

Supporting microbusinesses in underserved communities during the COVID-19 recovery

Actionable Ideas for Economic Recovery in American Cities Essay Series



Pam Lewis | July 2020



Supporting microbusinesses in underserved communities during the COVID-19 recovery

Pam Lewis Director, New Economy Initiative

July 2020

Photo credits:

Alex Brisbey via Unsplash (cover). The following photos are a courtesy of New Economy Initiative: Page 4: Sh La Cynt's Chef & Catering Page 5: Triangle Pro Hardware Page 10: Guerrilla Food Page 13: Beau Bien Fine Foods, Blessed Beginnings Learning Center, Bon Bon, Taqueria El Nacimiento, ESI Hardware Store, Lush Yummies Pie Co., Nandi's Knowledge Cafe, Naturalicious, Painexx Corporation.

COVID-19 METRO RECOVERY WATCH

ABOUT THE COVID-19 RECOVERY WATCH

The COVID-19 Metro Recovery Watch is aimed at informing local and state recovery strategies from COVID-19's historic economic impacts in ways that link near-term resilience to longer-term economic transformation, racial equity, and economic inclusion.

Check out the website.



Overview

When 2020 began, no one imagined the challenges the country would face in health, the economy, and the renewed revelation of disparities for the microbusinesses in underserved communities that drive local economies.

In Detroit, collaborations between public, private, nonprofit, and philanthropic leaders quickly listened to business owners, innovating and implementing strategies to ensure the most vulnerable businesses could address their specific needs that resulted from social distancing orders. The strategies outlined below could have potential applications to many underserved communities in cities across the United States.

Challenge

Small businesses in cities like Detroit bring life to once-abandoned commercial corridors, offer proximate products or services, and provide accessible jobs to residents. Growing these businesses offers more attainable jobs that reduce the percentage of residents that travel out of the city for work. A recent report by JPMorgan Chase stated that "a modest increase in the number of employees hired by existing small businesses (one to three employees per business) could create enough employment opportunities for all currently unemployed inner-city residents."¹

Beyond jobs, small business ownership offers a pathway to economic self-sufficiency for Black Americans, especially in Black-majority cities such as Detroit. Compared to the nation, the share of businesses owned by Black residents is eight times higher than the national average. Ninety percent of these Black-owned businesses are microbusinesses that have between one and three employees. The economic impact of COVID-19 has been devastating to small businesses across the nation, but there are some preconditions in Detroit that made the city particularly vulnerable in this crisis. First, the public health impact there has been severe; Detroit is 6.7% of Michigan's population, but has 17.7% of the state's COVID-19 cases and 23.6% of its deaths.²

Second, very small businesses in cities like Detroit—which were vulnerable before the pandemic—have been hit harder due to the inner city's reliance on industries that are more susceptible to the impact of social distancing orders, including retail, restaurants, construction, and personal care services. Detroit's small business owners reported an immediate loss of revenue, lack of liquidity, and less solvency to deal with payables, rent, existing debt, and the impact of losing inventory.



At the same time, microbusinesses owned by people of color are less likely to have an existing relationship with a commercial bank. Of the \$20.8 billion loaned through the Small Business Administration's 7(a) program in 2019, 32% went to minorityowned businesses, yet only 6% was loaned to Latino- or Hispanic-owned businesses and 3% to Black-owned businesses. Only 1% of the program's dollars were distributed through the Community Advantage loan program to address needs of underserved markets.³ Congress's signature small business support program in response to the pandemic—the Paycheck Protection Program—relied on distributing \$660 billion in liquidity through existing financial institutions, which are less likely to serve minority-owned businesses.

Thus, Detroit is pursuing a mitigation and recovery strategy focused on underserved businesses. To understand the ground level challenges for these businesses, my organization, the New Economy Initiative (NEI), conducted interviews with 70 small business owners in Detroit. The interviews revealed the following challenges related to equipment, capital, and technical assistance (Table 1).

Table 1: Small business owner interviews revealed equipment, capital, and technical
assistance needs

Equipment needs	Capital needs	Practical assistance needs
Personal protection equipment (PPE) and sanitization procedures	Guidance on how to access lower-risk financial support	Advice on marketing to expand customer reach
Access to cleaning supplies, testing equipment, and testing locations	How to use Paycheck Protection Program (PPP)	Advice on how to adapt to a disrupted supply chain
Clarity on compliance and when businesses can reopen	Working capital funding to cover rent, utilities, payroll, and inventory	Human resources support to attract employees back to work
Guidance on making customers feel safe	Capital for new capabilities such as safety equipment, e-commerce tools, and reskilling	Advice on financial budgeting, recovery planning, and how to pivot business models

Source: Author

Response

This section describes strategies implemented in Detroit during the spring of 2020 by a range of stakeholders in the small business ecosystem: business owners, employees, customers, government, policymakers, investors, and the many nonprofits and economic development agencies that support them. These strategies are models of innovation that could be applied to other underserved communities in cities across the United States.

NEI is committed to inclusive

entrepreneurship and economic development through the growth of small businesses owned by underserved entrepreneurs in underserved communities. NEI is a steward of the Detroit small business support network, serving as a catalyst, funder, and coordinator of the nonprofit business support organizations and community lenders that assist small businesses as they start and grow. Launched as part of the Community Foundation for Southeast Michigan in 2008, NEI, its grantee partners, and its funders were well-positioned to lead a response to the small business crisis along two key dimensions: mitigation and recovery.

Mitigation Strategy 1: Grantbased liquidity and capital access

As a funder to community development financial institutions (CDFIs), community development organizations (CDOs), and other small business support institutions, NEI was able to deploy \$4.7 million in grantbased liquidity, capital access, and practical assistance within six weeks.

Loan relief

The loan relief program provides immediate assistance to existing borrowers of NEIfunded community development financial institutions (CDFIs) and microfinance program providers who are a part of Detroit's coordinated small business support network. This program relieves borrowers of loan payments for six months, freeing up cash to address other capital needs, protect credit scores, and stabilize the balance sheets of nonprofit community lenders.

NEI administered grants to the nonprofit lenders covering borrower loan payments based on the size of the monthly loan balance of each lender and the number of eligible borrowers. Eligibility was defined by borrowers in good standing and having at least three employees. A total of 260 borrowers received the benefit, at a total cost of \$1.1 million.

Rent relief

The rent relief program provides immediate assistance to existing tenants of NEI-funded community development organizations (CDOs) and landlords associated with Detroit's Neighborhood Strategic Fund, focusing assistance on high-priority commercial corridors in neighborhoods across the city and in downtown Detroit. This program relieves tenants of rent expenses for up to three months, freeing up cash to address other capital needs, secure their physical locations, and stabilize the balance sheets of CDOs and strategic landlords.

NEI administered grants to the nonprofit CDOs and local CDFIs managing the Strategic Neighborhood Fund, providing funds to relieve tenant rent revenue to eligible landlords across 10 neighborhoods. Approximately 600 small businesses received this benefit, at a total cost of \$980,000.

Grants to lower-income microbusiness owners

Four stabilization fund programs provide immediate capital to microbusinesses (under 10 employees) that are led by owners who have annual incomes less than 80% of the average median income (i.e., \$46,000 for a single person). These programs provide direct grants ranging from \$1,000 to \$5,000 for small businesses in five underserved communities in Wayne, Oakland, and Washtenaw counties. This program was designed and first implemented by one of NEI's Detroit grantees and was then quickly replicated in Hamtramck, Highland Park, Dearborn, Pontiac, Ypsilanti, and Milan.

NEI administered grants to the Detroit nonprofit who originated the program and then made grants to nonprofit business support organizations that formed partnerships with chambers of commerce and municipalities in four of the above communities. The total cost of this effort was \$1.4 million.

Mitigation Strategy 2: Accessible, in-depth practical assistance

Many of the small business support interventions focused on immediate capital relief. However, we have learned that the impact of capital access strategies is optimized when recipients of capital have access to real-world advice, coaching, tools, and experts in the following areas: accounting, finance, cash flow management, marketing, digitizing the business, HR strategies, legal, and daily operations. We call this "practical assistance."

To provide this practical assistance, we launched a new program called 313Strong, offering one-on-one coaching, a free QuickBooks license, and access to experts in the areas above. At a cost of \$860,000, this program is designed to serve up to 700 small businesses and is delivered through a collaborative of NEI-funded business support organizations, in partnership with law firms, MBA student groups, and trade association volunteers.

Recovery Strategy 1: The Detroit Means Business coalition

Ensuring businesses—and particularly the most vulnerable businesses—can reopen safely and have quick access to what they need became a key priority for the Detroit mayor's office. The mayor's executive for jobs and economic opportunity, the director of the city's Civil Rights, Inclusion & Opportunity Department, along with leadership from the Detroit Economic Growth Corporation (the lead economic development entity in Detroit) began working alongside private, philanthropic, and nonprofit leaders to develop a system of support. The result—the Detroit Means Business program—is designed to prepare small businesses with fewer than 50 employees to safely and successfully operate during the COVID-19 crisis.

This is the first time private, public, nonprofit, and philanthropic sectors have coalesced for the benefit of Detroit's vulnerable small businesses. The table of leaders also includes representatives from the small business community that the program is designed to assist. Key elements include:

- Small business owners can work with experts to find grants, loans, and other financial resources during the COVID-19 crisis.
- Economic development staff operate a hotline to answer questions and direct small business owners to appropriate resources, such as the MI Safe Start Plan, COVID-19-related health and safety guidelines, PPE sourcing guidance, financial resources, and technical assistance.

- The program offers access to free or lowcost PPE, including gloves, masks, hand sanitizer, sneeze guards, and face shields.
- Small business owners who have specific questions about accounting, human resources, marketing, legal, or business reopening operations can schedule a one-on-one virtual consultation with a small business expert.

Within two weeks of the coalition's launch, over 15,000 small businesses visited the Detroit Means Business website. There were over 3,000 downloads of the guidelines and playbooks, 3,400 free PPE kits were distributed (serving 10 people per kit), 4,000 requests were handled through the contact center, and 70 individuals attended the virtual webinars. This effort is being covered for three months through pro bono services and donated capacity from seven private corporations and 14 philanthropic-funded organizations.

Recovery Strategy 2: Broaden access to capital

For microbusinesses led by the most disconnected owners, capital is always the greatest need—even more so in this pandemic. However, these are the businesses most likely to be unbanked or underbanked, and the least likely to obtain a Paycheck Protection Program Ioan. Improving access to capital is critical, especially for businesses that have traditionally lacked this access prior to the COVID-19 crisis.

There is a significant shortage of capital because of the higher risk in investing in these already stressed businesses. Therefore, new sources of capital will need to be identified. Potential methods include:

- Improved access to current rounds of the Paycheck Protection Program's loan pool
- Philanthropic grants through nonprofit business support organizations that have

relationships with small businesses in their communities

- Program-related investment (PRI) dollars to de-risk lower-interest loans by lenders
- Creative uses of Community Development Block Grant (CDBG) funds
- Policies to increase the amount of SBA 7(a) loans to minority owners (Black and Latino or Hispanic owners received 9% in FY2019)
- Policies to increase the amount of SBA 7(a) Community Advantage loans to underserved communities (which represented 1% of loans in FY2019)

Recovery Strategy 3: Reexamine the capacity of small business support organizations

NEI has funded 20 business support organizations in Detroit over the past six years. These organizations provide multiple access points to services for different types of businesses and represent direct service providers, including CDFIs, microfinance programs, affordable space providers, and business planning mentors. The group also includes community development organizations that ensure businesses in their neighborhoods have information and connections to direct service providers. In addition to funding, these business support organizations will need to adjust to the new needs of the businesses they serve. The work to understand the capabilities of the business support organizations and engage with philanthropic and public funders to provide streamlined investments is also important.

The challenge ahead is also to encourage greater network behaviors across the many resources that cities have to support microbusinesses—regardless of how they are funded or constituted—so that entrepreneurs and business owners (primarily those led by underserved owners or growing in lowerincome communities) get what they need when they need it.

Funding

The \$3.06 million in mitigation strategies were sourced from national and placebased foundations as well as private donors with interest in supporting inclusive entrepreneurship and small business development in Detroit through the Community Foundation for Southeast Michigan's Small Business COVID-19 Relief Fund, managed by NEI. NEI reprogrammed \$2 million of its reserved philanthropic resources to supplement these funds and ensure they were delivered quickly (within two months of the start of the crisis) to the small businesses that could not wait.

NEI is housed within the Community Foundation for Southeast Michigan, which provides an efficient and credible vehicle to receive philanthropic funds that can be regranted out. For over 10 years, NEI has been funded by a group of national and place-based funders. Looking ahead, those funders with specific interest in inclusive small business development within metro area Detroit will be approached to support the network of nonprofit small business support organizations to provide recoveryrelated services. The estimated costs for this additional capacity could equate to \$6 million or more over the next two years.

The Detroit Means Business program has been operated through pro bono and donated talent from public, private, and nonprofit sectors. To operationalize this effort beyond the immediate needs of the crisis, the coalition's leaders will likely pursue public sector and corporate foundations for support. Additional capital deployed to small businesses or used as loan loss reserves may be from public sector agency programs, commercial banks, or program-related investment dollars from national foundations.



Potential impact

A scaled version of a program like Detroit Means Business has the potential to assist hundreds of businesses in dozens of neighborhoods across the city—and in the process, retain and grow jobs and community wealth. Detroit Means Business's impact will be measured by the following metrics:

- Visitors to the landing page
- Contact center inquiries
- Number of businesses assisted
- Average employees of businesses assisted
- Demographics of business owners (gender, race, immigrant status)
- Number of referrals to service delivery partners
- Amount of capital available (percentage for lending versus loan loss reserves)
- Number of outreach partners engaged
- Number of resource downloads
- Number of notifications mailed or emailed to partners and businesses
- Amount of funds raised to support operational program capacity (percentage from public dollars)

Those program-specific performance metrics connect to a larger set of outcome goals for Detroit's broader small business recovery. NEI will be tracking the following goals over the next two years to measure how small businesses are faring during the economic recovery period:

- Number of businesses assisted
- Demographics of business owners (gender, race, immigrant status)
- Ratio of neighborhood versus downtown businesses
- Amount of capital received by small businesses
- Number of practical assistance hours received by small businesses
- Number of service delivery partners engaged
- Amount of capital available, percentage of all funds raised, and percentage of loan loss reserves
- Amount of funds raised for business support organizations and program capacity
- Survivability rate of businesses assisted

Endnotes

1 JPMorgan Chase and Co. and Initiative for a Competitive Inner City, "The Big Impact of Small Businesses on Urban Job Creation: Evidence from Five Cities" (Boston, MA: JPMorgan Chase and Co. and Initiative for a Competitive Inner City, 2016). https://impact. jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/documents/sbf-bigimpact-small-business-rpt.pdf.

2 Detroit Health Department, "COVID-19 Dashboard," *City of Detroit, June 19, 2020,* https://codtableau.detroitmi.gov/t/DHD/views/CityofDetroit-PublicCOVIDDashboard/ TimelineCasesDashboard?%3AisGuestRedirectFromVizportal=y&%3Aembed=y. and Michigan. gov_"Michigan Data," Coronavirus, *State of Michigan,* June 19, 2020, https://www.michigan. gov/coronavirus/0,9753,7-406-98163_98173---,00.html.

3 US Small Business Association (FY 2014-2019 7(A) and 504 Voluntary Responses, Data table: All 7(A), Rows 8 and 9; accessed June 19, 2020). https://www.sba.gov/sites/default/files/aboutsbaarticle/WebsiteReport_asof_20190830.pdf.

Photo credits: Ali Lapetina

τ.,

П

-

Kenne.

NATURALICI

U

B | Metropolitan Policy Program