

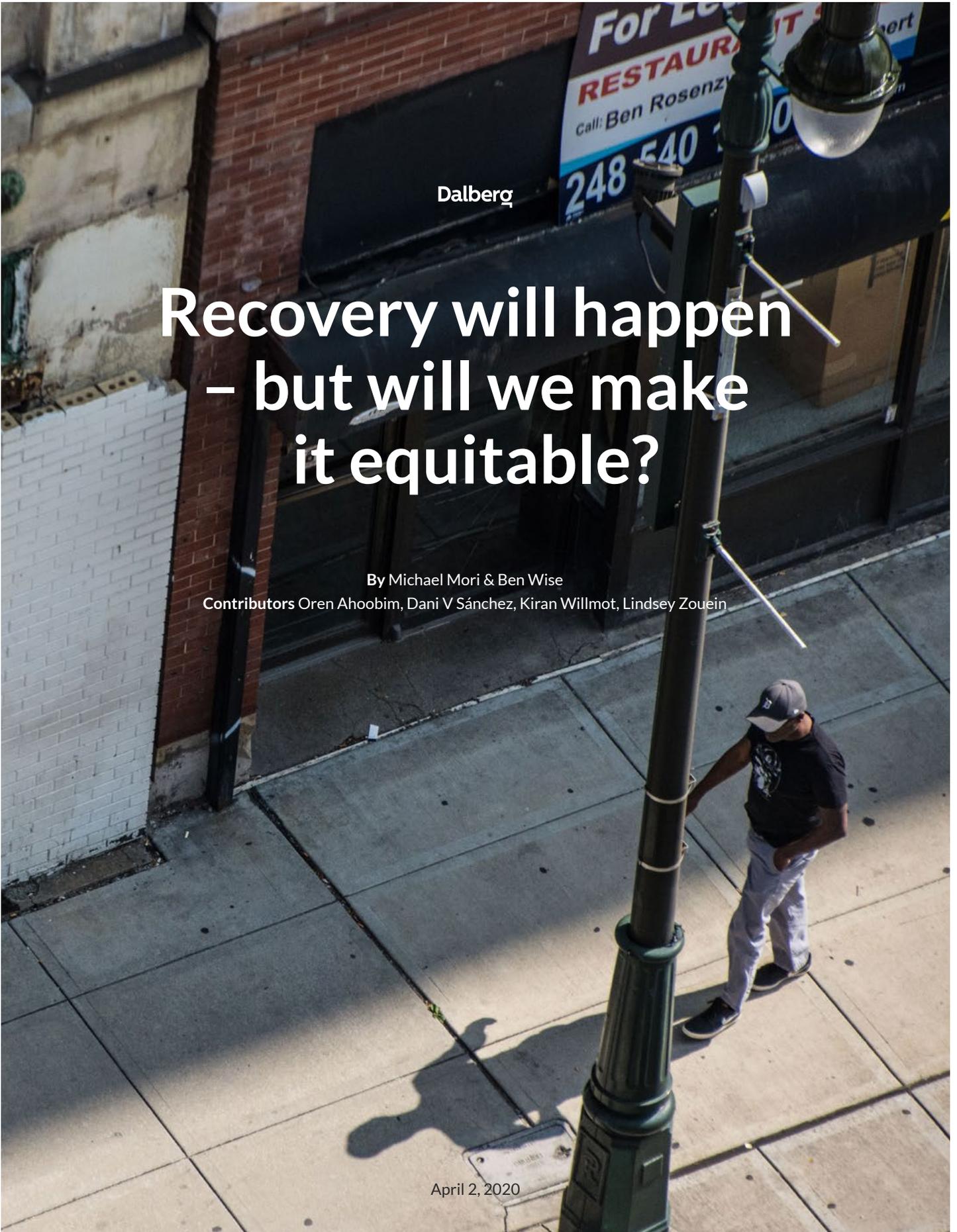
Dalberg

Recovery will happen – but will we make it equitable?

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COVID-19 recovery must address the unique needs of minority-owned small businesses or risk deepening inequality.

The COVID-19 pandemic and its socioeconomic shockwaves are unprecedented in our lifetimes. Most businesses in the country will be in some way affected, and few are well-positioned to weather the storm. Local, state, and federal governments are mobilizing support, but if benefits are not delivered equitably, polarization and inequality will increase as the crisis progresses — and last long after it has ended.

Through analysis and conversations, we at Dalberg have been tracking the trajectory of what recovery could look like in the U.S. Among the small business owners we've spoken to, those affected by closures are feeling beholden to landlords, burning through savings, and wary of taking on new loans. Many have laid off their entire workforce. Keeping their businesses afloat through this crisis will require unprecedented measures.

It's clear from speaking with these business owners that a one-size-fits all recovery will not work. A diversity of businesses run by people from a variety of backgrounds and economic situations demand more. And America's smallest businesses — those employing 20 or fewer people — will be the hardest hit. These businesses are disproportionately minority-owned and operate with substantially smaller cash buffers.

Moreover, COVID-19 closures exert a greater impact on small businesses in majority African American and Latinx neighborhoods because their average profit margins are substantially lower and the percent of businesses with cash buffers of fewer than 14 days is substantially higher.

The disproportionate risk to businesses in minority communities requires a disproportionate response. Government and nonprofit actors need to make resources available in these communities to help business owners assess which programs they can use and how they can be accessed. National and state networks of small business assistance centers must greatly accelerate their efforts to help the impending wave of less sophisticated businesses, particularly in minority communities, meet requirements and navigate new programs.

We can come out of this crisis stronger if we put the people and small businesses that form the backbone of our neighborhoods first by building a just and equitable recovery that creates resilience for the future. On the other hand, a lopsided recovery that leaves key groups behind could further inflame the inequality and polarization that have divided our culture, poisoned our politics, and paralyzed our government in recent decades.

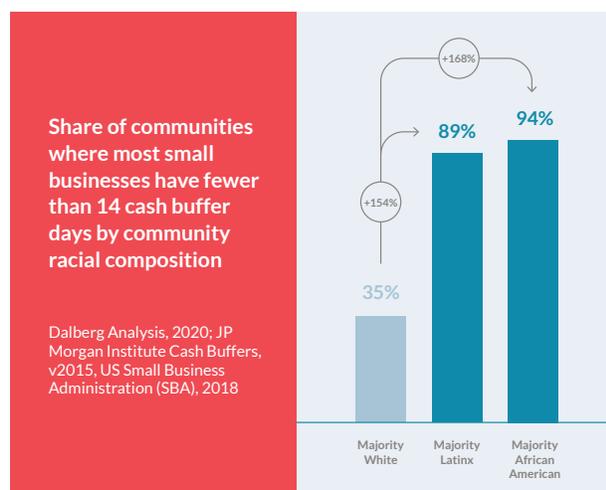
Local, state, and federal officials can ensure equity in both the short and long term by designing recovery programs that follow a set of straightforward principles.

Small Businesses Teetering on the Brink

“Small retail with 20 or fewer employees comprise a large segment of businesses in NYC — the jewelry stores, small clothing shops, restaurants, bars, etc. — 50% of these businesses will be gone in 3 weeks unless substantial relief comes before then.”

Michael Brady, Executive Director, Third Avenue Business Improvement District located in New York City's South Bronx neighborhood

“Non-essential” businesses in large swaths of the country have been closed for nearly two weeks with no end in sight. With April rent due and payroll looming, a staggering number are teetering on the brink. [3.3 million people applied for unemployment in one week](#) and analysts forecast the U.S. economy will shrink by [34% in the second quarter while unemployment will reach 15%](#). According to a recent [study](#) by the JP Morgan Chase Institute, most small businesses



maintain a cash buffer of fewer than 15 days, leaving them deeply vulnerable to the current closures.

This is a different kind of crisis, where many “good” businesses will be wiped out along with the “bad.” “Good” businesses with loyal customers, great products, or long operating histories are not protected from the shock of the COVID-19 shutdown. Sixty-year-old businesses are just as vulnerable as six-month-old businesses. This is [not Schumpeterian creative destruction](#) where businesses with inferior products or unprofitable business models are driven from the market by new and potentially innovative entrants. The economic impact of this crisis looks more like a wartime shutdown or a multi-week, nationwide hurricane that never lets up.

The smallest businesses in the hardest hit segments — restaurants, bars, and retail — are most at risk. If substantial assistance doesn’t hit their books in the next two weeks, many of these businesses — and a commensurate portion of the 20 million jobs they represent — will disappear.

John Perkins, the owner of Juniper Restaurant in St. Louis, which for the moment remains open for takeout only, told us,

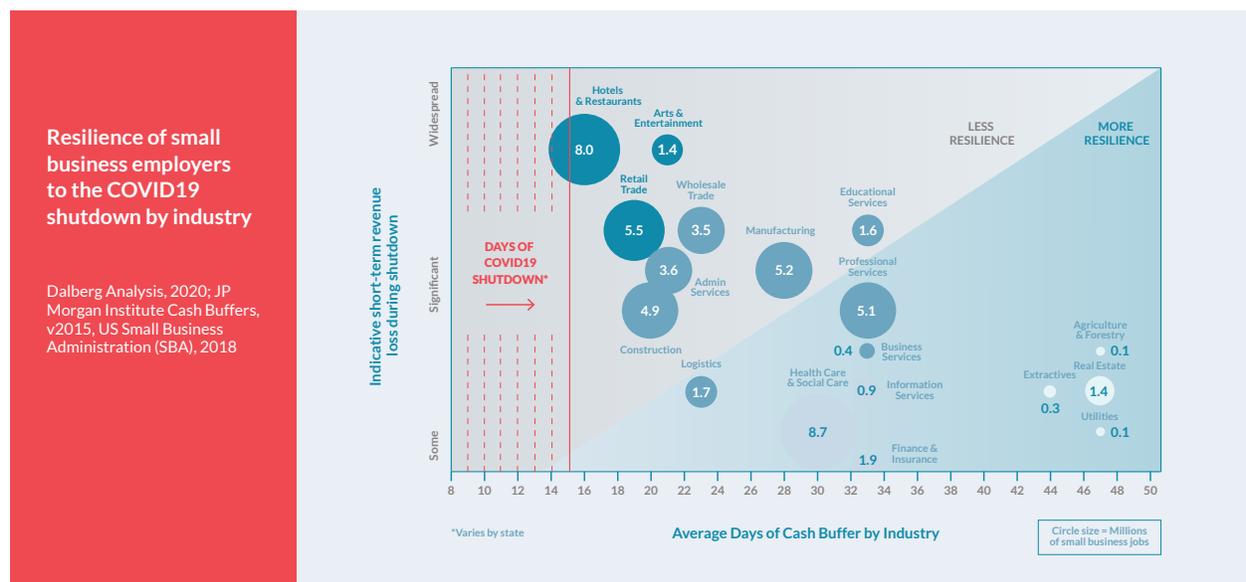
“It’s like hiking up a mountain in the winter—you want to lay down in the snow, but your partner is like ‘don’t do it, you’ll never wake up again.’ I feel like we are at that moment—if I close the restaurant, will I ever turn the lights back on?”

Principles for an Equitable Recovery

1. Bend existing systems, don’t let them break

First and foremost, we need swift action. The economic crisis facing small businesses is urgent. They need assistance now, not in one or two months. During the initial crisis response phase, there is no time to build from scratch. Our existing systems must quickly flex to provide immediate relief for the segments of the economy experiencing the deepest disruption, with the smallest cash buffer. Together, these businesses keep significant portions of the U.S. workforce employed. They need eviction/foreclosure moratoriums, rent forgiveness, loan forbearance, and more.

The CARES Act, signed into law last Friday, is a huge step toward designing and funding this flex of existing systems. Complementary state and local actions also play a key role. The newly created \$350B Paycheck Protection Program targeting businesses with under 500 employees is a good example of this strategy. Because it is built on an existing SBA lending program that operates via commercial lenders, small business owners can work directly with their local bank to access the program, and there is a strong chance that funds will hit the street at scale in relatively short order. With any luck, the relief may arrive in time to save many of the most vulnerable businesses, although even modest delays in disbursement could have dire consequences for this segment.



As stimulus funds begin to filter through the system, we urge state and local actors to match the federal emphasis on speed of disbursement, recognizing the disproportionate impact of delays on these small, but employment-rich businesses.

2. Offer grants, in addition to loans

Loan programs alone are not enough. Specifically, they risk leaving behind the smallest and minority-owned businesses as well as those serving minority communities. Even in normal times, minority-owned businesses are less likely than their equivalent peers to be awarded loans. Whether due to discrimination by banks, inexperience with credit, or fear of debt, minority-led small businesses are [30% less likely to apply for loans and are three times more likely to fear being denied](#).

Add to this picture the stifling economic uncertainty of the current moment and it is no wonder that many business owners we spoke with had mixed feelings about low, zero interest, and even forgivable loans like those to be issued under the Paycheck Protection Program. Given their current inability to forecast and plan, they are not confident they can use the money productively and are wary of forgivability clauses. Others have never taken loans out and don't know how to manage a business with debt. We found that loans were most attractive (as a refinancing opportunity) to more sophisticated businesses that already carry existing debt and that have established revenue models for when doors reopen (especially those with non-brick and mortar revenue channels).

The hesitance felt by many of the smallest businesses may cause them to lose out on the support offered by the Paycheck Protection Program. We estimate that the \$350B allocated to the program, while massive, can cover only a quarter of the total potential demand from businesses. A first come, first served disbursement approach will disproportionately flow to larger businesses that have access to sophisticated law and accounting firms. Smaller businesses will need more hands-on assistance, and as a result, many will struggle to access the first tranche of support before funds run out.

Building crisis response and recovery programs with an overwhelming emphasis on loans will significantly disadvantage very small and minority-owned businesses. By integrating robust small business grants into any further rounds of stimulus, lawmakers could ensure a more equitable recovery. Grants would ensure small businesses across the spectrum could access the funds they need to survive the crisis.

3. Provide simple & streamlined access to support

“Some of the other stuff you mentioned like trying to get loans, grants, and other things, I’ve never done because I’ve never had to. I’m sure people do and they are good at that, but I’m not one of them.”

- Pepe Kehm, Peno Italian Soul Food, St. Louis, Missouri

Programs must be easy to understand and access. Across local, state, and federal governments, there are now dozens of economic bailout and recovery programs available—some are relevant to small business owners, while others are not. Dan Snyder, founder of Corridor, a boutique clothing design and retail company, doesn't worry about the complexity: “We'll be applying for everything. I have a retail accountant who will tell me what to do.” But others cannot afford such advice and will struggle to stay up to date with assistance programs while simultaneously trying to reinvent their businesses.

Moreover, women-owned small businesses may disproportionately struggle to navigate this web of support. [Our own research](#) shows that women have significantly less time to dedicate to work than men, given the heavier burden they carry in terms of unpaid household and family care work. This is exacerbated by social distancing with children home from school and elderly relatives unable to help. Lise Epperlein Mulderig, owner of CaptureShowroom, a wholesale clothing showroom in Manhattan, explained,

“I’m all of a sudden filling a role that I never actually wanted – this full-time stay at home mom who’s home-schooling her children, while trying to keep her business from imploding.”

To ensure equity, policymakers need to simplify their programs to the maximum extent possible, in some cases sacrificing efficiency to maximize reach.

National and state networks of small business assistance centers must also accelerate efforts to help less sophisticated businesses meet requirements and access programs. There is an opportunity to recruit large numbers of volunteer professionals from the broader business community, who are currently isolated in their homes, compelled to work remotely, and desperate to help their communities during this time of national crisis. These volunteers could learn about eligibility requirements for core assistance

programs through webinar training sessions and could then provide remote counseling to small businesses seeking assistance with the application processes. Shannon Darin, owner of NYC-based Artist Babysitting told us,

“What would be really helpful now is if I knew who and how and where to call to kind of sit down with someone who could help walk me through what the best situation could be. That way I’m not spending all of my time figuring out what assistance I can access when I also need to spend all of my time trying to find ways to rebuild the business.”

4. Build toward a more equitable, sustainable & resilient future

Although we must first come to the immediate aid of small businesses so that they can meet this urgent threat, we also have a once in a generation opportunity to set in motion profound changes that will facilitate our a transition to a more equitable and sustainable future. We can strengthen the smallest businesses by helping them implement basic technology (e.g., POS systems, basic accounting software, websites, and email addresses) and build long-recommended, but too often forgotten, emergency planning into their operational models.

Whether through the current round of fiscal stimulus or in future efforts, we can now begin to mitigate some of the environmental

costs of doing business that our society currently shoulders. For example, we can fund new investment in sectors of the economy, like high speed rail, water infrastructure, and renewable energy. These sectors have the potential to both reduce the national carbon footprint and generate new engines of global competitiveness and economic activity (NB: Every \$1 of the \$90B invested in clean energy under President Obama’s 2009 stimulus leveraged an additional [\\$1.60 in non-federal and private dollars](#)). New federal spending and relief dollars should be tailored to accelerate a just transition from older, higher carbon-emitting industries to cleaner and more regenerative enterprises that support healthier communities and a healthier planet.

We can extend a lifeline to America’s smallest and most vulnerable businesses and at the same time link them to longer term strategic investments in areas like health system strengthening, food security, worker protections, household asset building, and broadband Internet. This will enhance our overall resilience to future shocks and crises. It is clear that the worst impacts of Covid-19 are yet to come. At the very least, we must learn its hard-fought lessons and work toward a better and more equitable future.

“It’s a good wake up call for all of us to reinvent how we live and work and consume. Hopefully when it starts again we’ll take some lessons from this pandemic and not start all over again with the same mistakes.”

– Alexis Jacot, owner of MIAM cafe in Miami

Join us

Dalberg is actively looking to partner with private, public, and philanthropic actors to advance action toward a more equitable recovery for small business. For further details and to discuss collaborations, please contact Michael Mori (michael.mori@dalberg.com) and Ben Wise (ben.wise@dalberg.com).