

Understanding and Supporting the Commercial Sector with Karen G. Mills

A CRISIS FOR SMALL BUSINESS

In March 2020, businesses across the country began shuttering storefronts and laying off employees, in some cases hunkering down to wait out “shelter in place,” and in others, inventing new ways of doing business on the fly. Nineteen million jobs vanished virtually overnight, half of them from small business.

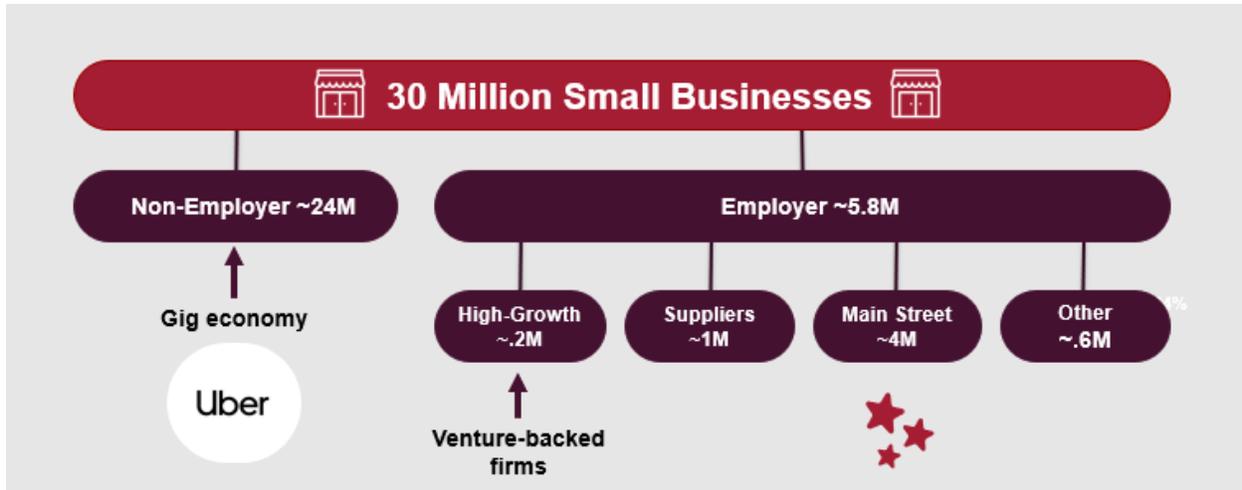
Cities stepped in with grants, loans, training opportunities, and other programs, paid for with private and corporate donations, CARES Act funds, and municipal dollars. They purchased meals for essential workers from local restaurants and offered support in shifting to e-commerce. As cities reopened in increments, businesses strove to comply with new safety regulations, to make goods and services available despite disrupted supply chains, and to appeal to wary customers.

Over 5 million businesses took advantage of the Paycheck Protection Program (PPP), allowing them to keep employees on payroll and stay afloat through the spring, but five times as many [did not apply for a variety of reasons](#). Moreover, challenges for small business were not equitably distributed. Minority-run small businesses applied for smaller loans on average, but were frequently turned down and rarely offered the level of financing they requested.

Tens of thousands of small businesses have closed for good since spring. With no new relief immediately anticipated from the federal government, what can city leaders do to support the beating heart of their local economies?

DESIGNING PROGRAMS FOR BUSINESSES

There are 30 million small businesses in the United States, and they are a highly heterogeneous group, encompassing sole proprietorships, supply chain businesses, and Main Street shops. Different industries and sectors have different needs, and this presents challenges for city government as it tries to help local businesses.



While the most acute pressures related to COVID-19 have relented for many (at least for the moment), lagging revenues and the expiration of federal support programs mean that many businesses that reopened and provided much-needed jobs over the summer are once again looking at layoffs. According to a recent survey by Alignable, 35 percent of Main Street shops could close in the 4th quarter of 2020. Small businesses employ roughly half of America’s work force. Without urgent action, the effect of the next wave of closures will be devastating.

To offset these deepening problems, perhaps the most urgent need for small businesses is increased access to capital, and relief from an imminent credit crisis. Banks, which have a history of curtailing lending during economic crises, are already reporting tightening credit standards, which could deal a final blow to the many cash-dependent small businesses that are struggling to survive. Keeping credit flowing and monitoring how tight it is getting should therefore be a top priority for city leaders in the coming months.

How can you help ensure credit is available to your city’s small business owners?

- Communicate with small business owners and parse the problems by sector. Which small businesses are you trying to help with what in a given program? Which are most in need? Which might you have overlooked?
- Reach out to small business development centers (SBDCs) or community development financial institutions (CDFIs) in your city—especially those that serve marginalized groups—to understand the issues.
- Use your convening power to engage local banks, members of the public, representatives of businesses large and small, and nonprofits. Remind everyone that we are in this together! Use the money and the leverage you’ve got to get more money on the table.

Actions for mayors	Successful program characteristics
<ul style="list-style-type: none"> • Meet with your local bankers • Form a committee with public, private, and nonprofit actors • Partner with local organizations like CDFIs and SBDCs to maintain open communication channels 	<ul style="list-style-type: none"> • Ensure that credit continues flowing in the local market • Monitor how tight credit is getting at any given time • City takes the first loss on support given to certain businesses (like those that are women- and minority-owned)

Depending on the particular character and mix of your city’s commercial sector, the programs you design to support it will vary. The table below outlines key areas of focus depending on the size of the business.

	Current	Recovery
Small (1-49)	<ul style="list-style-type: none"> • Clear communication • Cash/bridge funding 	<ul style="list-style-type: none"> • Access to bank capital • New startups
Medium (50-499)	<ul style="list-style-type: none"> • Access to testing • Cash/bridge funding 	<ul style="list-style-type: none"> • Contracts • Renewed workforce/skills training
Large (500+)	<ul style="list-style-type: none"> • Community service and engagement 	<ul style="list-style-type: none"> • Renewed workforce/skills training and incentives

With budgets strapped, city-run programs should focus on offering business advice, access to capital, and support for the particular ecosystems that support the growth and capacity of local businesses large and small. To boost entrepreneurship and inject a bit of energy and optimism, city leaders could consider creative solutions like Restart America, a program which would invite local entrepreneurs to compete for a \$10,000 prize to open a shop on Main Street.

The table below identifies some additional levers that you may want to keep in mind for program design. Remember that Main Street businesses have vastly different needs from the high-growth startups sought by many city governments before the pandemic. But in this moment, shifting your resources and focus to struggling Main Street businesses will help your city remain the kind of place that can attract high-growth firms down the line.

	High-Growth Firms	Main Street Business
Access to Capital	<ul style="list-style-type: none"> • Angel and R&D Tax Credits • Regional VC Support (SBIC) • SBIR/STTR • Scale Up Capital • Grants / Business Plan Competitions 	<ul style="list-style-type: none"> • Bank Loan Guarantees (SBA) • Fintech/Challenger Banks • Tax Policy
Advice / Education	<ul style="list-style-type: none"> • Entrepreneurship, Education, and mentorship programs • Startup Academies 	<ul style="list-style-type: none"> • Small Business Development Centers / SCORE Advisors
Ecosystems	<ul style="list-style-type: none"> • Accelerators/Incubators • Clusters 	<ul style="list-style-type: none"> • Main Street Associations • Small Business Saturday

Finally, be a relentless champion for your city’s businesses. Take every opportunity to remind residents that the vibrancy of their city depends on their support for its businesses. A social media hashtag like #MyMoneyStaysLocal can be an effective tool to build momentum and support for the local economy. If city leaders do not step up and act as the voice of their city’s small businesses, then nobody will.

And, as with all city-led programs in this moment when racial and economic inequities are so stark and the future is so uncertain, make sure you are designing programs and aligning your words and actions to deliver relief to those most in need.

QUESTIONS? Please contact Karen Mills: kmills@hbs.edu