



Troubled Small Business Relief Program a Stopgap Measure

More steps needed to support small businesses and their employees.



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Among the myriad fiscal responses to the coronavirus pandemic, perhaps none has received more attention in the United States than the federal programs for small businesses. There's good reason.

Small businesses serve as a critical source of economic growth and job creation in the United States, accounting for nearly half of national employment and 43.5% of the nation's gross domestic product, according to the Small Business Administration (SBA). Moreover, it has become clear that small businesses are being disproportionately impacted by the pandemic. Small businesses account for 38% of total business receipts; but in the hard-hit food and beverage services industry, they account for 65% of the total receipts. Systemic shocks and secular stress created by the pandemic will result in closures of businesses that were otherwise healthy.

In response to the economic pain inflicted by the coronavirus pandemic, the federal government provided small business relief through two separate bills. The landmark Coronavirus Aid, Relief, and Economic Security (CARES) Act funded USD 349 billion in low-interest loans for small businesses through the Paycheck Protection Program (PPP). With resources rapidly diminished



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by overwhelming demand, Congress authorized an additional USD 310 billion in a separate bill.

But as attractive as they are, PPP loans have been challenging to administer and implement. The program allows small businesses with fewer than 500 employees or certain franchises the ability to receive loan forgiveness for proceeds, provided 75% of the loan amount is used to cover eight weeks of payroll costs. The balance can finance certain operating expenses such as mortgage interest and utilities. The loan limit is USD 10 million with a fixed 1% interest rate and maturity of two years.

Building the Plane as It Flies: The Trouble With Scaling Quickly

The PPP has suffered from the dual problems of scale and execution. The SBA covered nearly 14 years of loan issuance within the program's first 14 days, according to the U.S. Treasury

USD 659 billion

The amount Congress has authorized for small business loans under the Paycheck Protection Program.

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Department. The massive level of demand forced SBA employees to quickly ramp up operations while working remotely due to virus mitigation measures.

Additionally, the Treasury took several weeks to iron out the wrinkles in the legislation that affected key players, like franchise owners and private-equity-backed firms. This delay led to flaws in the program's rollout.

Due to the SBA's reliance on approved private sector lenders to administer these loans, banks held liability for claims of fraud or misuse of funds. This risk incentivized banks to favor existing clients, which limited the number and kinds of businesses with access to relief.

The Treasury and the SBA also encountered political scrutiny for two additional problems: the approval of small business loans for large, public companies with access to private capital and companies in electoral swing states receiving a disproportionate number of loans compared with companies in non-swing states.

Future Support

The SBA and the Treasury have hired more employees to administer the program and provided needed guidance on executing loans. Congress replenished the CARES Act funding that quickly ran dry and earmarked funds to financially underserved businesses with the fewest number of employees. The Treasury also issued a payback provision mandating that publicly traded companies return their PPP loans.

We expect Congress to add additional funding measures for the SBA beyond the program's July 31 expiration date and to create more targeted funding sources—particularly for small firms in need of liquidity. Small business funding is largely supported by both main political parties, which should propel additional stimulus efforts. However, more stringent guidelines on future loans appear likely, especially given that the federal government is learning from its massive expansion of the PPP in real time.

However, while the PPP will mitigate issues for many businesses, the program is not likely to prevent small business collapse amid a lengthy period of suppressed demand.

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