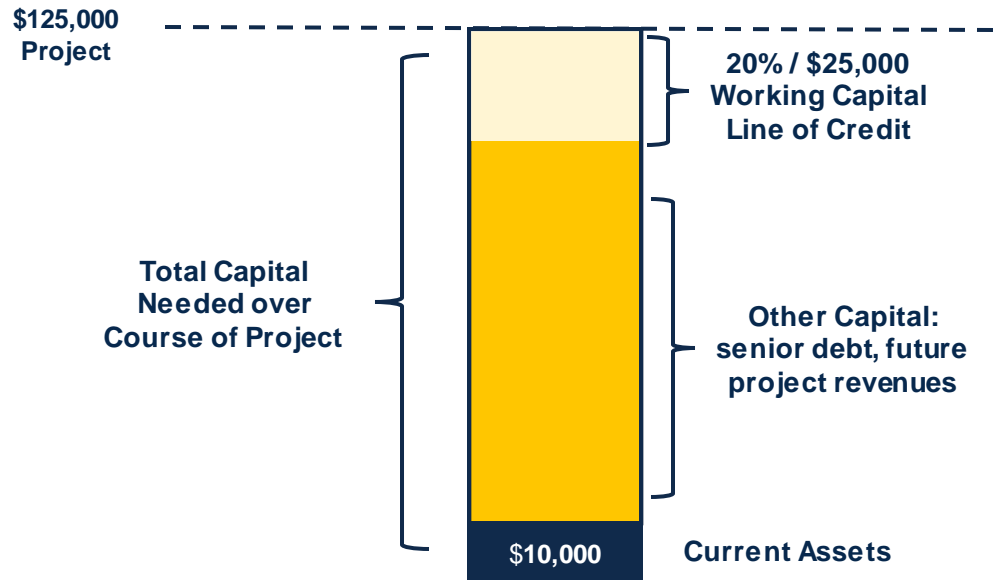


SSBCI benefits: financiers have additional support + reserves to test SCF/Funds Administrator model

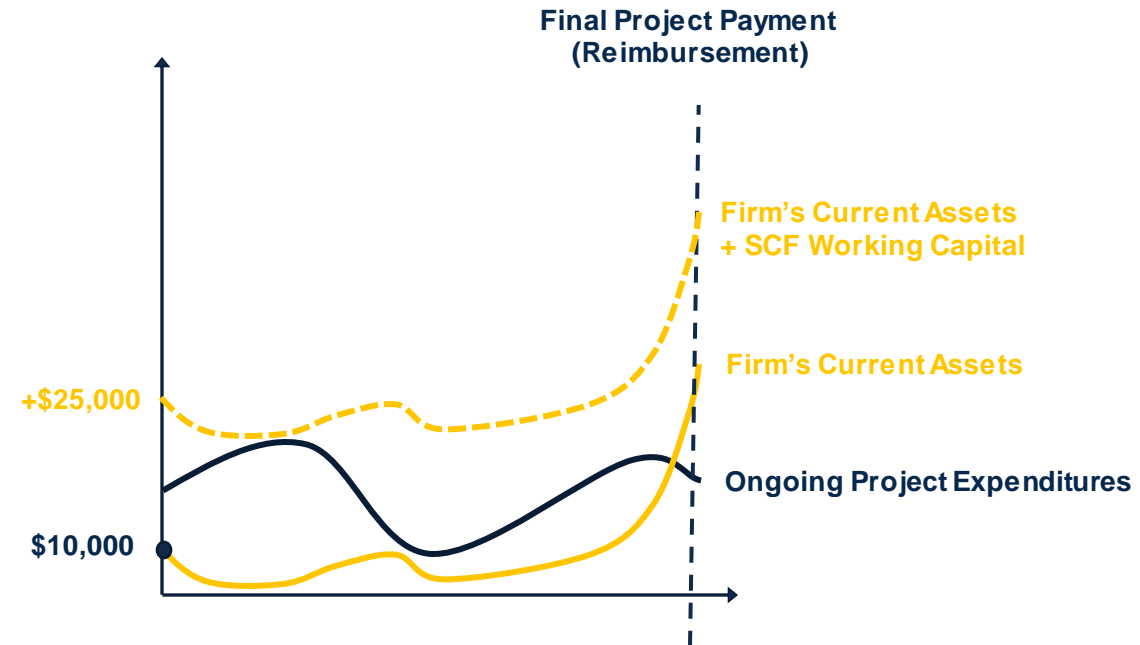
Supply Chain Finance in Action

Line of Credit Model, as % of Contract

Project Financing



Firm Cash Flow



Product: Working Capital Loan/LOC for 20% of contract value

Benefit: Firm now has cashflow/working capital to meet project costs

Key Innovation: concurrent bond and LOC approval integrating bonding and financing functions reduces costs + risk

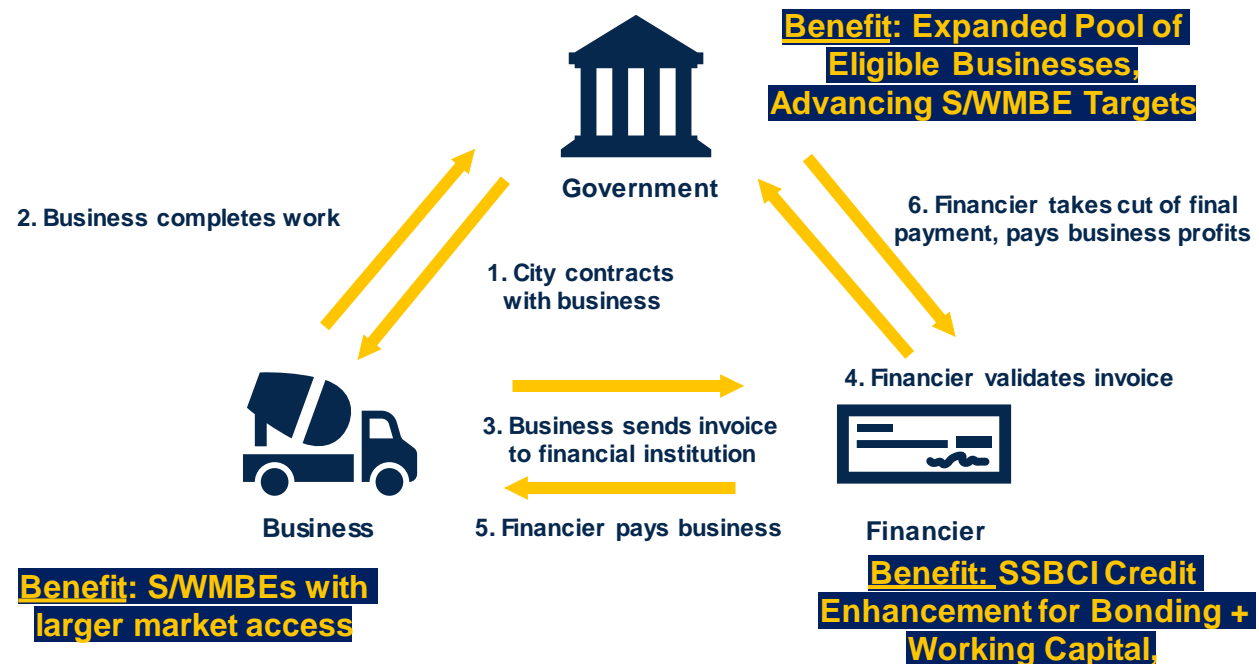
Supply Chain Finance in Action

Significant Ecosystem Benefits across Parties

To Government: many more tools and much larger reach in reaching and growing local, S/WMBE firms

To Local S/WMBEs: contracts and predictable revenue now available, offering significant growth opportunities, expanding access and equity

To Capital/Surety Providers: more lending/insurance capability + market reach w/ SSBCI enhancements; extensive cost savings and risk-mitigation w/ integrated bonding + lending functions; and now an incentive to provide pre and during-contract TA



Removes Silos, Expands Access, Grows Underrepresented Firms

Pros/Cons for SSBCI Programs

By Bonding and SCF Integration

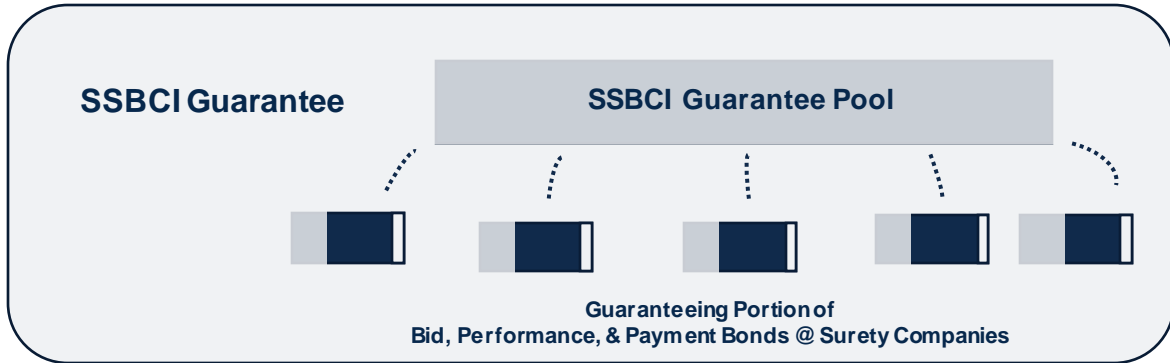
Product	Pros	Cons	Reach/ Ideal Business
Loan Guarantee Program (Bonding + SCF)	<ul style="list-style-type: none"> ➤ Pools guarantees ➤ Enables large number of transactions ➤ Up to 80 percent covered, first-loss capital 	<ul style="list-style-type: none"> ➤ Does not address capital or firm assets shortfall ➤ Relatively less credit extended per transaction 	High: Lender/surety can get significant first-loss coverage; Business has some assets, needs modest capital
CAP Loan Loss Reserve (Bonding + SCF)	<ul style="list-style-type: none"> ➤ Most effective for reaching LMI businesses in 1.0 ➤ Reaches businesses on edge of eligibility, smaller loan sizes ➤ Most recognizable to CDFIs 	<ul style="list-style-type: none"> ➤ Limited risk mitigation (14%) ➤ Borrower/lender must pay in ➤ Low SSBCI match (1:1 max) 	Limited: Minimal loan coverage, but works for small firms on edge (many S/WMBE; easiest to implement w/ local lenders/CDFIs)
Loan Participation Program (SCF)*	<ul style="list-style-type: none"> ➤ Gets capital directly to lenders (up to 80% of fund) ➤ Expands CDFI balance sheets + capital to lend 	<ul style="list-style-type: none"> ➤ Possibly more underwriting ➤ Typically required personal guarantees 	Moderate: Balance sheet expansion for lender; business often already has assets, some access to credit
Collateral Support Program (Bonding + SCF)	<ul style="list-style-type: none"> ➤ More financing per transaction ➤ Easy utilization for community lenders ➤ Deposit could also be considered equity in firm 	<ul style="list-style-type: none"> ➤ Cannot pool SSBCI funds for more transactions ➤ Thus enables fewer new transactions overall 	High: Effectively addresses asset shortfall for both bonds and lending; business growing into first/larger contract

SSBCI + Patient Capital Integration

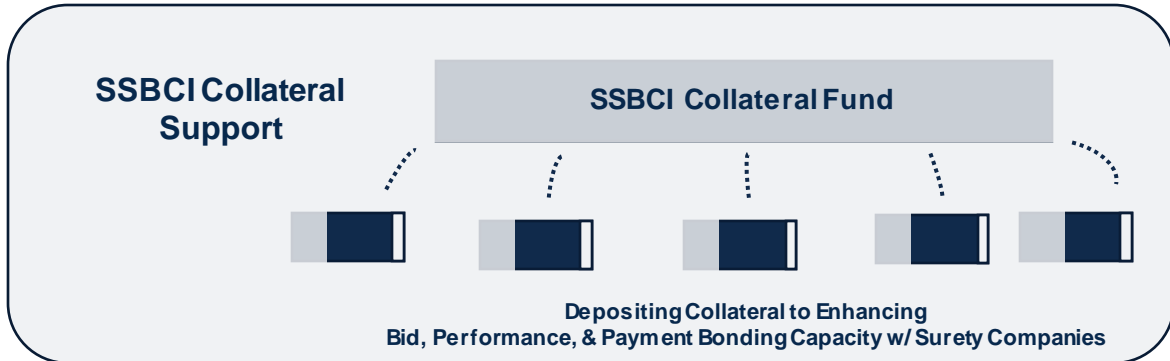
Product 1a: Enhanced Bond Guarantees

Patient Capital with SSBCI Fund Structures

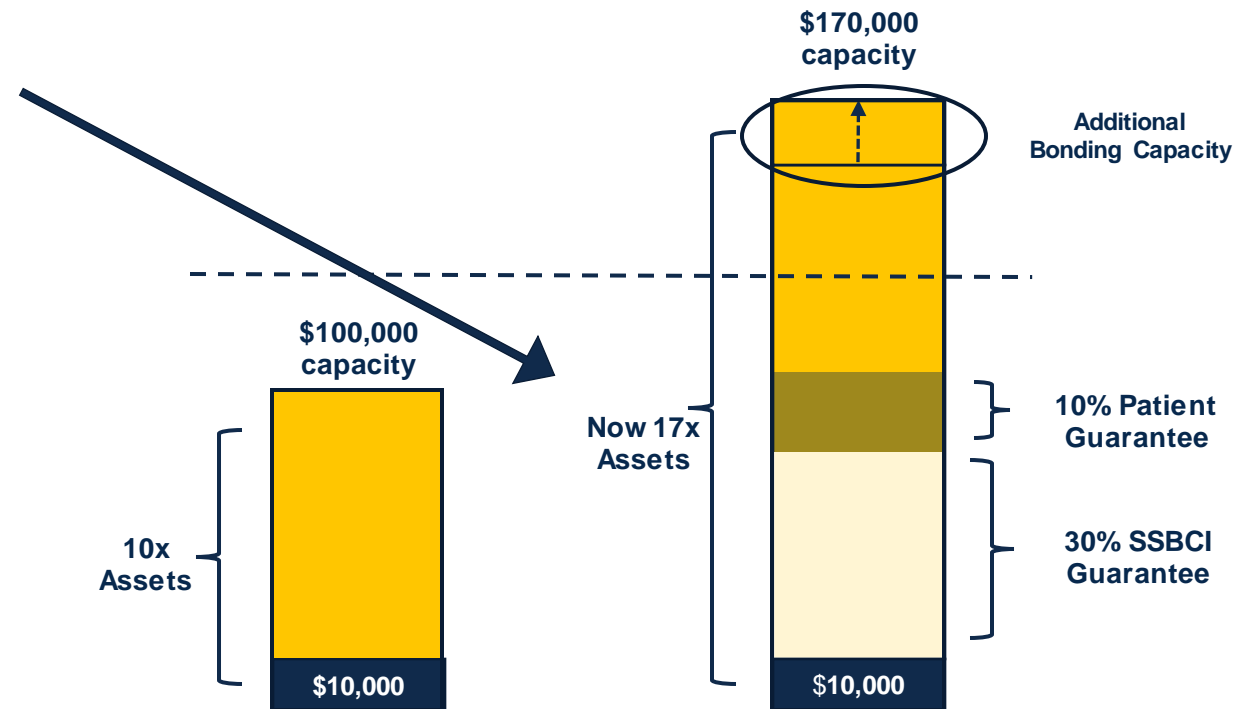
Bonding Fund Structure 1 – SSBCI Guarantee



Bonding Fund Structure 2 – SSBCI Collateral Support



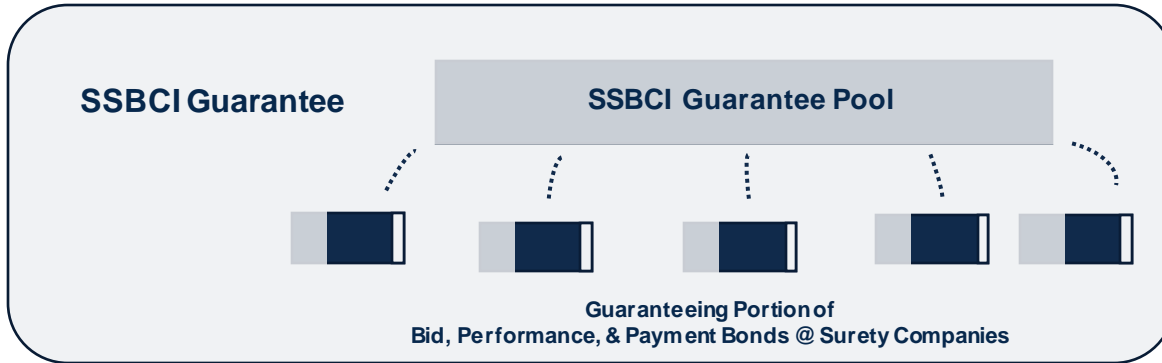
Opportunities for Philanthropic + Patient Capital Structure 1 – Guarantee Program



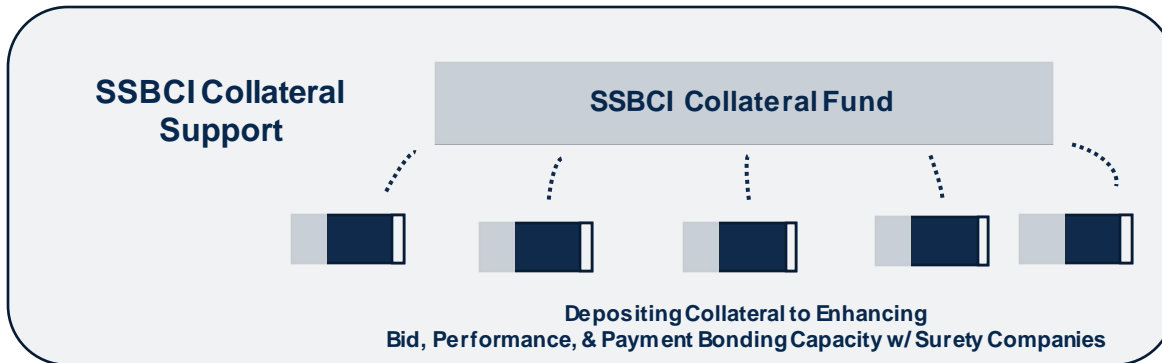
Product 1b: Bond Collateral Deposits

Patient Capital with SSBCI Fund Structure

Bonding Fund Structure 1 – SSBCI Guarantee

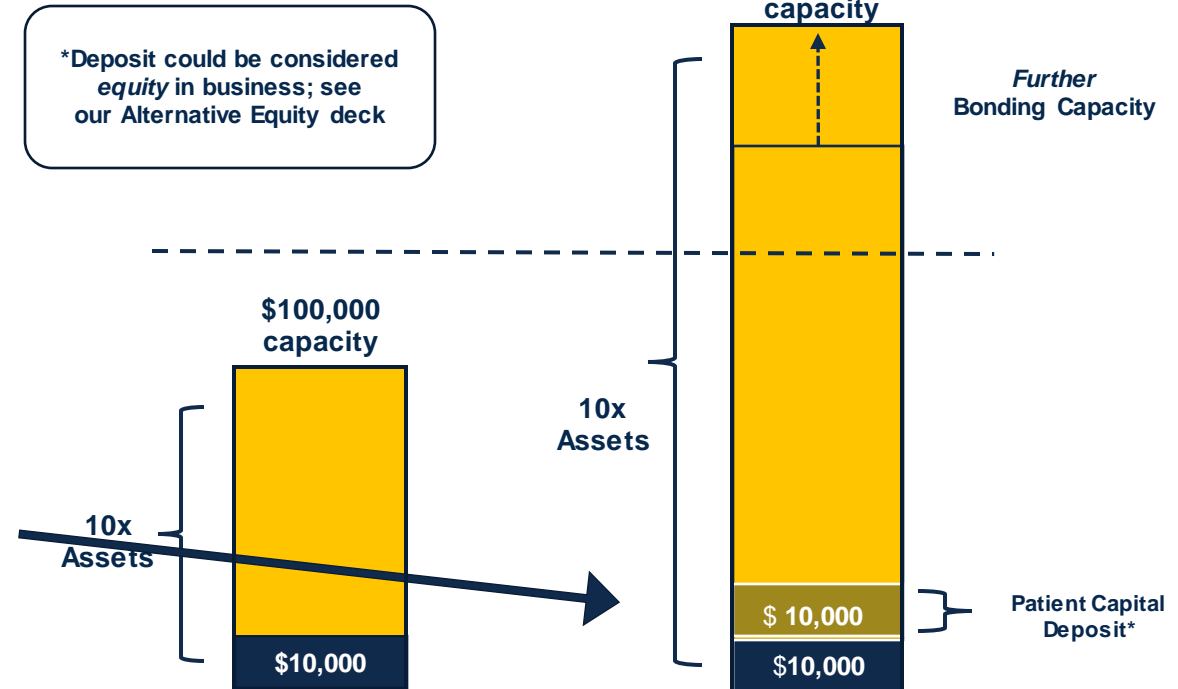


Bonding Fund Structure 2 – SSBCI Collateral Support



Opportunities for Philanthropic + Patient Capital

Structure 2 – Collateral Support



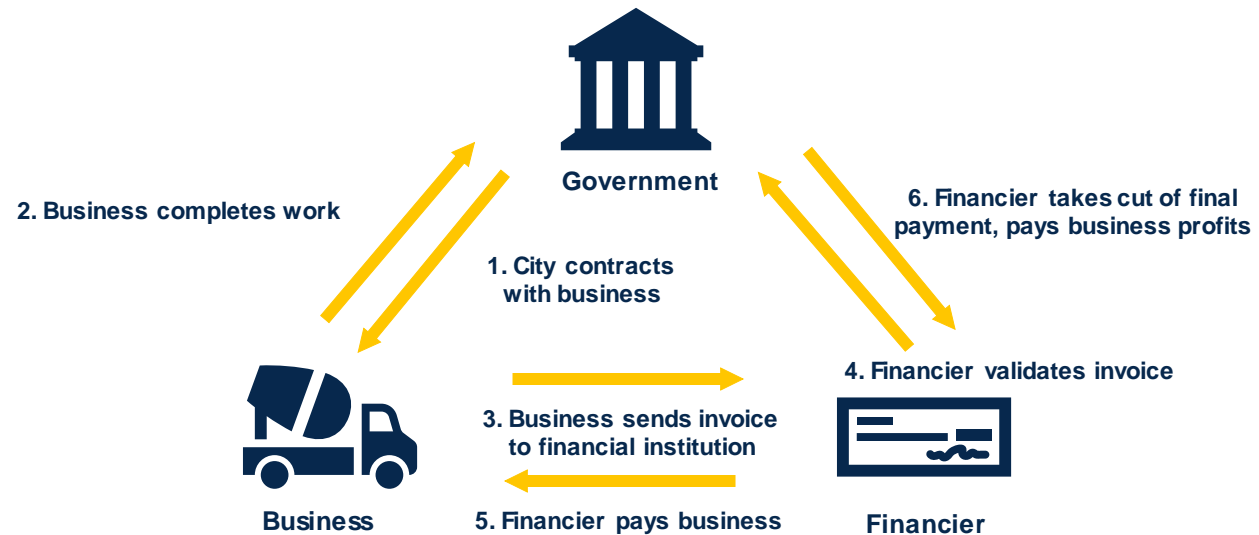
Role for patient capital: 1) further enhance bonding and/or 2) fill asset shortfalls

Product 2a: Enhanced SCF Funds Administrator

Patient Capital with SSBCI Fund Structure

Role for Patient Capital w/ Funds Administrator:

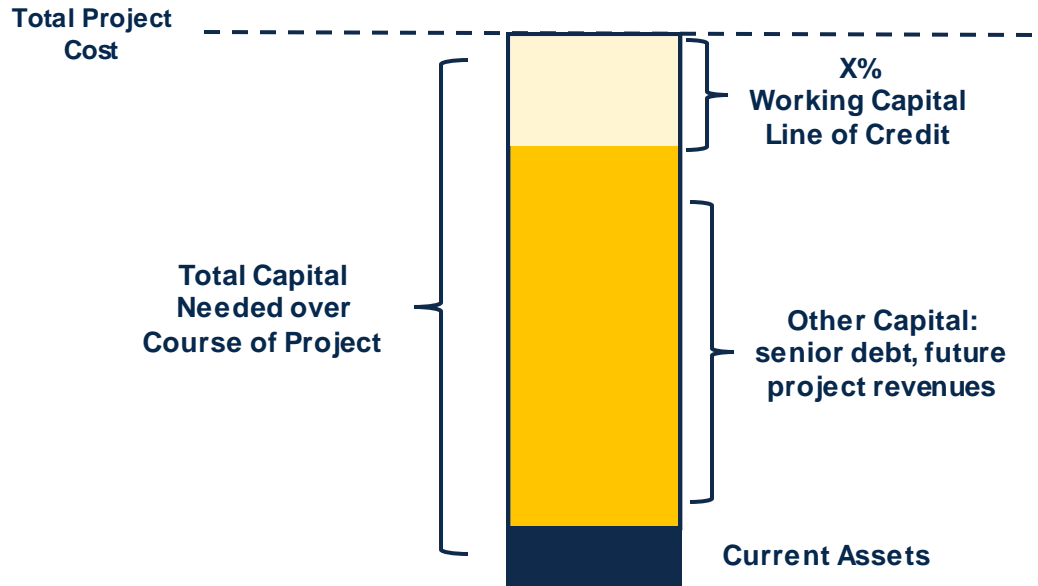
- Fund pre-contract TA for bonding support
- Buy down interest/fee payments
- Fund during-contract programmatic support
- Fund pilots w/ first-in/first-loss structure (LGP, CAP, LPP, CSP) for Funds Administrator



Product 2a: Enhanced SCF Working Line of Credit

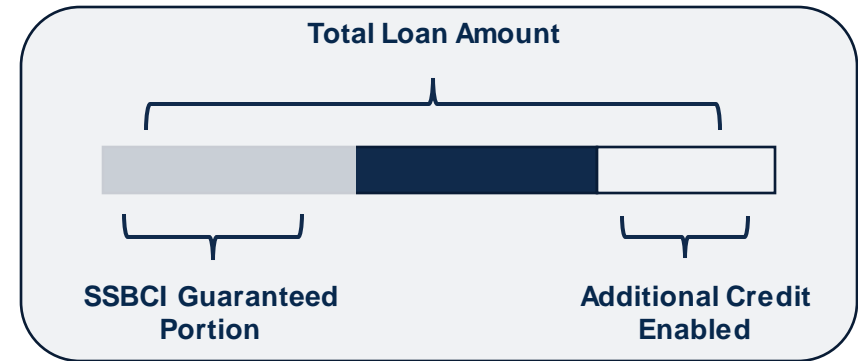
Patient Capital with SSBCI Fund Structure

Individual Product

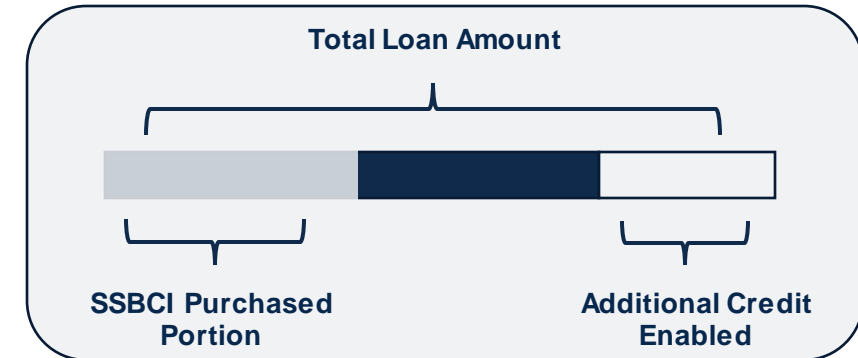


SSBCI Credit Enhancement Products

1) SSBCI Loan Guarantee

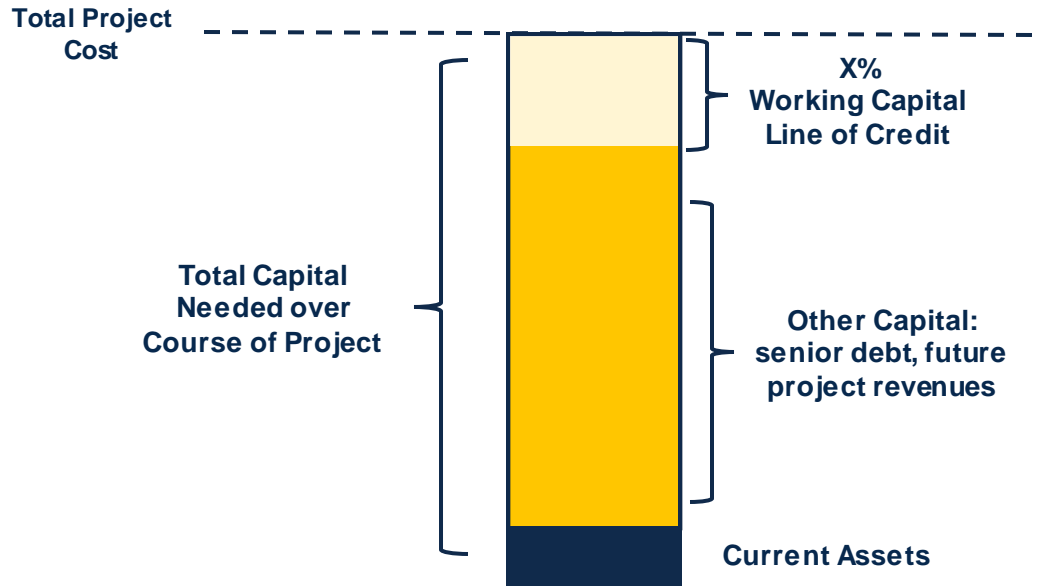


2) SSBCI Loan Participation



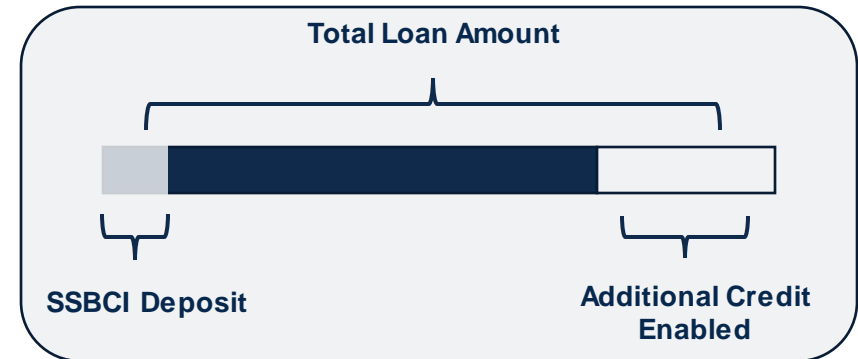
Product 2b: SSBCI Supply Chain Finance Fund Structure(s) + Patient Capital

Individual Product



SSBCI Credit Enhancement Products

3) SSBCI Collateral Support*



4) SSBCI Loan Loss Reserve



*Collateral Support would likely happen at front end as bonding support, with the firm then approved for the line of credit with bond approval

Summary of Patient Capital Opportunities

Supportive Direct Investment:

- Offer additional guarantees and collateral support for SSBCI bonding products
- Provide first-in/first-loss credit enhancements for SCF, across SSBCI programs
- Target and test specific funds and models with a regional focus to lower capital cost w/ scale

Capacity-Building and Ecosystem Support:

- Fund Pre-Contract TA + programmatic support to build more diverse contractor pipeline
- Fund During-Contract TA and Funds Administrator support to defray staffing costs and thereby lower cost of capital

Recommendations for States

1. **Review your Treasury application** for possible Bonding + SCF integration within your approved programs
2. **Contact your local lenders and surety companies** to assess current practice and capacity for SCF lending and bonding support programs
3. **Check out the Innovative Finance Project**, a Nowak Metro Finance Lab collaboration with Catalyze to identify and scale innovative financial products; resources include:
 - **SCF case studies and examples**
 - **Lending guidelines and best practices**
 - **Trainings and webinars**
4. **Reach out to the Nowak Lab** for more information: bryan.jeffrey.fike@drexel.edu

Contact

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