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Social Capital in the Era of Social Distancing: Community Development Responses to COVID-19

Jamie McCall, M.P.A.
Vice President, Policy & Research
Carolina Small Business Development Fund
Email: jmccall@carolinasmallbusiness.org

Teshanee Williams, Ph.D.
Postdoctoral Research Fellow
UNC Chapel Hill School of Government
Email: twilliams@sog.unc.edu

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For More Information

Jamie McCall
Vice President of Policy & Research
Carolina Small Business Development Fund
jmccall@carolinasmallbusiness.org

Carolina Small Business Development Fund

3128 Highwoods Boulevard, Suite 170
Raleigh, N.C. 27604
telephone 919.803.1437
fax 919.897.8612
www.carolinasmallbusiness.org

Community Policy Innovation in a Crisis

The COVID-19 pandemic is a public health emergency. Concurrently, the effects of the event on North Carolina and the country are also causing an economic crisis. The necessity of "social distancing" has resulted in the economic shutdown of 45 states.[1] Though we still don't have a lot of data yet, the implications are clear - Main Street businesses are being devastated. Only about half of small businesses have enough cash on hand to cover their expenses for more than a month.[2] Unfortunately, the adverse impacts are likely just beginning. Research suggests the economic consequences from pandemics of this scale may persist for decades.[3] In the midst of the unfolding economic disaster, there is strong reason to believe that normal policy responses utilized in disaster recovery **won't work**. We argue for innovative and evidence-based recovery efforts that leverage resources embedded within social networks.

Amid an unprecedented economic disaster, there are many competing needs. For policymakers and community institutions, we believe a primary focus should be the preservation of small business ecosystems. Why? Because research has long shown that small businesses are a core facet of state economies.[4] Small business ownership specifically, and entrepreneurship more broadly, is strongly correlated with an array of positive socioeconomic outcomes.[5] The value of small businesses comes from the quality of life they bring to local communities and the economic value they add through the process of creative destruction.[6] Though only about 55% of firms survive past their five 5 years of existence, the cycle of firm creation and destruction has enormously positive effects for economic development.[7]

While difficult to model, the data suggest the entire economy feels the ripple effects when Main Street small businesses are hurting.[8] This analysis is a brief look at the policy and community institution responses thus far through the lens of what the data say work best for small business recovery. Types of assistance available to small businesses are expanding rapidly, but there doesn't appear to be enough help given the level of economic devastation.

Extant Federal and Local Responses to COVID-19

FEDERAL POLICY RESPONSE. At this point the largest policy response is the federal government's stimulus package via the CARES Act.[9] For small businesses, the Act provides several avenues of assistance.[10] First, it created the Paycheck Protection Program (PPP), which is administered by the Small Business Administration's (SBA) 7(a) loan providers. The PPP is a first-of-its-kind facility which forgives disaster loan balances when they are used for certain operating expenses like employee payroll. The program is robust in that it provides loans for up to 2.5x a business's average payroll costs. Firms will have up to 8 weeks of these costs forgiven based on the number of employees they retain or rehire between February and June of 2020. Traditionally SBA loan programs have not provided forgiveness in any form, but there is evidence that such programs are effective ways to assist disaster-impacted firms.[11]

Second, the Act made several changes to the SBA's economic injury disaster loans (EIDLs). EIDLs are provided directly through the SBA and provide low interest capital at a rate of 3.75% for up to 30 years. The availability of EIDLs depends on when a state's Governor made a COVID-19 disaster declaration. For North Carolina, this happened on March 18, 2020. The CARES Act made several important changes to EIDLs. This includes expanding eligibility to important community institutions, including nonprofits, and forgiving up to $10,000 of each EIDL under certain circumstances. Changes to the EIDL program reflect the need to inject capital into local economies quickly across a variety of organization types – which has been an issue in past disasters.[12]

While the PPP and EIDL programs are structured in a way that are likely to help small businesses, their rollout has suffered from several issues. First, many community lenders were unable to offer these programs, which may have adversely impacted the ability of underserved entrepreneurs to access funds.[13] Second, the SBA and participating financial providers had mere days to roll out PPP and make significant changes to the EIDL. But given the demand and scope of these programs, this resulted in in mass technology glitches and confusion among both entrepreneurs and loan providers.[14] Demand for the PPP program was overwhelming, with $349B in funding exhausted by April 16, 2020.[15]. Similarly, the EIDL received $372B in applications for $7.3B in funds.[16] Though both programs were replenished with a combined $380 of appropriations a week later, they will likely again face overwhelming demand.[17]

STATE AND LOCAL RESPONSES. State and local policy responses to address the economic repercussions of COVID-19 have varied. North Carolina is in the midst of crafting its response, with the legislature to gavel back into session on April 28, 2020. Bills under consideration thus far are related to bolstering small business lending, expanding unemployment insurance, and providing employer tax credits.

At the local level in North Carolina, some counties and cities have launched their own assistance programs.[18] Examples of note include:

- Mecklenburg County established a emergency business financing program, which offers low rate loans ranging from $5k to $35k.[19]
- Orange County created an emergency small business funding program that includes a mix of $5k grants and $20k loans. [20]
- Wilmington's re-stock, re-open, re-cover (R-3) initiative provided $3k grants to downtown small businesses.[21]
- Raleigh has created an initiative to provide $10k in grants to small businesses that have seen significant revenue declines due to COVID-19.[22]

Outside of the state, a few other programs are also worth mentioning. New Jersey provided an array of programs including $5k emergency grants to entrepreneurs in highly impacted sectors (arts, food service, accommodations, etc.), 0% interest loans, and lending capital to community institutions that support entrepreneurs.[23] Another example is the City of Denver, which provided $7.5k emergency relief grants for small businesses impacted by the pandemic.[24] But like the federal programs, our review suggests neither state and local programs cannot keep up with demand. Both within and outside North Carolina, most initiatives we found are running out of funds within days (and sometimes within hours) of being launched.

Social Capital in the Age of Social Distancing

Social capital is defined as resources embedded within a network that can be accessed or mobilized through social interactions.[25] Like other types of community-based organizations, Main Street small businesses rely on social capital to sustain and grow operations.[26] Successful small businesses tend to be those that participate in entrepreneurial networks and build relationships with the community members where they operate.[27] However, for social capital to have any actual effect in a network it must be mobilized and available. Research focused on small businesses recovery during a crisis has shown that community-based networks are essential because they actively mobilize social capital and help entrepreneurs be more resilient.[28]

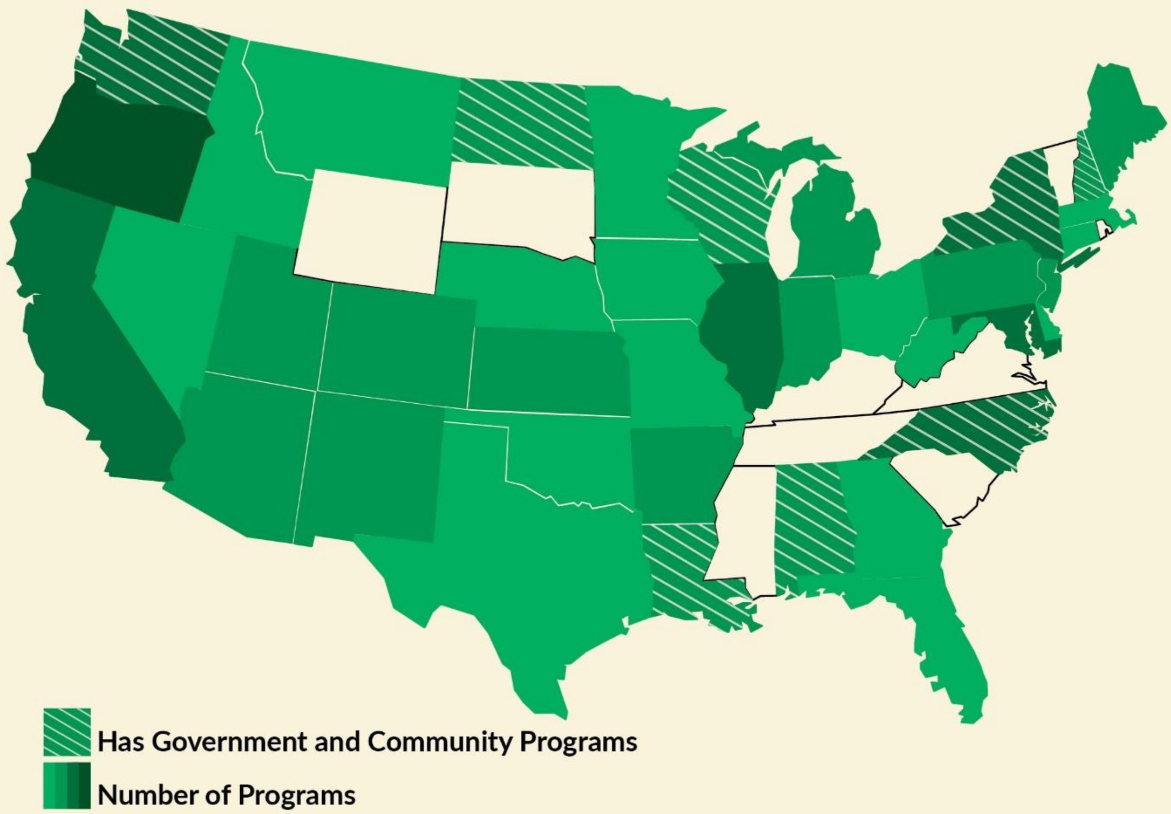
When structured correctly, disaster responses to small businesses can help preserve firm-level entrepreneurial social capital networks. This is important because research shows these networks are critical for long-term small business success. For example, if disaster loans and grants incentivize small businesses to retain their payrolls, they will be better able to resume normal activities when the emergency has passed. But business closures – especially when prolonged – can cause these relationships to become more fragile.[29] This is especially important in the context of recovery from COVID-19, since some data suggest the social disruption caused by pandemics has lasting economic consequences.[30]

Both community institutions and governments benefit from social capital networks, especially when crafting disaster responses that leverage organizational partnerships and collaborations.[31] For *governments*, community institutions with experience assisting entrepreneurs can help them quickly deploy capital and grants in an efficient and effective manner.[32] For *community institutions*, government partners can supply financial resources to support small business owners in ways that may not otherwise be possible.

Growing Policy Responses at the State and Local Level

North Carolina's governments and community institutions have already started partnering to assist small businesses with affordable capital. One such example is the

Rapid Recovery lending program.[33] The program, which provides quick access to loans for up to $50,000, is a partnership between 7 community lenders and is supported by multiple North Carolina government agencies. Admittedly, building new collaborations between community institutions and governments seems to be a difficult proposition right now. The need to act quickly means that, at least presently, governments and community institutions are more likely to focus on their existing organizational social capital networks. But the Rapid Recovery program is a new partnership – which shows this can be done even during a time of crises.



Source: Analysis of state, local, and community COVID-19 websites.

Across the United States, we found examples of 91 discrete programs offered by community organizations, city governments, county governments, and state governments. Our analysis suggests the bulk of these programs draw on social capital in terms of their program delivery. Examples of this include capital deployment through community lenders and grants/loans that are available to social entrepreneurs. The map below summarizes our findings.

Though not meant to be a comprehensive assessment of COVID-19 programs, we think our data offers a good first glimpse to the blossoming small business policy response to this economic crisis. It is far too early to estimate the effect of these programs, but we believe they will provide a unique opportunity to put social capital to a sort of "stress test." Ultimately, social capital networks are an integral component for effective small business disaster recovery. Both for small businesses *and* the institutions which seek to support them.

Conclusions

There is strong evidence that social capital plays a pivotal role in disaster recovery. Yet, our review of the literature shows it is something that has historically been overlooked by both the public and non-profit sector. The unparalleled economic disaster being wrought by the COVID-19 pandemic requires that we build on social capital networks to ensure the long-term survival of both the local and national entrepreneurial ecosystem. Even from a distance of 6 feet, the effects of individual and organizational social capital remain useful tools for community economic development practitioners and those they serve.

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