The financial effects of the COVID-19 pandemic—and related recession—on businesses have been extreme and unpredictable, but some firms have been able to weather the storm better than others. Small businesses and microbusinesses (defined as firms with 1-9 employees and non-employer firms) have historically been the most vulnerable to financial shocks—particularly those that are relatively young, and those led by women, minority or immigrant owners. And while microenterprises are perhaps the greatest representation of the ethos of American ingenuity and entrepreneurial spirit, they have already begun to bear the greatest brunt of the liquidity and spending crisis predicated by the measures taken in response to the global COVID-19 pandemic.

With the long-term impacts to the economy still unclear and the crisis’ end indefinite, it is clear that without further financial supports through the crisis’ duration, those vulnerable businesses will be the likeliest to close permanently as a result of this crisis. This data brief shows why businesses owned by women, immigrants, and people of color were highly susceptible to an economic downturn prior to the COVID-19 pandemic. It also describes the ways those businesses have been impacted by the slowdown of economic activity in response to the pandemic, and discusses the limitations of the Congressional small business relief program and its effects on the fortunes of vulnerable businesses.

**Who owns microbusinesses?**

The majority of the over 27.2 million firms nationwide are microbusinesses, with 94% of businesses having fewer than ten employees.¹ According to the Prosperity Now Scorecard’s analysis of the latest Business Dynamics Statistics, almost one in five people in the entire labor force own a microenterprise, which is defined as a business that requires $35,000 or less in start-up capital and has five or fewer employees. The over 30 million jobs created by microbusinesses for both owners and employees provide a vital source of employment and income, as well as an opportunity for asset building.²

Demographically, microbusinesses are predominately owned by White men: almost 85% of all firms with less than 10 employees are White-owned, and 64% are male-owned. In comparison, 21.8% of all microbusinesses are solely female-owned, with an additional 14.6% owned equally by men and women.³ One in five microbusinesses in the United States are minority-owned. Nationally, only 2.4% of micro firms are Black-owned, just 6.5% are Latino-owned, and a mere 0.6% are Native American-owned.⁴ But while the number of minority-owned firms is small compared to White-owned firms, there is an increasing trend in the number of non-White entrepreneurs. The rate of new Latino
Microbusinesses were vulnerable to shocks prior to the COVID-19 pandemic.

While successful business ownership can lead to prosperity, many microbusiness owners are financially vulnerable—leaving them unprepared for crises like the nascent recession sparked by the COVID-19 pandemic. Those vulnerabilities include a low five-year survival rate, low cash flow or reserves coupled with the intermingling of business and personal finances, limited relationships with mainstream lenders or financial institutions, and discriminatory or predatory institutional practices directed toward entrepreneurs of historically marginalized backgrounds.9

Even in the strongest economic climate, a little over two-thirds of businesses survive at least two years, and only about half survive at least five years.10 And communities of color and women are subject to a cross-section of structural barriers to business ownership and growth, including lack of personal or household wealth and access to capital.

According to the most recent Scorecard analysis of the Survey of Income and Program Participation, single female-headed households have a median household net worth of only $12,805, in comparison to single male-headed households with $47,650 (right). Additionally, Black and Latino households have roughly 9 and 14 cents, respectively, for every dollar of wealth held by White households. Almost 22% of households of color have zero or negative net worth compared to 13% of White households.

These household wealth gaps further exacerbate the broader divides in business ownership. While entrepreneurs typically rely
on their own personal savings and wealth to start their businesses, sufficient lending opportunities are not obtainable for many, forcing those business owners to rely exclusively on personal capital to sustain their business, which limits growth potential. In 2016, only 61% of Black-owned firms and 74% of Latino-owned firms were approved for loan applications, while 80% of White-owned firms were approved. Additional research suggests that White business owners in their first year of operation are roughly seven times more likely to receive a bank loan than Black business owners in a similar position. Women- and minority-owned microbusinesses have average sales of about 67% to 91% of their male- or White-owned counterparts. This combination of lack of personal wealth, lower sales and inadequate access to safe credit options create an environment where it is hard to even start a small business, let alone be able to survive an unprecedented financial or liquidity crisis.

Without reserves on hand, the shock of a sustained economic crisis will be detrimental to the long-term survival of many small businesses. Microbusinesses tend to only have access to small amounts of short- and long-term savings, if any at all, which hinders their ability to maintain a measure of financial stability. According to a recent report from MetLife and the U.S Chamber of Commerce Small Business Index, only 59% of small businesses felt comfortable with their cash flow in the second quarter of 2020, compared to 80% in the first quarter. Additionally, 55% of microbusinesses with fewer than five employees are currently concerned with cash flow because of the virus, the most likely among all businesses across industry.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Female-Owned (Total: 926,042)</th>
<th>Male-Owned (Total: 2,698,680)</th>
<th>White-Owned (Total: 3,591,892)</th>
<th>Black-Owned (Total: 100,976)</th>
<th>Latino-Owned (Total: 277,627)</th>
<th>All Minority-Owned (Total: 866,501)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Professional, scientific, and technical services 160,842</td>
<td>Professional, scientific, and technical services 447,640</td>
<td>Professional, scientific, and technical services 602,867</td>
<td>Health care and social assistance 26,344</td>
<td>Construction 41,240</td>
<td>Retail trade 138,361</td>
</tr>
<tr>
<td>2</td>
<td>Health care and social assistance 149,887</td>
<td>Construction 428,461</td>
<td>Construction 509,985</td>
<td>Professional, scientific, and technical services 14,564</td>
<td>Professional, scientific, and technical services 32,085</td>
<td>Health care and social assistance 121,113</td>
</tr>
<tr>
<td>3</td>
<td>Retail trade 116,136</td>
<td>Retail trade 302,279</td>
<td>Retail trade 401,153</td>
<td>Administrative and Support, Waste Management and Remediation Services 8,152</td>
<td>Retail trade 31,413</td>
<td>Accommodation and food services 119,039</td>
</tr>
<tr>
<td>4</td>
<td>Other services (except public administration) 91,665</td>
<td>Health care and social assistance 251,689</td>
<td>Health care and social assistance 339,534</td>
<td>Retail trade 7,695</td>
<td>Accommodation and food services 26,587</td>
<td>Professional, scientific, and technical services 106,876</td>
</tr>
<tr>
<td>5</td>
<td>Accommodation and food services 71,680</td>
<td>Other services (except public administration) 178,850</td>
<td>Other services (except public administration) 257,950</td>
<td>Other services (except public administration) 6,873</td>
<td>Health care and social assistance 26,365</td>
<td>Other services (except public administration) 86,445</td>
</tr>
</tbody>
</table>

Looking back to the Great Recession—the last major economic crisis prior to the COVID-19 pandemic—microbusinesses and young businesses were the most vulnerable to major losses, contraction and closures. From 2008 to 2009, businesses that had less than ten employees and had been open for less than five years experienced a 22% employment loss, with some industries, like retail trade, reporting an employment loss of 32%. This is in comparison to firms with over 250 employees that had been established for over six years, which had only a 2% loss in employment from 2008 to 2009.17

Prior to the pandemic, minority and female business owners were likelier to anticipate grave danger for their firms if a loss of revenue were to occur. In late 2019, small firms, young firms, and firms owned by Black or Latino owners were more likely than other firms to be deemed “at risk” or “distressed” according to the Federal Reserve Bank of New York’s Small Business Credit Survey.18 The “at risk” and “distressed” categorization is determined by looking at a firm’s profitability, credit scores and retained business earnings. When the owners of firms designated “distressed” were asked how they would respond to a two-month revenue loss, almost 30% said that they would have to close or sell their business.19

How have microbusinesses fared two months into the crisis?

Two months into the nation’s social distancing response to the COVID-19 pandemic, economic activity has slowed to a crawl—or, in sectors that require interpersonal or close-quarters contact in order to operate, has ceased entirely. Recent surveys have shown the deep and immediate impact of the COVID-19 pandemic on the well-being of America’s small and microbusiness owners. According to a survey of small businesses conducted by researchers from Harvard University and the University of Chicago, nearly half of microbusinesses were closed as a result of the COVID-19 response measures, as compared to a quarter of businesses with between 100-500 employees.20 More than a third of the microbusiness owners who responded also expected to remain closed through the end of the year, as compared to 22% of businesses with between 100-500 employees.

The industries most deeply affected by social distancing measures include the food service industry, retail, and accommodation services—all of which employ women, immigrants, and racial and ethnic minorities at disproportionate rates. Of the microbusinesses in these industries, 24% are owned by women and 32% are minority-owned businesses (right).21 Immigrant small business owners, in particular, have suffered deeply as a result of the nation’s shelter-in-place orders and social distancing measures, as immigrants disproportionately own taxi service firms (65%), leisure and hospitality firms (28%), and restaurants (37%)—all industries that have experienced extreme drops in revenue since the onset of the crisis.22

Native American tribes have also been particularly susceptible to both the public health crisis and the resultant economic fallout. Tribal areas are almost uniformly rural with limited access to infrastructure and health systems, including hospitals, leaving the thousands who live within their boundaries at greater risk of dying from the novel coronavirus upon contraction.23 Tribes and tribal governments across the nation rely heavily upon the gaming and
hospitality industries to fund their operations and provide employment. In the month-plus since social distancing protocols were widely implemented, tribal areas and their surrounding regions have lost an estimated $3.0 billion in revenues and related economic activity, and nearly 300,000 people have lost work as a result.24

A survey of Black women entrepreneurs who filed for relief related to the COVID-19 pandemic suggests that nearly 90% are unable to pay themselves a sustainable income.25 Of the few who have been able to weather the crisis, 61% have done so by relying on alternative employment. Fewer than half expect to be able to sustain their business for longer than a month without direct assistance or the resumption of regular economic activity.26 This compares to roughly three-quarters of the small business owners who responded to the Harvard and University of Chicago survey.27

**What has been the institutional response to the crisis?**

Through the end of March 2020 (the end of the year’s first quarter), the United States’ gross domestic product (GDP) had already contracted by a 4.8% annual rate, with experts predicting further declines to reach 30% or more.28 Federal institutions have responded to this unprecedented freeze in economic activity through two primary mechanisms. In late March, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act in response to the budding economic crisis precipitated by the nation’s pandemic response. In conjunction, the Federal Reserve announced a series of relief and liquidity measures, including the early April creation of the Main Street Lending Program, which would back trillions of dollars of provisions in the CARES Act.29

The component of the CARES Act with the greatest implications for Main Street businesses across the country was the Paycheck Protection Program (PPP), a major federal initiative intended to help struggling small businesses access safe lending opportunities. Just days after its implementation, however, the PPP disbursement had already reached capacity, with the program already showing signs of disparate impact and an unequal distribution of funds favoring already wealthy or highly-capitalized firms.

Per the Small Business Administration’s rationale, financial institutions were deputized by the CARES Act to handle the disbursement of emergency funds to small businesses, to ensure that the funds allocated through the PPP were distributed as expeditiously as possible.30 As a result, individual lenders had full discretion over the criteria used to approve loan applications, and ultimately distributed funds to larger businesses or corporations with which they had prior lending relationships, or with whom they conducted other forms of business. In some cases, even small business owners who had an existing relationship with a lender were found ineligible by their bank if they had co-existing relationships with a competitor.31 Further, demand for the relief offered by the program has been at such great scale, and the state of individual institutions’ internal processes and infrastructure was so varied, that lenders’ systems were quickly overwhelmed.

Thousands of eligible businesses were thus left out in the cold before they even had a chance to submit completed applications, with some lenders reaching capacity before others began accepting applications.32 The terms governing relief eligibility were so broad that publicly-traded corporations with thousands of employees nationwide and annual revenue in the hundreds of millions were able to access the PPP’s small business loans33, resulting in just 4% of loan recipients receiving upwards of 44% of the total dollars approved through the first round of funding.34 While public outcry resulted in the second round of funding prioritizing smaller businesses and lenders, the highest-income firms, representing less than 1% of total approved applications, ultimately received over 27% of approved funds from the second wave.35 Ultimately, the Small Business Administration’s internal analysis of the program’s rollout concluded that the lack of guidance directing lenders to prioritize underserved borrowers and markets resulted in a loan distribution that skewed heavily toward larger, non-minority-owned businesses.36
Given the rampant discrimination still present in the lending market\(^7\), these governing protocols have left minority-owned microbusinesses—which are considerably less likely to have existing relationships with major financial institutions or other mainstream lenders, or to be identified as being “in sound financial condition”—unable to access even the emergency funds’ distribution channels, let alone the funds themselves. With this knowledge, the Center for Responsible Lending predicts that roughly 95% of Black-owned non-employer firms and 91% of Latino-owned non-employer firms will not be able to receive a PPP loan though a mainstream bank or credit union.\(^8\)

**Conclusion**

The response to the COVID-19 crisis has shown that as insufficient as the social safety net has been for the country’s most vulnerable residents, the safety net for its smallest, most vulnerable businesses is even less effective. With thousands of American businesses unable to conduct their operations to the same degree as just months prior, the best solution our elected officials have implemented to protect those businesses thus far is a lending program that many have been unable to access.

The policy and administrative responses implemented by Congress and the Federal Reserve System have been wholly insufficient in mitigating the impact of the crisis, and have forced America’s small businesses, households and workforce to shoulder the primary risk of a potential economic collapse. Businesses led by women, racial and ethnic minorities, and non-White immigrants are smaller scale in terms of employee count, payroll, sales or receipts, and startup capital, and are thus at greater risk of contraction and closure as a direct result of the burgeoning economic crisis. When vulnerable small businesses close, not only are sources of income and wealth building lost for the business owner—a vital source of employment is lost for individuals and communities alike. And during a contraction of the global economy, it is unlikely that there will be open employment or lending opportunities available to the unemployed to pick up the slack, or to spur further entrepreneurial activity.

Further availability of emergency relief will go a long way toward determining which businesses will still exist once the economy fully reopens. By expanding access to long-term savings, making permanent the expansion of unemployment insurance, providing further emergency revenue or payroll protection, and making capital more readily available throughout this crisis, our elected officials can ensure that the diversity and productive capacity of the national economy is maximized upon its restart. But an economic relief plan that does not center the needs of America’s microbusinesses—those with fewer than five employees, sole proprietorships, and those that require just a couple thousand dollars in start-up capital or operating expenses—cannot and will not lead to recovery. A crisis response that leaves our nation’s smallest businesses, and its women-, minority- and immigrant-owned businesses, to fend for themselves, shutter or liquidate, or to fall victim to predatory lenders or corporations will result in a far deeper and more protracted recession than the American public can tolerate.
About Prosperity Now

Prosperity Now (formerly CFED) believes that everyone deserves a chance to prosper. Since 1979, we have helped make it possible for millions of people, especially people of color and those of limited incomes, to achieve financial security, stability and, ultimately, prosperity. We offer a unique combination of scalable practical solutions, in-depth research and proven policy solutions, all aimed at building wealth for those who need it most.

2 Ibid.
4 Ibid.
14 Williams & Wiedrich. (April, 2014)
16 Ibid.
19 Ibid.
22 Dyssegaard Kallick & Parrot. (June 2012).


Ibid.

Bartik, et al. (April 2020).


Board of Governors of the Federal Reserve System (April 9, 2020). “Federal Reserve takes additional actions to provide up to $2.3 trillion in loans to support the economy.” Accessed April 30, 2020 at: https://www.federalreserve.gov/newsevents/pressreleases/monetary20200409a.htm


Ibid.


Table 1 Note: “Professional, Scientific, and Technical Services” is defined as establishments that require a high degree of expertise and training, and includes legal representation, bookkeeping, advertising services, etc. “Administrative and Support and Waste Management and Remediation Services” includes establishments that perform routine support activities for day-to-day operations for other organizations, including office administration, hiring personal, and cleaning services. “Other Services (Except Public Administration)” includes establishments engaged in services not specifically within the classification system including equipment and machinery repairing, religious activities, advocacy, and private household workers. For more detailed definitions of sectors visit: https://www.census.gov/glossary/.