

Improving the Resiliency of NYC's Small Business Community

New York City is home to approximately 220,000 small businesses, 98% of which have less than 100 employees and 89 percent of which are very small (fewer than 20 employees).¹ New York City also has the highest number of minority-owned small businesses per capita of all major US cities.² Minority-owned small businesses (Black-, Latinx- and Asian-owned) comprise a third of New York City's small businesses and nearly half of them are in two of its most diverse boroughs, the Bronx and Queens.³ Small businesses employ more than half of the private sector workforce⁴ and are disproportionately high when it comes to employment in minority communities. Small businesses provide vital neighborhood-level goods and services. They distinguish vibrant commercial corridors and serve as anchors and cultural homes for communities. They are also drivers of economic mobility and opportunities for building wealth.

The COVID-19 outbreak has been devastating to New York City's small business community. According to the Partnership for New York, as many as a third of New York City's businesses (77,000 employers) will likely close permanently as a result of the crisis. Minority-owned small businesses which are highly represented in the most vulnerable industries are being disproportionately affected. According to a June survey conducted by the NYC Comptroller's office of over 500 city-certified businesses owned by women or people of color, 85% said they likely can't survive beyond the next six months, given their current cash on hand.⁵ This crisis threatens to wipe out livelihoods for owners and employees, erase wealth for households, and reshape our neighborhoods and communities.

At the same time, New York City possesses a robust small business ecosystem. Government priorities at both the city and state level have perhaps never been more focused on small business, and minority and women business enterprise development. There are goals for public sector procurement from minority- and women-owned businesses. There are programs providing access to capital for businesses unable to be served by mainstream financial institutions. The ecosystem is rich with federal, state, city and community-based nonprofit

¹ Small Business First Report. NYC Retrieved July 28th, 2020 from:
<https://www1.nyc.gov/assets/smallbizfirst/downloads/pdf/small-business-first-report.pdf>

² Retrieved July 28th, 2020 from: https://dalberg.com/wp-content/uploads/2020/04/NYC-Equitable-Small-Business-Recovery_Dalberg_Whitepaper_vF.pdf

³ Ibid.

⁴ Small Business First Report Retrieved July 28th, 2020 from:
<https://www1.nyc.gov/assets/smallbizfirst/downloads/pdf/small-business-first-report.pdf>

⁵ Retrieved July 28th, 2020 from: <https://comptroller.nyc.gov/newsroom/comptroller-stringer-analysis-85-percent-of-m-wbes-report-they-will-be-out-of-business-in-six-months-due-to-economic-distress-of-covid-19-pandemic/>

entities as well as community colleges and universities providing training and one-on-one “technical assistance” to small businesses.

Now, the COVID-19 outbreak is unquestionably a disaster of unprecedented proportions. However, New York City is certainly no stranger to major disruptions and we can be confident that the future holds more challenges with climate change probably at the top of the list. Yet it is well-documented that many small businesses, particularly Black and Latinx-owned businesses, went into the COVID-19 crisis already in a weak condition. Smaller firms, younger firms, and firms held by Black- or Latinx-owners were more likely to be classified as “at risk” or “distressed” in terms of financial health according to the New York Federal Reserve.⁶ The medium small business held only 27 cash buffer days in reserve.⁷ Throughout this crisis, many businesses have struggled to access badly needed emergency capital because they’ve lacked the preparation, qualifications and network to access federal programs such as the Paycheck Protection Program (PPP).

So, for all its robustness, what might the New York City ecosystem be getting wrong with moving the needle on resiliency so that businesses could have been in a little better position to weather this storm?

At its essence, resiliency is the ability to survive and overcome challenge or adversity. The Rockefeller Foundation’s work on resiliency at the level of cities, distinguished adversity in terms of acute shocks such as natural or man-made disaster and chronic stressors such as systemic disinvestment in communities. Small businesses are subject to adversities that range from natural disasters to struggling to keep afloat in low-margin industries.

Improving the resiliency of small businesses involves 1) getting them to a state of strength, stability and readiness where they have evaluated and are prepared for potential risks 2) helping them create an emergency response plan so they can take action to mitigate injury when a disruption occurs and 3) helping them to repair, adapt and adjust to new conditions so they can ultimately sustain following a disruption. Reflecting on the impact of the COVID-19 outbreak and these perspectives on resiliency, we can pick out a number of prominent facets of New York City’s ecosystem and examine how they could play a more productive role in helping small businesses to overcome future disruptions.

⁶ Retrieved July 29th, 2020 from:
https://www.newyorkfed.org/newsevents/news/regional_outreach/2020/20200407

⁷ Retrieved July 29th, 2020 from: <https://institute.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/institute/pdf/jpmc-institute-small-business-report.pdf>

We'll start with what is probably the single most defining factor of the ecosystem today and that is New York City and State government's commitment to procuring 30% of goods and services from certified Minority and/or Women Business Enterprises (MWBEs) as a way to promote economic opportunity for historically disadvantaged communities. Implementing the city and the state's MWBE programs is all encompassing. It involves extensive outreach to increase the number of certified firms, the reconfiguration of contracts and streamlining of bidding processes across agencies, the enforcement of compliance and accountability, and providing specialized programs to help MWBEs access capital. There are now more than 9,000 certified MWBEs in the City although in terms of meeting its utilization goals, the city's letter grade at the end of 2019 was a "C".

When it comes to ensuring that MWBEs are not just getting certified and obtaining contracts but that they are also developing strong and sustainable ventures, the government-mandate and goal-driven nature of the MWBE program may be a strength as well as a weakness. As effort and attention is overwhelmingly geared toward meeting the utilization goals, there is much less attention given to supporting the quality of the firms themselves. Rather than being "built to last", it is not uncommon to meet MWBEs that are undiversified from government as their only customer and that are struggling to grow due to what is often limited profitability of government contracting. And, given that only 1% of black-owned MWBEs, 1.3% of Hispanic-owned MWBEs and 2.5% of Asian-owned MWBEs received COVID-19-related emergency contracts which were released from MWBE utilization requirements, the commitment to and effectiveness of the program in supporting opportunities for minority-owned enterprises is put into question.⁸

However, the prominence of the MWBE program presents both an opportunity and a responsibility to improve small business resiliency. It's possible that just as many entrepreneurs started a business to answer the call of opportunity in government contracting as there were businesses that redirected their growth strategy to take advantage of the same. Alongside contracting goals, the MWBE program could better support the strength, stability and resiliency of these businesses by also promoting opportunities for customer diversification, helping them to be more profitable on contracts, and extending its goals to include measures of growth in business assets and scalability of operations.

Another way to address resiliency is to engage the broader and more holistic social capital that surrounds small businesses so that information can get out and resources can reach New York City's linguistically and culturally diverse communities. Currently, Small Business Development Centers (federal), Entrepreneurial Assistance Centers (state) and Business Solutions Centers (city)

⁸ Retrieved July 29th, 2020 from: <https://www.crainsnewyork.com/small-business/black-owned-firms-snubbed-city-multibillion-dollar-covid-19-contracts>

are at the forefront of delivering programs and services to the small business community. However, despite their capabilities their outreach is still limited. There is a “last mile” still to go and many businesses suffer as a result. They struggle to learn about and gain access to emergency assistance programs such as the Paycheck Protection Program or the Economic Injury Disaster Loan (Federal), the New York Forward Loan Fund (State) and the City’s Small Business Continuity Loan Program. For example, just 1% of the latter went to small businesses located in the Bronx.⁹ To ensure that small businesses, particularly those that are traditionally left out of mainstream networks, are aware of and have access to resources, a greater and unconventional set of community stakeholders must be engaged. These should include civic and cultural centers, faith-based organizations, family associations, social service centers, public schools, public libraries as well as formal and informal community leaders and representatives.

Another way to move the needle on resiliency is to reconsider how government and philanthropic funders and on-the-ground resource providers measure the outcomes of their programs and services. This is very important because this exchange of funding for impact fuels and drives the purpose of the services that small businesses receive. Currently, stakeholders measure and reward inputs and activities such as contact hours, workshops delivered, and the number of participants in programs. This is all well and good. When it comes to outcomes, common measures include the number of businesses started, certifications obtained, jobs created, contracts won and the amount of financing obtained. These are no doubt important in the life of a small business but achievement in these areas does little in terms of building resiliency. Helping small businesses to start up and grow is gratifying in the short-term but this is not the same as supporting the development of strong, stable and enduring organizations. Government and philanthropic funders and on-the-ground resource providers would do better to measure and report on whether small businesses have conducted a risk assessment, obtained proper insurances, built a cash reserve, diversified their customers and suppliers, written a disaster response plan and are ready to qualify for capital should they need it.

These are just a few examples of how New York City could reflect on the devastating impact of COVID-19 to support a stronger small business community. Another issue to examine would be financial inclusion and how to better support businesses that lack banking relationships and formal documentation such as financial statements and tax returns and are thereby unable to qualify for or access emergency assistance programs. Just because a business lacks formal documentation doesn’t mean it’s not providing jobs, supporting a household and serving a community. It’s a shame that many of these businesses will be lost as they are largely out of reach

⁹ Retrieved July 29th, 2020 from: <https://bronxjusticenews.com/less-than-1-percent-of-nyc-small-business-loans-went-to-bronx-city/>

of the formal resources in the ecosystem. What it means to meet communities halfway just needs to be continually reassessed.

A thriving small business community in New York City is not just defined by its quantities. It should also be defined by its qualities. Small business ownership is already risky. It's even more risky considering acute shocks such as 9/11, superstorm Sandy and now, COVID-19 and the chronic stresses brought on by rising rents and other factors. COVID-19 brutally laid bare how the quality of many small businesses could be described as fragile and vulnerable despite the essential role they play in our city's economy and especially in our minority communities. If we, as stakeholders of an inclusive and equitable ecosystem, would like to see that small businesses can start up, grow and endure not just as a source of a job and an income but as a form of wealth for households across all of our communities then the strength and resiliency of our small businesses should be a central concern.

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