POLICY RESPONSE TO COVID-19

Economic Fallout for Small and Entrepreneurial Firms

Key Takeaways

- Federal, state and local governments acted quickly to assist businesses during the COVID-19 pandemic. However, because the category of “small business” is defined so broadly, stimulus money did not always reach the intended recipients. The government’s definition of small business includes firms with fewer than 500 employees — which, taken together, represent a broad collection of different types of businesses with very different needs.
- There were varying responses at the federal, state and local government levels. Although state and federal government responses have been getting much of the press attention, local governments play a pivotal role in supporting businesses during this time.
- The COVID-19 pandemic is affecting some demographic groups drastically more than others. For example, Black-owned businesses are significantly more at risk during these times, which puts the communities they serve at risk of being more negatively affected by COVID-19.
- Legislation in response to COVID-19 and its economic fallout is ongoing.
- The jury is still out regarding the lasting effects of COVID-19 and how broadly it is affecting, and will continue to affect, the U.S. economy.

Understanding Firm Segmentation is Crucial for Recovery

- There was an outcry when seemingly large firms (like Shake Shack) were able to get federal recovery funds via the Payroll Protection Program (PPP), but this speaks to the importance of how policymakers define different types of businesses.
- Not all businesses require the same type of economic aid; thus, segmenting types of firms is critical to understanding their individual needs and to ensure a successful recovery.
- To understand the data and interpret it to make policy decisions, we must first understand what is being analyzed — in this case, firm characteristics and size.

Firm Segmentation for Better Policymaking

Historically, segmentation has focused on manufacturing firms; however, focusing solely on these firms may lead to missing critical nuances of growth and innovation within the U.S. economy. By and large, business-to-business (i.e. supply chain) firms' contributions to overall growth and innovation have been overlooked, but new research indicates that supply chain firms are critical for growth.

One approach: A breakdown by geographical target market (local firms vs. traded firms)

Local Firms Main Street firms selling primarily in their local markets	• ~71 million employed in 2016 • Thought of as "Mom and Pop" shops • Do not include healthcare • Tend to be proportional to the region's size
Traded Firms Firms selling beyond their local markets	• ~43 million employed in 2016 • Firms that are located in one region but sell products/services across regions and countries • Historically, economic development policies have focused on these firms

Source: Delgado & Mills, 2016; Delgado & Mills, 2018; U.S. Cluster Mapping; U.S. Census Bureau, SUSB Annual Data

Firm Segmentation for Better Policymaking

(continued)

Another approach: A breakdown by to whom a firm sells (B2C vs. B2B)

Business-to-Consumer Firms (B2C)	• ~71 million employed in 2016 • Firms that sell primarily to consumers and are critical to consumer spending
Supply Chain/Business-to-Business Firms (B2B)	• ~48 million employed in 2016 • Firms that sell most of their goods to other businesses or to the government • These firms are not just manufacturers, but part of the larger commercial and governmental supply chain and are thus critical to the economy • Firms may sell to multiple industries, implying that innovation developed by supply chain firms has a wide impact on many industries • High number of STEM workers

These segmentations are neither mutually exclusive nor exhaustive. In addition, firms can be segmented geographically by where and/or to whom they sell their products.

Source: Delgado & Mills, 2016; Delgado & Mills, 2018; U.S. Cluster Mapping; U.S. Census Bureau, SUSB Annual Data; Bureau of Economic Analysis

Defining "Small Business"

- In 2018, there were 30.7 million small businesses in the United States employing 59.9 million people, or 47.3% of the country's workforce.

- The Small Business Administration (SBA) sets the definition for what constitutes a small business. This definition is used by all federal agencies.

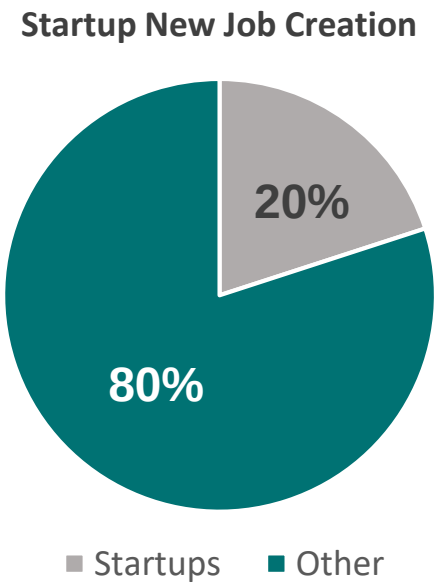
- The SBA determines if a firm qualifies as a small business based on industry-specific size standards that look at employee numbers and average annual receipts. Therefore, a firm can have **up to 500 employees** and still be considered small. Learn more.

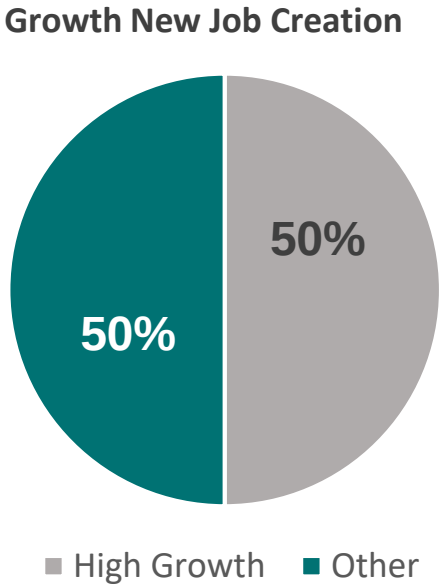
Source: SBA, 2019

Young Firms Are Critical to Economic Health

Startups (firms less than one year old) account for roughly 10% of total firms and 20% of new job creation each year in the U.S., driving innovation and increased competition in markets.

High-growth firms (firms growing their employment by more than 25% each year) tend to be younger and account for almost 50% of new job creation in the U.S. each year.





Source: Decker, Haltiwanger, Jarmin, & Miranda, 2014; Decker, Haltiwanger, Jarmin, & Miranda, 2016

The Focus on Small Businesses During COVID-19

- Much of the economic stimulus from all levels of government has been focused on supporting small businesses.
- Even prior to COVID-19, young firms and minority-owned firms, especially those owned by African Americans, tended to be less financially healthy compared to older and/or white-owned firms.

Financial Health of Small Businesses Before COVID-19

The Federal Reserve recently released the *2020 Report on Employer Firms: Small Business Credit Survey*, which provides baseline data on small-employer firms' health prior to the COVID-19 outbreak. Surveys were conducted in Q3 and Q4 of 2019, and some key takeaways include:

- 20% of U.S. small-employer firms are 0-2 years old.
- 56% of firms had experienced revenue growth the previous year, and 33% had added employees.
- 66% of firms reported financial challenges in the previous 12 months.
- If they were to experience a two-month revenue loss, 17% of firms reported that they would have to close and 33% said they would need to lay off employees.

Source: The Federal Reserve Banks, 2020

Not All Firms are Equal in Financial Health

Firm Age View

A deeper dive into the Small Business Credit Survey finds that various firm characteristics affect a firm's financial health. The Federal Reserve has defined four categories of firm health based on profitability, credit risk and business funding: healthy, stable, at risk and distressed.

		Healthy/Stable	At Risk/Distressed
Firm Age	0 – 5 Years	60%	40%
	> 5 years	76%	24%

The data shows that young firms are not as healthy or stable as older firms, which means that, during times like COVID-19, they are at greater risk.

Source: Federal Reserve Bank of New York. (2020).

Not All Firms are Equal in Financial Health

Race/Ethnicity of Ownership View

The data shows that non-Hispanic Black or African American-owned businesses are the most at risk during the current pandemic. This data, combined with financing challenges, means that non-Hispanic Black or African American businesses owners may have an especially difficult time surviving the COVID-19 pandemic and other economic downturns compared to business owners of other demographic groups.

		Healthy/Stable	At Risk/Distressed
Race/Ethnicity of Ownership	Non-Hispanic White	73%	27%
	Non-Hispanic Black or African American	43%	57%

Source: Federal Reserve Bank of New York, 2020

Capital Access for Black-owned Startups

- Black-owned startups have less access to overall capital compared to white-owned startups. This difference is driven primarily by Black-owned firms having less access to outside debt.
- Only 20% of this difference is explained by experience, gender, education, credit score, industry, personal wealth or previous years of experience.
- There is evidence to suggest that racial bias in capital markets contributes to the disparity.

Mean Financial Capital at Startup		
	White	Black
Owner Equity*	$34,426	$19,562
Informal Equity	$2,139	$440
Formal Equity	$18,543	$536
Owner Debt	$5,228	$1,010
Informal Debt	$7,195	$2,849
Formal Debt*	$56,663	$10,089
Total Financial Capital*	$106,720	$35,205

*Represents differences significant at $p < .05$

Source: Farlie, Robb, & Robinson, 2016. Data from Kauffman Firm Survey; sample of 4,928 firms that began operations in 2004.

A Closer Look: **Debt Sources of Startups by Race**

- Black-owned startups are significantly less likely than white-owned startups to use nearly every form of debt captured by the Kauffman survey.
- Personal and business bank loans are the forms of debt with significant racial differences in average funding amount.

	White	Black
Percent Using:		
Personal Credit Cards*	49%	34%
Personal Bank Loans*	18%	14%
Business Credit Cards*	30%	15%
Loans from Family Members*	9%	14%
Business Bank Loans*	7%	1%
Average Dollar Amounts:		
Personal Bank Loans*	$14,497	$6,971
Personal Loans from Family	$2,571	$1,801
Personal Loans, Other Sources	$4,659	$2,161
Business Bank Loans*	$10,551	$1,106
Business Non-bank Loans	$6,035	$866

*Represents differences significant at $p < .05$

Source: Farlie, Robb, & Robinson, 2016. Data from Kauffman Firm Survey; sample of 4,928 firms that began operations in 2004.

A Closer Look: **Attitudes Toward Formal Debt**

Black-owned startups – even in the top 25% of credit scores in the sample – were:

- Less likely to apply for a loan.
- More likely to avoid applying for a loan for fear of rejection.
- Less likely to have all loans approved in full, if they applied.
- More likely to have unmet needs regardless of whether or not they applied for a loan.

		Overall	Top 25% Credit
Applied for a Loan	White	12.0%	16.2%
	Black	7.9%	11.25%
Did Not Apply for Fear of Rejection	White	16.2%	15.0%
	Black	41.8%	32.3%
Loan Always Approved	White	68.3%	72.2%
	Black	22.4%	25.3%
Unmet Need	White	16.3%	15.3%
	Black	43.0%	31.7%

Source: Farlie, Robb, & Robinson, 2016. Data from Kauffman Firm Survey; sample of 4,928 firms that began operations in 2004.

Small Businesses In the Time of COVID-19

Research is just starting to be able to assess the impact of COVID-19 on small businesses, and it will take time to see the long-term effects.

One study that surveyed nearly 5,800 small business owners to see how they were adjusting to COVID-19 found serious disruptions:

- 43% of businesses had temporarily shut down due to COVID-19.
- 40% reported reducing their number of employees since January 2020.
- Impacts varied across industries with “retail, arts and entertainment, personal services, food services and hospitality businesses all reporting employment declines exceeding 50%.”
- 75% of respondents said they only had enough cash on hand to cover a two-month or shorter period of expenses.
- However, 90% of respondents thought it was at least somewhat likely they’d be open come December 31, 2020. Those companies with more cash on hand were more optimistic about their chances compared to those firms with less cash.

Source: Bartik et al., 2020

Small Businesses In the Time of COVID-19
(continued)

Facebook and the Small Business Roundtable released a sobering report examining small and medium businesses (SMBs). Specifically, the report found:

- 31% of SMBs have closed in the last three months, but 45% of those businesses indicated a desire to rehire their laid-off workers when reopened.
- 40% indicated a greater cash outflow than inflow.
- 40% reported supply chain challenges.

While COVID-19 has affected venture capital (VC) funding, the largest fallout has been seen among early-stage investing, signaling a significant impact on startups reliant on private capital.

- Overall, total U.S.-based VC activity decreased. This decrease is largely driven by a 38% decline in early-stage VC investment.
- VC investment and innovation are linked, thus a decline in early-stage investment indicates a potential decline in overall innovation.

Source: *State of Small Business Report* (2020), Howell et al. (2020)

Mark Little
Executive Director, CREATE

Mark Gabriel Little is the executive director of CREATE, a global initiative building shared prosperity through applied interventions, research and policy. In this role he also leads NCGrowth/SmartUp, a multi-state initiative to help communities and businesses create jobs and equitable opportunities; and co-chairs Black Communities: A Conference for Collaboration, an annual international convening of scholars and leaders across the African diaspora. He previously served as managing director of the UNC Kenan Institute of Private Enterprise, supervising operations, research, external affairs and student-facing activities. Mark served as an AAAS congressional science fellow to the U.S. House Committee on Foreign Affairs and worked in renewable energy development and the earth and environmental sciences. He is also a musician and composer.

EXPERT INSIGHT

Black-owned businesses are struggling to survive during this crisis. From February to April, the number of Black-owned firms dropped 41%, from more than one million down to 440,000. The drop for white-owned businesses was 17%. One reason for this disparity is the relative difficulty that Black businesses have had accessing the Paycheck Protection Program (PPP), with the Center for Responsible Lending reporting that "…upwards of 90% of businesses owned by people of color have been, or will likely be, shut out of the Paycheck Protection Program."

In addition, Black people are more likely to contract and die from COVID-19.

Despite the bleak outlook, public awareness of racial equity and police brutality may have awakened potential investor and customer bases for Black-owned firms. For example:

- Sephora, the French multinational chain of personal care and beauty stores, is dedicating 15% of its inventory to Black-owned businesses (committing to fashion designer Aurora James' "15% Pledge").
- SoftBank announced a $100 million opportunity fund that will invest only in companies led by people of color.

In order to survive, Black-owned firms and Black entrepreneurs will need to take full advantage of all of these opportunities. In order for Black-owned firms to thrive, policymakers at all levels, investors and customers should re-evaluate their roles in creating and maintaining the barriers to Black business success — and work collectively to remove those barriers. To learn more, visit BlackCommunities.unc.edu.

Federal Response to COVID-19

The federal government prioritized supporting small businesses during COVID-19 through new programs like the Payroll Protection Program (PPP) and Economic Injury Disaster Loan (EIDL).

The first round of Payroll Protection Program (PPP) funding ran out by April 16, 2020, 13 days after the program began. This round:

- Provided 1,661,367 loans, with an average loan size of $206,000.
- Spent more than $342 billion. Of this amount, roughly 44.5% involved loans greater than $1 million.

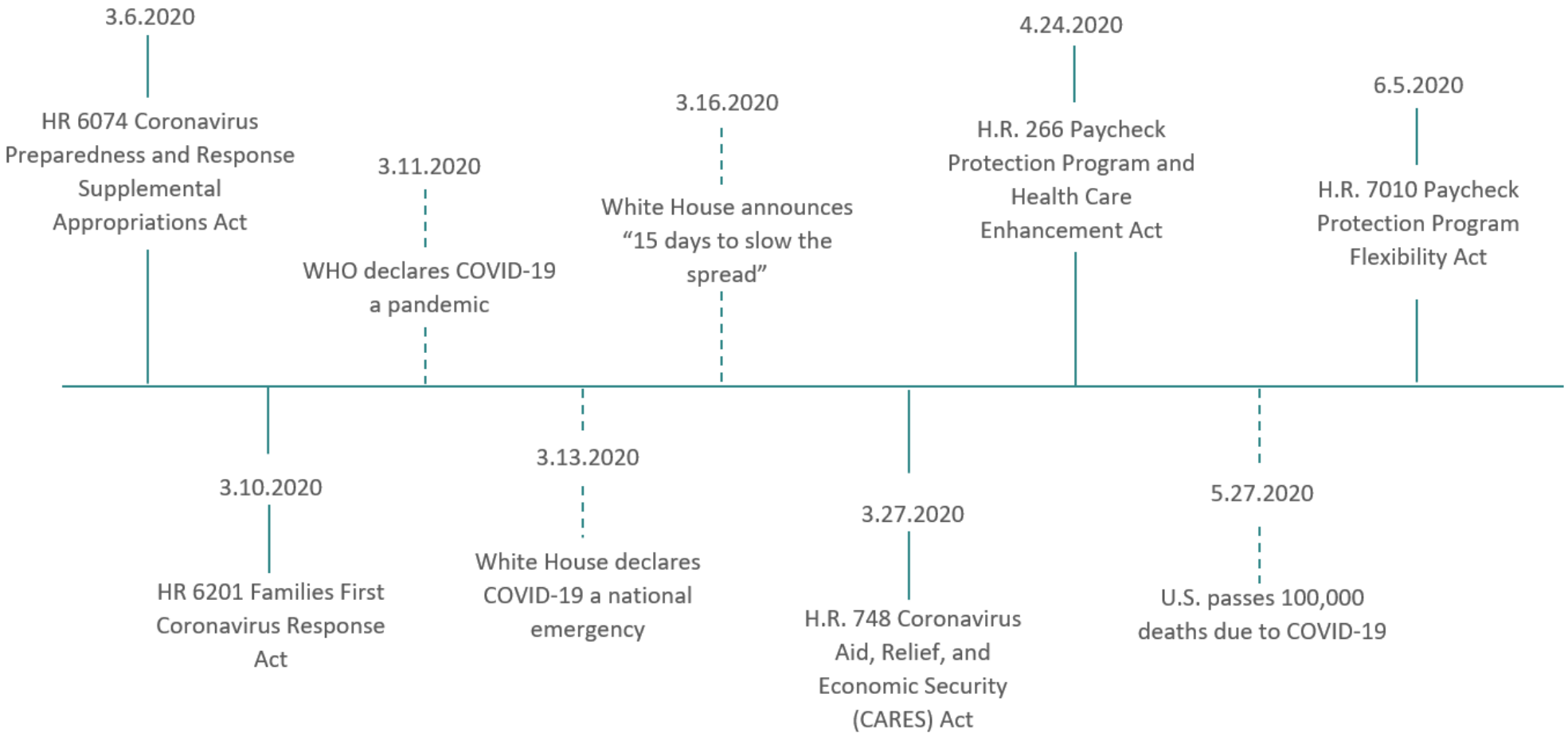
In response to the quick use of the first round of PPP funds, a second round of PPP funding was initiated on April 27, 2020. This round aimed to support more businesses through smaller loan sizes:

- As of June 20, 2020, PPP has provided 4,666,560 loans with an average loan size of $110,000.
- The fund has spent more than $180 billion, of which roughly 35% involved loans greater than $1 million.

According to the U.S. Census' Small Business Pulse Survey, as of May 13, 2020, 74.7% and 27.6% of small businesses had requested financial assistance from PPP and EIDL, respectively, with 71.6% of small businesses having received PPP assistance and 19.4% having received an EIDL.

Source: SBA,(data retrieved 6.22.2020); U.S. Census Small Business Pulse Survey (data retrieved 6.22.2020)

Federal Business Assistance Response



Sources: White House, Congress.gov, Johns Hopkins COVID Dashboard | Updated as of 6.16.2020

U.S. Legislation

Enacted

H.R. 6074 Coronavirus Preparedness and Response Supplemental Appropriations Act:
Provides emergency federal funding for agencies to combat the spread of COVID-19

H.R. 6201 Families First Coronavirus Response Act:
- Expands paid sick and family leave.
- Increases federal funding for state unemployment.
- Increases funding for food and nutrition services and relaxes certain work training requirements.
- Requires Medicare, Medicaid and private health insurance to cover the cost of COVID-19 testing.
- Provides states with the option to extend Medicaid eligibility to uninsured populations for the purpose of COVID-19 diagnostic testing.

H.R. 748 Coronavirus Aid, Relief, and Economic Security (CARES) Act:
- Increases unemployment benefits.
- Expands unemployment benefit eligibility.
- Establishes Paycheck Protection Program.
- Provides a stimulus check to individuals in certain income brackets.
- Provides funding for hospitals and veterans' healthcare.
- Provides tax relief.

H.R. 266 Paycheck Protection Program and Health Care Enhancement Act:
- Increases funding to the Paycheck Protection Program.
- Provides additional funding for hospitals and COVID-19 testing.

H.R. 7010 Paycheck Protection Program Flexibility Act:
Modifies and clarifies provisions of the Paycheck Protection Program:
- Establishes a minimum maturity of five years for remaining balance of loans after forgiveness.
- Extends period to 24 weeks in which employers can use emergency loans and still qualify for loan forgiveness.
- Increases the allowed portion of non-payroll uses from 25% to no more than 40% and requires payroll costs to be at least 60% .
- Extends period in which an employer may rehire or eliminate a reduction in employment, salary or wages.

Introduced Legislation

H.R. 6800 Heroes Act:
Provides additional COVID-19 relief including:
- Second round of individual stimulus checks.
- $75 billion for testing, tracing and isolation measuring.
- $200 billion Heroes' Fund for hazard pay for essential workers.
- Extends weekly unemployment payments through January 2021.

Status: Passed House

Additional legislation introduced (this legislation is not necessarily COVID-19-specific, but has the potential to "move the needle" for entrepreneurship in the future):

H.R. 6978/S. 3832 Endless Frontier Act: expansion of National Science Foundation and increased investment in scientific and technology research.
Status: Introduced

H.R. 6403 /S.2525 New Business Preservation Act: creates a Treasury Department program to partner with states to "invest alongside private venture capital companies in new business in an area of the country that does no currently attract significant equity investment."
Status: Introduced

Updated as of 6.16.2020

Paycheck Protection Program (PPP) vs. Economic Injury Disaster Loan (EIDL)

	PPP	EIDL Advance and Loan
Purpose	To enable small businesses to keep their workers on the payroll	Economic relief to businesses experiencing temporary difficulties
Eligibility	Small businesses and other businesses that meet SBA guidelines[1]	Initial: Small businesses and certain agricultural businesses[3] Updated: Only agricultural businesses
Max. Loan Range	N/A	Advance: $10,000 Loan: $2 million Updated: Max loan of $150,000
Interest	1%	Advance: N/A Loan: 3.75% small businesses; 2.75% nonprofits
Repayment	Depends on use of loan[2]	Advance: No Loan: Yes
Total $ Approved	$510,234,498,923*	Advance: $12,314,661,000** Loan: $113,307,061,331**
Loan Count	4,475,599*	Advance: 3,740,346** Loans: 1,775,539**

[1]: See Appendix for guidelines
[2]: See Appendix for loan forgiveness details
[3]: See Appendix for guidelines

*As of 5/30/2020
**As of 6/21/2020

Updated as of 6.22.2020
Source: SBA

John Dearie

Founder & President, Center for American Entrepreneurship

John Dearie is the founder and president of the Center for American Entrepreneurship. He is the former acting CEO of the Financial Services Forum, a financial and economic policy organization composed of the chief executive officers of the largest financial institutions with operations in the United States.

EXPERT INSIGHT

Troubleshooting the Paycheck Protection Program

The CARES Act and its Paycheck Protection Program are the principal source of COVID-19 relief assistance to new and small businesses. Given the speed with which the legislation was drafted, a number of serious procedural and administrative problems with PPP emerged after enactment, including:

- Whether the SBA's "affiliation rule" – which requires the aggregation of employees from affiliated companies for the purpose of meeting the SBA's definition of a small business (fewer than 500 employees) – would disqualify venture-backed startups from PPP.
- How the forgivable portion of PPP loans will be calculated.
- Whether businesses that elect to suspend payment of payroll taxes, which CARES allows, are still allowed to apply for a PPP loan.
- Whether board members of startups that suspend payment of payroll taxes are legally liable for those payments in the event of a subsequent bankruptcy.
- Whether startups with access to other sources of financing may apply for a PPP loan.

Resolving these issues took weeks. Many new and small businesses that may have needed assistance chose not to apply, while other companies that applied for and received a PPP loan later returned the loan for fear of legal trouble or reputational damage.

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Founder & President, Center for American Entrepreneurship

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EXPERT INSIGHT

The New Business Preservation Act

A paper released in May by the National Bureau of Economic Research (NBER) showed that early-stage venture capital investment dropped by 38 percent in the two months following the onset of the COVID-19 crisis. The New Business Preservation Act is intended to address the capital threat to the nation's startups. The bill was introduced in the U.S. Senate on March 18, 2020 by Sens. Amy Klobuchar (D-MN), Chris Coons (D-DE), Tim Kaine (D-VA) and Angus King (I-ME), and in the U.S. House on March 26, 2020 by Reps. Dean Phillips (D-MN), Terri Sewell (D-AL), Ro Khanna (D-CA) and Tim Ryan (D-OH).

The legislation would incentivize continued venture capital investment in America's most innovative and promising young companies by establishing a program, administered by the U.S. Treasury Department, which would allocate $2 billion in federal money to the states on a straightforward population basis to attract private venture capital by offering a one-to-one match of federal dollars with venture capital investment in promising startups, particularly in states outside the major venture capital centers.

Importantly, the legislation is carefully structured so that the federal government will not "pick winners and losers," but rather will rely on private entities to source and manage investments in promising early-stage companies in every state. All investment decisions will be based entirely on private investor determination of the economic prospects of the new companies receiving equity capital.

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Founder & President, Center for American Entrepreneurship

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EXPERT INSIGHT

Monetizing Startups' Tax Assets

A bipartisan effort is currently underway in Congress that would allow startups to monetize the tax assets on their balance sheets – specifically, net operating losses (NOLs) and R&D tax credits – as sources of additional emergency capital.

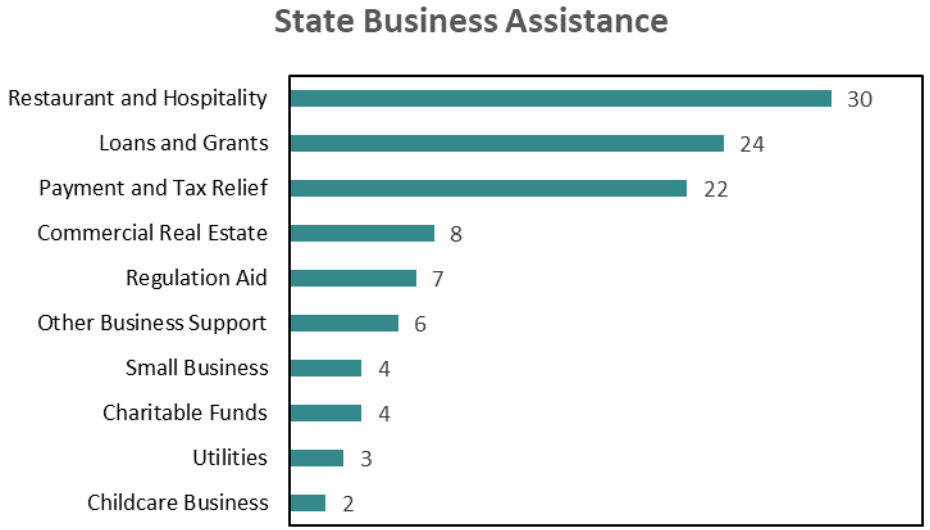
Because startups often don't have income for years and, therefore, no income tax liability against which to apply tax credits and loss carry-forwards, many startups have large NOLs and R&D credits on their balance sheets that currently cannot be monetized.

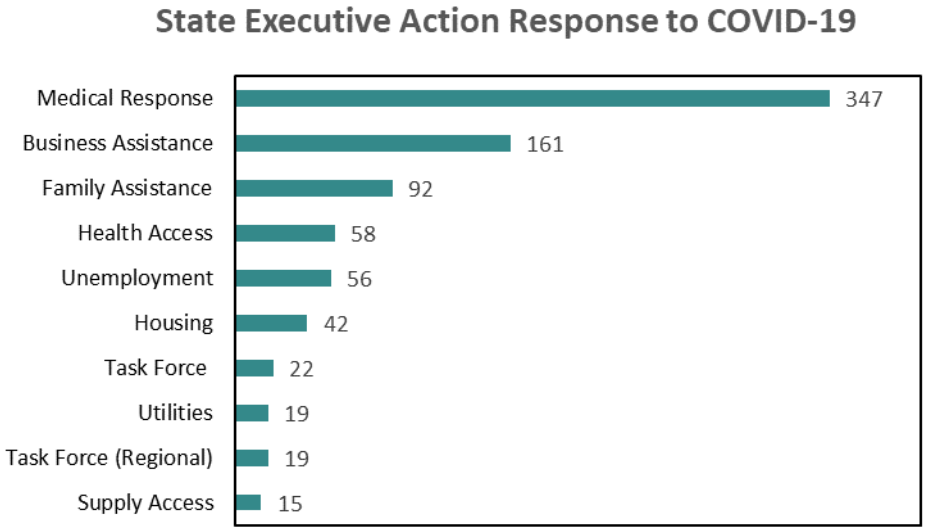
States' Responses to COVID-19

- The number of executive orders issued peaked before governors issued stay-at-home orders, indicating that governors used such orders as a last resort to combat COVID-19 in their communities.
- Specifically within state actions relating to business assistance, actions to aid the restaurant and hospitality industries were the most prevalent. These actions included modifying alcohol and liquor regulations to allow for alcohol carryout and allowing restaurants to sell bulk food.
- Loans and grants constitute the second-most prevalent business assistance category. These actions include emergency small-business loans.

States' Responses to COVID-19

- The Kenan Institute has developed a dashboard that tracks state executive actions and legislation passed by state legislatures to support businesses: https://frontiers.unc.edu/index.php/state-government-covid-19-response/.
- Unsurprisingly, the highest number of executive actions governors signed are related to supporting the medical response to COVID-19.
- Specifically looking within the business assistance category, we see that restaurants and hospitality have received the most attention via executive actions to date, followed by loan and grant programs (see the appendix for categorical definitions).





Note: Every State requested SBA disaster declaration, therefore we did not include this in the above analysis. This analysis does not include actions pertaining to reopening states. | Updated as of 6.16.2020

State Legislation Responses

State legislations have been slower to act due to the longer processes of passing and enacting legislation compared to governors' executive orders. However, we have begun to see comprehensive relief packages being passed. As of June 4, 2020, 355 bills relating to COVID-19 have been adopted or enacted across the United States.

While the majority of these focus on the fiscal or budget implications of COVID-19 — such as authorizing emergency funds — various other measures have been included, such as modifying requirements for unemployment payments, authorizing telehealth services and amending the tax code to provide emergency tax relief.

What Entrepreneurs Want From the N.C. Government

A survey of North Carolina entrepreneurs in May 2020 regarding their perceived needs from the state's government to address the business impacts of the COVID-19 pandemic found the following broad themes:

- **"Small business" is too broadly defined:** A small business is any business with fewer than 500 employees. However, as one participant noted, "There is a huge difference between a four-person firm, a 49-person firm, and a 499-person firm. Yet they are all classified as small businesses. So let's unpack this broad definition into something more usable."
- **Lessen the tax burden for small businesses:** Many of the respondents noted that the government should find ways to reduce the tax burden for small businesses. Responses ranged from not charging sales tax for low-revenue companies to providing tax exemptions for a period of time for startups.
- **Make funding support a priority:** From expanding loan and grant programs to encouraging more early-stage private funding through an angel tax credit, most entrepreneurs said they see the state government as an important champion for increasing both public and private funding for entrepreneurial firms.
- **Let entrepreneurs be part of the conversation:** Many of the entrepreneurs indicated their desire to be offered more opportunities to speak directly to, and be consulted by, policymakers.
- **Additional support of minority- and women-owned businesses**: Several respondents indicated they want more targeted resources for minority- and women-owned businesses. This support includes funding and technical assistance.

Source: N.C. Governor Roy Cooper's North Carolina Entrepreneurial Council

Maryann Feldman

S.K. Heninger Distinguished Professor of Public Policy and Professor of Finance, Faculty Director of CREATE

Maryann teaches in the UNC Department of Public Policy and at the UNC Kenan-Flagler Business School. Her research and teaching focus on the geography of innovation, the commercialization of academic research and the factors that promote technological change and economic growth. Among her honors, Maryann was awarded the 2013 Global Award for Entrepreneurship Research. She is the editor of Research Policy, and has written for numerous journals, including the American Economic Review and The Brookings Papers on Economic Policy. Maryann earned a doctorate in economics and management and a master's degree in public policy analysis from Carnegie Mellon University. She also holds a bachelor's degree from The Ohio State University.

EXPERT INSIGHT

It is instructive in this time of COVID-19 to re-read the Federalist Papers, which discuss the division of responsibilities between state and federal government. James Madison argues in Federalist Paper Number 45 that state governments are closer to the people and can best focus on their welfare. He notes that "operations of the federal government will be most extensive and important in times of war and danger; those of the State governments, in times of peace and security."

States have responded with different policies, incentives and financial supports that will affect the immediate impacts of COVID-19 for entrepreneurs. While lockdown measures to limit the spread of the virus threaten the existence of many startups, there is great variation in the policy response toward small- and medium-sized businesses. Policies range from providing immediate assistance to alleviate the pressure caused by constrained cash flow to longer-term measures to promote recovery and growth. Economic crisis is often a time of opportunity for entrepreneurs as new needs become clear, new business models emerge and the costs of starting a new venture are lower.

While it is too early to conclude the overall effects of state policy actions on long-term economic recovery, it is clear that states are battling competing tensions between the need to keep communities safe and healthy amid COVID-19 and the need to start economic recovery to help alleviate the dire financial situation facing many individuals, families and businesses.

The Role of Local Governments

Although most of the attention has focused on how the federal and state governments are helping entrepreneurs and small business owners stay afloat during the pandemic, local governments have also played a critical role. Most of the evidence on local governments' actions and impact has been anecdotal, but there are many examples of creative ways local governments are being responsive.

The National League of Cities tracks the COVID-19 response in cities, towns and villages across the United States, including actions to support small businesses. See the tracker. Types of actions include:

- Assisting companies with understanding new guidelines, including phased reopening plans.
- Offering emergency small business loans and grants.
- Allowing businesses (like restaurants) to expand into public rights-of-way or private parking lots to create socially distanced spacing.
- Providing temporary freezes on evictions for small businesses.

Additionally, Kenan Institute-affiliated center NCGrowth maintains a database of case studies that connects practitioners and community leaders across the United States with examples of successfully employed economic development strategies. The tool highlights various community responses to the COVID-19 crisis. Learn more.

Mark Little
Executive Director, CREATE

Mark Gabriel Little is the executive director of CREATE, a global initiative building shared prosperity through applied interventions, research and policy. In this role he also leads NCGrowth/SmartUp, a multi-state initiative to help communities and businesses create jobs and equitable opportunities; and co-chairs Black Communities: A Conference for Collaboration, an annual international convening of scholars and leaders across the African diaspora. He previously served as managing director of the UNC Kenan Institute of Private Enterprise, supervising operations, research, external affairs and student-facing activities. Mark served as an AAAS congressional science fellow to the U.S. House Committee on Foreign Affairs and worked in renewable energy development and the earth and environmental sciences. He is also a musician and composer.

EXPERT INSIGHT

Local governments face unprecedented short- and long-term challenges with the COVID-19 crisis, but there are also opportunities to rebuild more resilient local economies.

Short-term Challenges

- Reconciling conflicting health and economic information from federal and state governments.
- Promulgating independent recommendations.
- Addressing basic human needs of those who have lost jobs or have had their health compromised.

Long-term Challenges

- Balancing budgets and cutting services.
- Identifying and targeting solutions to non-homogeneous economic impacts (employment and business development will improve rapidly for some and stagnate for others).
- Re-envisioning more independent and resilient local economies less susceptible to global and national shocks.

Opportunity in This Moment

- Attention is focused on the cracks in our social and economic systems that have been revealed by this crisis. Now is the time to collaborate across demographics on the local level. People are yearning for leadership, and local leaders have the opportunity to step up and help their communities survive and become more resilient.

Recommended Resources

- NCGrowth & SmartUp's COVID-19: Small Business & Economic Development Resources: http://createprosperity.unc.edu/index.php/covid-19-resources/
- SBA's Coronavirus (COVID-19): Small Business Guidance & Loan Resources https://www.sba.gov/page/coronavirus-covid-19-small-business-guidance-loan-resources
- Center for American Entrepreneurship: https://startupsusa.org/
- Kenan Institute's COVID-19 Resources: https://kenaninstitute.unc.edu/covid-19/
- Innovate Carolina's COVID-19 Resources for Entrepreneurs: https://innovate.unc.edu/coronavirus-resources-for-entrepreneurs/
- *Navigating the Great Pause* webinars and future events from the Eship Center and NCGrowth/SmartUp
- Black Communities: A Conference for Collaboration: BlackCommunities.unc.edu
  - During the 2020 pandemic, we launched Black Communities and COVID-19, a weekly webinar series exploring how people across the African diaspora are impacted by and navigating the coronavirus. Covering topics from health disparities to economic development, the series features participants from the 2018 and 2019 Black Communities Conferences and other experts. Co-hosted by CREATE and the Institute for African American Research, the series began in April and extends through June.

Appendix, Additional Definitions and Details

Appendix: State Response Categorical Definitions

Overall Categories

- **Business assistance**: Typically loans or grants for businesses; may include relaxation of regulations to keep revenues up (e.g., alcohol sales in to-go orders)
- **Family assistance**: Assistance not related to unemployment benefits, such as expanding welfare payments, delaying tax deadlines or creating relief funds for individuals
- **Health access**: Increased access to healthcare not specifically related to COVID-19, typically through relaxation of telemedicine regulations or prescription fill limits
- **Housing**: Increased housing security by stopping or delaying evictions and/or foreclosures
- **Medical response**: Increased access to COVID-19-related healthcare, such as mandating insurance coverage of testing or relaxing regulations to increase hospital bed availability
- **Supply access**: Suspension of regulations to allow faster transportation of essential supplies
- **Task force**: Creation of a task force with a focus on the economic impacts of COVID-19; also includes regional coalitions of states
- **Unemployment**: Expansion of unemployment benefit availability
- **Utilities**: Moratorium on utility disconnections due to nonpayment

Note: Stay-at-home orders and other social distancing guidelines were not counted as part of these actions.

Business Assistance Categories

- **Restaurant and hospitality:** Specific actions affecting these industries such as a change in alcohol regulations
- **Loans and grants:** Business-specific loan and grant programs
- **Payment and tax relief:** Actions changing payment deadlines or tax relief
- **Commercial real estate**: Actions regarding commercial real estate evictions
- **Regulation relief**: Non-tax relief to businesses regulations
- **Other business support**: Programs or actions that do not fall into the other categories
- **Charitable funds:** Charitable funds to support COVID-19 relief efforts with a business relief component
- **Utilities**: Actions regarding shutoff or suspension of services for businesses due to lack of payment
- **Small business**: Programs or actions that do not fall into the other categories but are aimed specifically at small businesses
- **Childcare business:** Specific actions affecting childcare businesses' operating regulations

Appendix: PPP Details

- Eligibility
  - Any small business that meets the SBA's size standards (either the industry-based size standard or the alternative size standard). Any business, 501(c)(3) non-profit organization, 501(c)(19) veterans organization or tribal business concern (sec. 31(b)(2)(C) of the Small Business Act) with the greater of:
    - 500 employees, or
    - that meets the SBA industry-based size standard if more than 500
  - Any business with an NAICS Code that begins with 72 (accommodations and food services) that has more than one physical location and fewer than 500 employees per location
  - Sole proprietors, independent contractors and self-employed persons

- Repayment:
  - Loans will be fully forgiven:
    - If the funds are used for payroll costs, interest on mortgages, rent or utilities (due to likely high subscription, at least 75% of the forgiven amount must have been used for payroll).
    - Loan payments will be deferred for six months. No collateral or personal guarantees are required. Neither the government nor lenders will charge small businesses any fees.

Source: SBA

Appendix: EIDL Details

- Eligibility:
  - Initial: Small business owners who are currently experiencing a temporary loss of revenue. This loan advance will not have to be repaid.
  - **Updated: Only U.S. agricultural businesses eligible:**
    - Agricultural businesses include those businesses engaged in the production of food and fiber, ranching and raising of livestock, aquaculture and all other farming- and agricultural-related industries (as defined by section 18(b) of the Small Business Act (15 U.S.C. 647(b)).

Source: SBA

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