



## Ushering Small Businesses Through the Pandemic

BY EMILY MAHER

After more than six tumultuous months since the first case of COVID-19 in the U.S., the coronavirus pandemic has [wreaked havoc](#) on an economy that was humming along at the start of 2020. Eight weeks of economic shutdown led to unemployment numbers comparable to those seen during the 70 weeks of the Great Recession. Ultimately, unemployment soared to 14.7% by the end of April. State governments [project](#) massive revenue declines. And the once-hoped-for V-shaped recovery is now positioned to be a [slow swoosh](#) for years to come.

States have reopened shuttered doors, employment numbers are [ticking up](#) and optimism has

improved slightly, yet the lingering effects continue to seep into consumer behavior and operations for small businesses. And a possible second shutdown looms as COVID-19 cases begin to rise again. Small businesses are now faced with the reality of a prolonged period of [economic slowdown](#). According to the [National Federation of Independent Business](#), nearly half of small businesses anticipate needing additional financial support in the next six months.

Even before the crisis, many small businesses had trouble securing capital because of widespread [bank closures and consolidations](#) after the Great Recession. Underrepresented businesses, which already have difficulty accessing capital, will likely see compounded effects from COVID-19 without specific action.

### Did You Know?

- After the Great Recession, larger companies needed four years to recover their contribution to the GDP, while [small businesses took six years to recover](#), on average.
- The Community Development Financial Institutions Fund in 2019 awarded 76 community development entities [\\$3.5 billion in New Market Tax Credits](#).
- Black- and minority-owned businesses that continue to operate during and after the recession are about [60% less likely](#) than their peers to receive all the financing they need.

## Federal Action

The federal government was quick to act, providing small businesses financial assistance with the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act provides an estimated \$2.2 trillion stimulus package to respond to disruptions caused by the pandemic. The relief programs, designed to help small businesses overcome the economic effects of the crisis, consist of a mix of low-interest loans, forgivable loans and grants. The largest provisions relating to [small business relief and stimulus](#) come from Small Business Administration (SBA) emergency grants, payment coverage for existing loans and the [Paycheck Protection Program](#) (PPP).

[SBA relief options](#) were restocked with the passage of the PPP and Health Care Enhancement Act, or “phase 3.5” of federal coronavirus relief packages. The package increases the appropriation for SBA PPP loans by \$310 billion, totaling \$659 billion, with funding set aside specifically for community banks and lenders. Emergency grants and low-interest disaster loans received additional appropriations of \$10 billion and \$50 billion, respectively.

Even with high unemployment and a shaky economy, federal relief programs [seem to be working](#). Employment in May rose by 2.5 million and total approved PPP loans reached nearly 4.5 million. With an estimated \$130 billion of PPP funding left in the coffers, original provisions were [revised](#) to increase the retention period from eight weeks to 24 weeks. The new provisions also reduced the amount of the loan employers are required to spend on payroll costs, from 70% to 60%. If that threshold is met, employers are eligible for loan forgiveness. Federal legislation was also recently [signed](#) to extend the deadline for businesses to apply for aid under PPP.

## State Action

Most states have [introduced legislation](#) supporting small businesses, including state-led loan or grant programs to help ease the financial burden caused by COVID-19 measures. However, state budgets are under pressure and use of federal [Coronavirus Relief Funds](#) (CRF) is restricted. As a result, state long-term financial relief for small businesses might be inadequate.

Public-private sector investment presents another option for capital to save main street. While this recession digs deeper, drawing on lessons learned from the Great Recession and other times of financial stress are worth consideration.

The [New Markets Tax Credit](#) is a federal program that provides incentives to invest in low-income

communities. The program has expanded in times of economic distress, such as in response to Hurricane Katrina and as part of the American Recovery and Reinvestment Act. [Maine](#) and [Illinois](#) have modeled similar state tax incentive programs.

Programs like the [Michigan Strategic Fund \(MSF\) Act](#), under consideration, offer swift investment in small businesses. The MSF helps businesses obtain additional financing through private capital. In response to the COVID-19 pandemic, the MSF [approved](#) a \$2 million loan through the Michigan Economic Development Agency to make micro and small business loans to businesses located in economically disadvantaged areas. Loans range from \$5,000 to \$25,000.

Rural areas have long faced barriers to capital and contain industries susceptible to economic strain. Ohio designed the [Rural Business Growth Program](#) to increase capital investment for businesses in rural areas. The legislation was crafted to ensure not just increased investment, but accountability. Approved fund managers must certify a positive return on investments and invest at least 10% in the rural business growth fund. Failure to reach job creation and retention targets results in penalties paid by the fund manager(s) to the state.

Ohio took another active step to assist vulnerable businesses and used \$10 million of its federal CRF to create the [Appalachian Growth Capital Loan Program](#). The program provides capital funds to the Appalachian Growth Capital LLC, a U.S. Treasury-certified Community Development Financial Institution. Businesses in the region with less than \$40 million of revenue are eligible for loans up to \$500,000, with the option to defer the loan up to six months. Likewise, Pennsylvania’s [Rural Jobs and Investment Tax Credit Program](#) stimulates growth and job creation in the state’s rural areas.

[Utah’s Rural Jobs Program](#) directs private capital investment to businesses in certain growth industries, including agribusiness, manufacturing and software development, to help increase wages and enhance the state’s economy. An annual report documenting the rural investment company’s growth investment is [required](#).

These programs have zero initial outlay of state funds while offering transparency and accountability measures to ensure job creation goals are met.

As the economic impact of COVID-19 becomes clear, and initial federal and state small business relief begins to dissipate, it is critical to reinvest. Carefully tailored incentive programs, with the aid of private investment, could be the spark small businesses need to ignite an economic revitalization.

## Additional Resources

- [“COVID-19 Relief Assistance to Small Businesses: Issues and Policy Options,” Congressional Research Service](#)
- [“Perspectives from Main Street: The Impact of COVID-19 on Communities and the Entities Serving Them,” Federal Reserve Bank of Atlanta](#)
- [COVID-19 Small Business Index, U.S. Chamber of Commerce](#)
- [“Making Sense of Incentives: Taming Business Incentives to Promote Prosperity,” W.E. Upjohn Institute for Employment Research](#)

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