

Responding to COVID-19: Addressing the economic impact of the crisis

Information for US state leaders

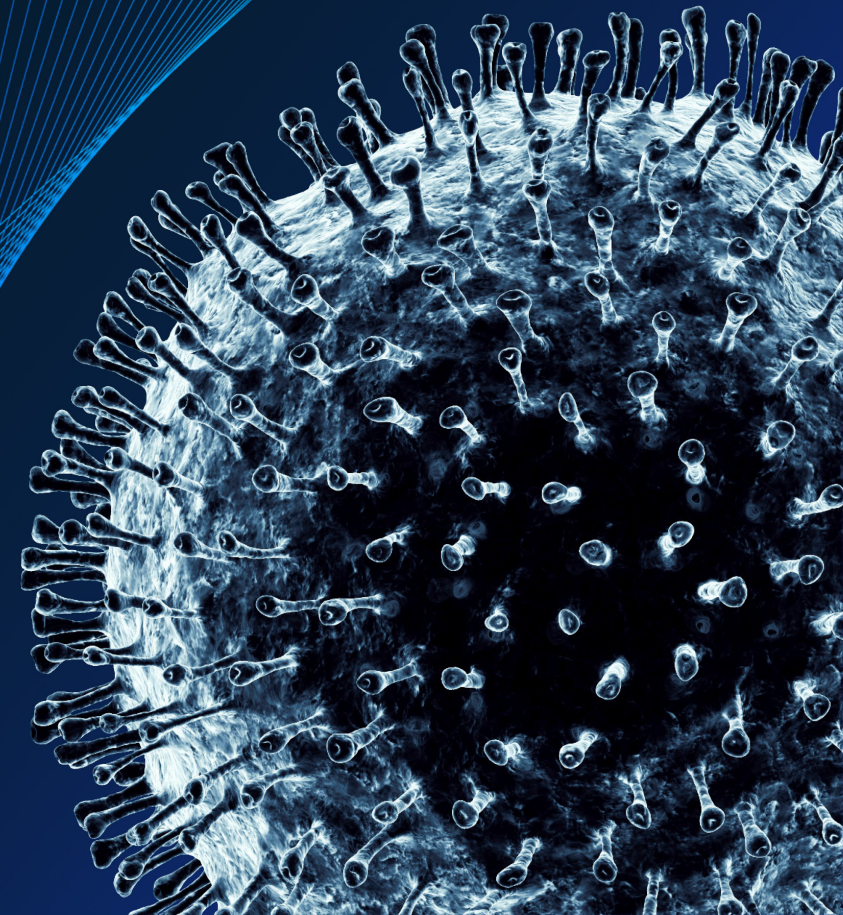
ALL INFORMATION CURRENT ONLY AS OF 4/17/2020

THIS DOCUMENT IS INTENDED SOLELY TO PROVIDE
INSIGHTS AND PRACTICES.

THIS DOCUMENT DOES NOT CONSTITUTE ADVICE.

CONFIDENTIAL AND PROPRIETARY

Any use of this material without specific permission of McKinsey & Company
is strictly prohibited



Introduction

CONFIDENTIAL AND PROPRIETARY
Any use of this material without specific permission
of McKinsey & Company is strictly prohibited

COVID-19 is, first and foremost, a global humanitarian challenge

Thousands of health professionals are risking their own lives to heroically battle the virus. Governments and industry are working together to understand and address the challenge, support victims and their families and communities, and search for treatments and a vaccine.

State and local governments are facing an unprecedented and rapidly evolving situation

Government leaders, first responders, healthcare workers, and more are displaying heroic leadership in the face of the crisis. State and local governments are facing the extraordinarily difficult task of addressing unprecedented crises in both public health and the economy simultaneously—and the crises continue to evolve daily.

This document is based on our work with private, public, and social sector organizations around the world

It is meant to provide leaders with information as they respond to the unique health and economic challenges posed by COVID-19, and to offer examples of actions that governments have taken as they aim to protect their people and economies. It is not exhaustive, and it necessarily reflects only this moment in time. We will continue to update it regularly in the weeks to come.

The imperative of our time

Imperatives

1

Safeguard our lives

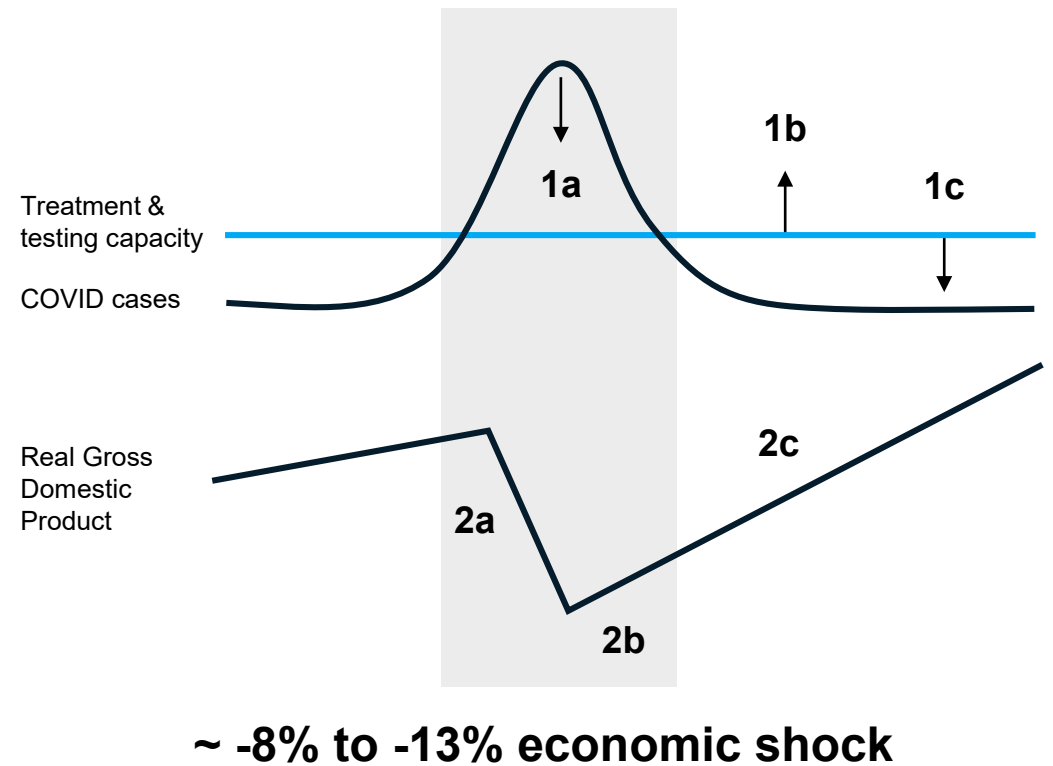
- 1a. **Suppress the virus** as fast as possible
- 1b. **Expand treatment and testing capacity**
- 1c. **Find cures:** treatment, drugs, vaccines

2

Safeguard our livelihoods

- 2a. **Support people and businesses** affected by lockdowns
- 2b. **Prepare to get back to work safely** when the virus abates
- 2c. **Prepare to scale the recovery** away from a -8% to -13% trough¹

“Timeboxing” the virus and the economic shock



CONFIDENTIAL AND PROPRIETARY

Any use of this material without specific permission of McKinsey & Company is strictly prohibited

1. Real GDP

Safeguard our livelihoods: Assessing and responding to the economic impact of the crisis

The COVID-19 epidemic will likely continue to put significant pressure on each state's economy, people, and businesses

The macroeconomic impact of COVID-19 could exceed anything since the end of WWII. Unemployment across the United States is expected to rise, with an estimated 57 million¹ jobs (38% of total employment¹) potentially at risk. Low income workers may also be disproportionately affected, with an estimated 74% of job losses¹ hitting workers earning below \$40,000 a year.

There are a number of examples of internal actions state leaders may consider to prepare to effectively implement federal relief and fiscal recovery efforts

States may consider taking several potential actions to prepare for effective implementation of federal relief and fiscal recovery efforts. State officials can execute “Day 1” possible actions, from coordinating with federal agencies to preparing operations, that will provide a roadmap for leading the state through the crisis.

Leaders can consider several economic intervention strategies in the near and long term to address the economic challenges faced by the state's people and businesses

Four potential types of economic intervention efforts may be considered during different stages of the crisis. Leaders can consider immediate efforts to stabilize and provide relief to people and businesses.

Small businesses may feel the effects most deeply and benefit from targeted relief efforts

More than a third of vulnerable jobs across the United States may be in small businesses.¹ With a median of only 27 cash buffer days,² the typical small business has a low margin of error in unexpected economic shocks. Leaders may consider immediate actions for small businesses to provide relief.

CONFIDENTIAL AND PROPRIETARY

Any use of this material without specific permission of McKinsey & Company is strictly prohibited

1. Source: McKinsey vulnerable occupations analysis (sources are LaborCUBE, BLS Occupational Employment Statistics, Moody's Analytics, McKinsey Global Institute analysis)
2. Source: “Cash is King: Flows, Balances, and Buffer Days. Evidence from 600,000 Small Businesses.” JP Morgan Chase & Co Institute. September 2016.

Table of contents: Safeguard our livelihoods

Assessing and responding to the economic impact of the crisis

The scale of the problem

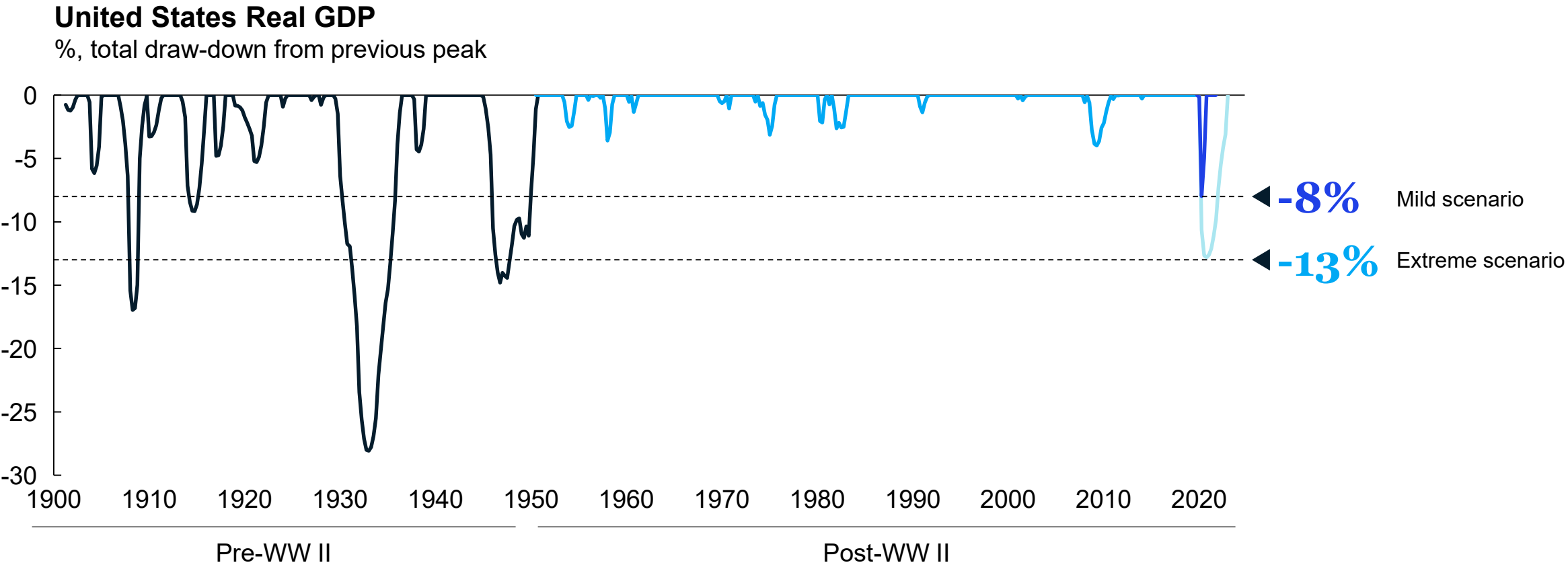
Effective implementation of relief and fiscal recovery efforts

Examples of economic interventions

Support to small businesses

COVID-19 US impact could exceed anything since the end of WWII

AS OF APRIL 3, 2020



CONFIDENTIAL AND PROPRIETARY
Any use of this material without specific permission of McKinsey & Company is strictly prohibited

Some of the hardest-hit sectors may see lasting impact

AS OF APRIL 2, 2020

	Commercial Aerospace	Air & Travel	Oil & Gas	Automotive	Insurance Carriers
Avg. stock price change¹	-46%	-44%	-42%	-29%	-29%
Industry-specific examples	<p>Preexisting industry conditions, challenges with airlines' balance sheet resilience, and high fixed costs are causing near-term cash flow issues and long-term growth uncertainty</p> <p>It may take years to recover from production and supply-chain stoppages, due to critical vendors located in areas affected by the virus and liquidity challenges, especially amongst Tier 3 suppliers</p> <p>Long order backlogs are mitigating some concerns, especially on narrow body aircraft, though widebody demand could be structurally affected in the near term</p>	<p>Deep, immediate demand shock is 5–6 times greater than Sept 11; about 70%–80% near-term demand erosion is due to int'l travel bans and quarantines now prevalent in 130+ nations</p> <p>Northern hemisphere summer travel peak season has been and will be deeply affected since pandemic fears are coinciding with peak booking period</p> <p>Recovery pace likely will faster for domestic travel (~2–3 quarters) and slower for long-haul and int'l travel (6+ quarters)</p>	<p>Oil price decline is driven by both short-term demand impact and supply overhang from OPEC+ decision to increase production</p> <p>Oversupply is expected to remain in the market even after demand recovery, and post 2020, unless OPEC+ decides to cut production</p>	<p>Existing vulnerabilities (eg, trade tensions, declining sales) have been amplified by an acute decline in global demand; Mar 26 survey of US auto consumers indicates 70% of car buyers are deferring by ~6 months or are no longer intending to purchase</p> <p>Despite ongoing Chinese economic restart, there is continued supply chain and production disruption as majority of EU and US OEMs have temporarily closed plants, and Hubei manufacturing remains at ~50% capacity</p>	<p>U.S. insurers have been strongly affected, especially reinsurers and life & health insurers</p> <p>Reduced interest rates and investment performance are affecting returns – esp. for longer-tail lines“</p> <p>Disruptions are expected in new business and underwriting processes due to dependence on paper applications and medical underwriting</p>

CONFIDENTIAL AND PROPRIETARY

Any use of this material without specific permission of McKinsey & Company is strictly prohibited

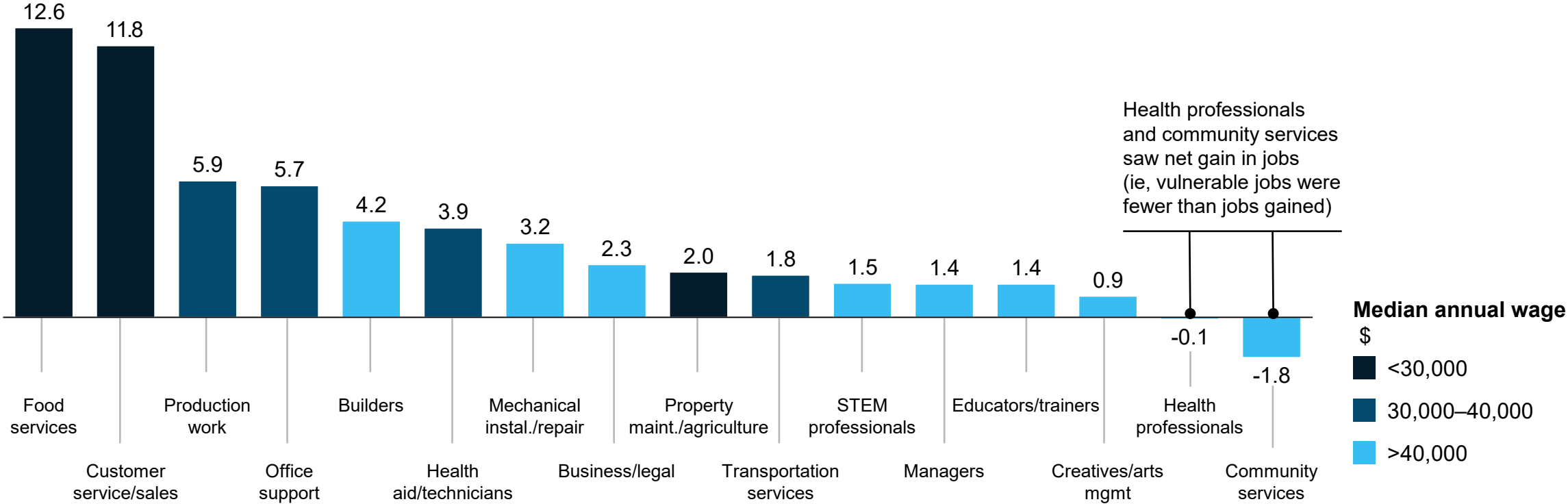
1. In last 30 days for selected sector indices

There may be an estimated \$57 million vulnerable jobs due to the crisis concentrated in food service, customer service, and production work

AS OF APRIL 22

Vulnerable jobs by occupational category

millions



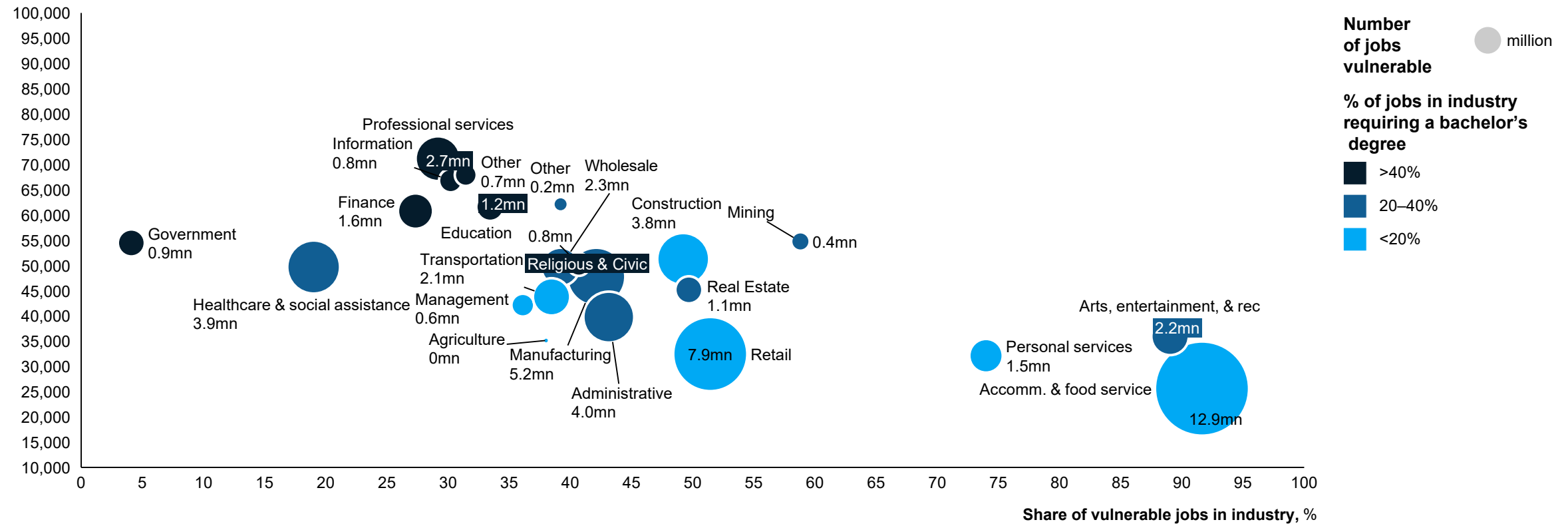
CONFIDENTIAL AND PROPRIETARY
Any use of this material without specific permission of McKinsey & Company is strictly prohibited

Note: Vulnerable jobs are those estimated to be furloughed, laid-off, or otherwise unproductive (eg, kept on payroll but not working) during periods of high social distancing (stay-at-home policy enacted and non-essential businesses closed)
Note: Negative number of net vulnerable jobs indicates that vulnerable jobs in the sector were fewer than jobs gained

Industries with the lowest wages and the lowest educational attainment may be hit hardest

AS OF APRIL 22

Median earnings in industry USD



CONFIDENTIAL AND PROPRIETARY

Any use of this material without specific permission of McKinsey & Company is strictly prohibited

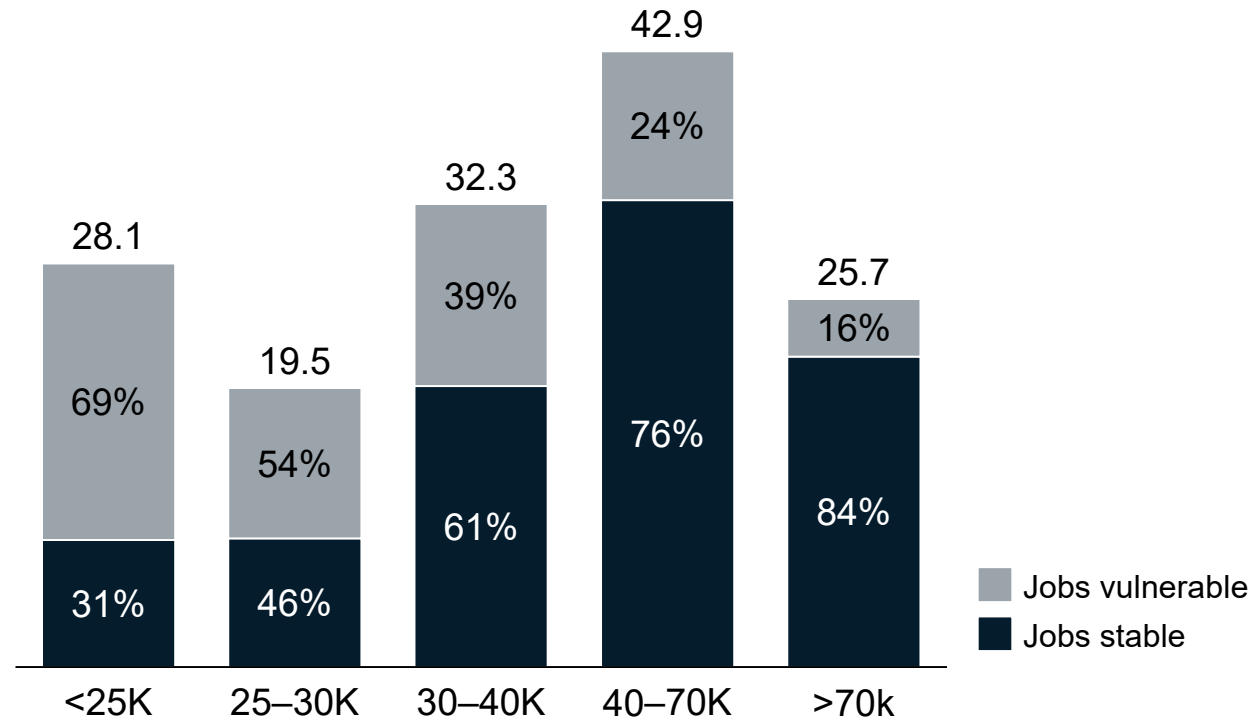
Note: Vulnerable jobs are those estimated to be furloughed, laid-off, or otherwise unproductive (eg, kept on payroll but not working) during periods of high social distancing (stay-at-home policy enacted and non-essential businesses closed)

Source: LaborCUBE; McKinsey Global Institute analysis

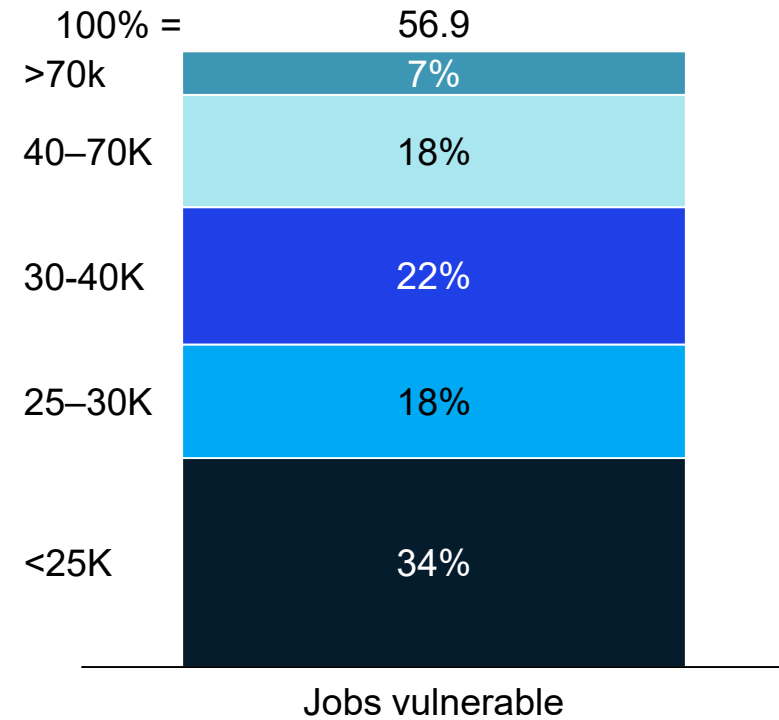
Seventy-four percent of vulnerable jobs pay less than \$40,000 a year

AS OF APRIL 22

Level of job vulnerability by income band
millions of jobs



Vulnerable jobs by income band
millions



CONFIDENTIAL AND PROPRIETARY

Any use of this material without specific permission of McKinsey & Company is strictly prohibited

Note: Vulnerable jobs are those estimated to be furloughed, laid-off, or otherwise unproductive (eg, kept on payroll but not working) during periods of high social distancing (stay-at-home policy enacted and non-essential businesses closed)

Table of contents: Safeguard our livelihoods

Assessing and responding to the economic impact of the crisis

The scale of the problem

Effective implementation of relief and fiscal recovery efforts

Examples of economic interventions

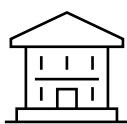
Support to small businesses

States can focus on five areas to implement federal relief and fiscal recovery efforts¹



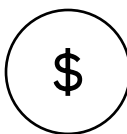
Prepare leaders

Create accountability while also maintaining agility



Coordinate with federal agencies

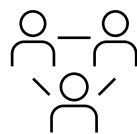
Stay on top of details for distribution and compliance



Understand financial implications

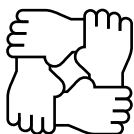
Ensure you have the ability to receive and allocate dollars as they come your way

Adapt budget to “new normal”



Prepare operations

Get relief to those who need it as efficiently and effectively as possible



Communicate and connect

Make sure all internal and external stakeholders are aware of benefits and expectations

CONFIDENTIAL AND PROPRIETARY
Any use of this material without specific permission of McKinsey & Company is strictly prohibited

1. These are intended to be actions for consideration rather than a specific set of recommended actions

States can consider several potential actions over 3 time horizons¹

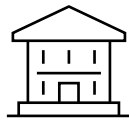
Immediate potential actions



Prepare leaders

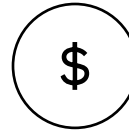
Appoint fiscal recovery “tsar,” likely within the emergency ops center

Establish single point of contact in each agency



Coordinate with federal agencies

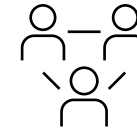
Reach out to federal agencies’ points of contact to establish lines of communication



Understand financial implications

Track emergency costs already authorized

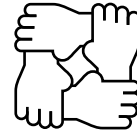
Assess immediate spikes in economic and social support programs



Prepare operations

Redeploy staff to services experiencing surge in demand

Begin stress-testing IT systems



Communicate and connect

Build a one-stop web portal detailing all available state services and updated eligibility guidelines

Establish a hotline and/or chatroom

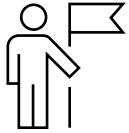
CONFIDENTIAL AND PROPRIETARY

Any use of this material without specific permission of McKinsey & Company is strictly prohibited

1. These are intended to be actions for consideration rather than a specific set of recommended actions

States can consider several potential actions over 3 time horizons¹

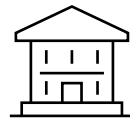
Near-term potential actions



Prepare leaders

Shift controls to support agile operating model and increase decision-making authority on front line

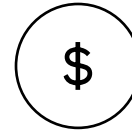
Set up weekly stand-ups with tsar and agency leads to troubleshoot distribution challenges



Coordinate with federal agencies

Track agency-level appropriations as rule-making proceeds

Review applications, deadlines to recoup funds, and compliance



Understand financial implications

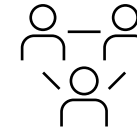
Create dashboard to understand demand spikes by need and geography

Simulate financial scenarios to evaluate if other funding sources will be required

Set up cash-management war room, ie, liquidity analyses and identification of working capital

Map emergency costs with Fed fund injections

Evaluate mid-year austerity levers and adjustments to subsequent fiscal-year budget



Prepare operations

Plan and launch rapid hiring event to meet demand

Work with vendors to maximize surge capacity

Evaluate and upgrade IT systems

Introduce automatic conditional approval to process initial claims, with post facto fraud prevention

Smooth service demand where possible, eg, assigning time slots for certain filings



Communicate and connect

Require agencies to submit outreach strategies to ensure aid dollars reach all constituents

Revamp outreach for vulnerable populations not being reached by federal aid

CONFIDENTIAL AND PROPRIETARY

Any use of this material without specific permission of McKinsey & Company is strictly prohibited

1. These are intended to be actions for consideration rather than a specific set of recommended actions

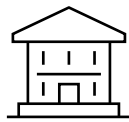
States can consider several potential actions over 3 time horizons¹

Medium- and long-term potential actions



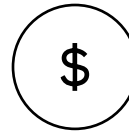
Prepare leaders

Appoint “transformation officer” to stand up and lead a fiscal transformation office, which will sit outside of emergency ops center



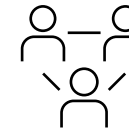
Coordinate with federal agencies

Manage reimbursement procedures with federal agencies
Review options with any unspent funds



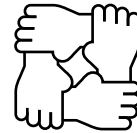
Understand financial implications

Stress test budget for the next fiscal year
Reassess revenue-collection operations
Launch cost efficiency and operational diagnostics for longer-term savings
Investigate additional revenue streams for longer-term savings



Prepare operations

Digitize and automate processes
Streamline business processes and org structures, eg, review spans and layers
Evaluate opportunities to build partnerships with private-sector firms for program delivery
Recalibrate fraud-detection mechanisms



Communicate and connect

Connect citizens to partners, eg, private-sector banks and online portals
Communicate transformation office goals internally to state agencies

CONFIDENTIAL AND PROPRIETARY

Any use of this material without specific permission of McKinsey & Company is strictly prohibited

1. These are intended to be actions for consideration rather than a specific set of recommended actions

States may consider potential “Day 1” actions to prepare¹

NON-EXHAUSTIVE

Prepare leaders

Appoint “relief officer” to coordinate across agency leaders. This appointee should be of senior enough stature (eg, a deputy chief of staff or chief operating office) to convene principal-level leaders in each responsible agency

Establish a relief response lead in each agency. Often a deputy commissioner or secretary, this leader will be the agency’s point person for managing the response (including federal agency interaction) for the department

Coordinate with federal agencies

Track agency-level rule-making/appropriations—tools like Federal Funds Information for States provide agency leaders with real-time information on disbursements and restrictions

Reach out to federal agencies by having agency-level leads contact regional/state offices; in doing so, encourage them to establish a protocol to keep steady lines of communication as resources go online

Centrally track applications and deadlines required by various federal agencies to recoup qualified expenditures or receive upfront payments

Understand financial implications

Project demand for government benefits, such as SNAP and UI, to evaluate both financial impact but also operational considerations

Identify sources of working capital (eg, emergency reserve appropriations) at the agency level to fund surges of expenditure before federal funds are available (particularly in case of reimbursement programs)

Begin allocation process cataloguing the existing programs, municipalities, and non-governmental agencies that will be the ultimate recipient of many funding streams; start discussion on distribution criteria and application processes before funds are available

Augment fraud, waste, and abuse controls, particularly for programs with new eligibility requirements

Prepare operations

Redeploy staff to areas of higher demand and to alleviate bottlenecks in stimulus distribution; state and local governments might even consider augmenting full-time employees with structurally unemployed workforce as a means of further economic stimulus

Test systems that are likely to experience record levels of use (eg, unemployment, SNAP)

Evaluate and upgrade IT infrastructure, including use of third-party vendors to accelerate capabilities

Communicate and connect

Build a one-stop web portal for individuals, businesses, and community organizations seeking information with clear, up-to-date links to state and federal resources (run through the relief officer)

Establish a hotline to support agencies in addressing relief-related questions

Require agencies to submit strategies to reach relevant segments (eg, loan recipients eligible for relief)

CONFIDENTIAL AND PROPRIETARY

Any use of this material without specific permission of McKinsey & Company is strictly prohibited

1. These are intended to be actions for consideration rather than a specific set of recommended actions

States may consider potential guiding principles for disseminating federal funds and aid to state agencies, third parties, and individuals¹

In our experience, there are four principal criteria to approach disbursement of relief funds from a fiscal lens



Get money flowing quickly

Get money into the hands of citizens and businesses as quickly as possible



Protect the vulnerable

Ensure relief reaches subsets of the population with the highest need



Prioritize highest liquidity

Direct liquidity at the populations mostly likely to spend in the near term to maximize the economic multiplier



Design for compliance and transparency

Monitor live programs to evaluate efficacy and reduce fraud, waste, and abuse; create channels to publish results

CONFIDENTIAL AND PROPRIETARY
Any use of this material without specific permission of McKinsey & Company is strictly prohibited

1. These are intended to be actions for consideration rather than a specific set of recommended actions

States can consider several potential trade-offs as they prepare for implementing the relief programs

States could craft a unified message of how to weigh guiding principles when they are in conflict

Principles to weigh	Description	Questions to consider
Speed vs Precision	Getting dollars into the economy quickly vs spending time to identify the highest ROI program (in both economic and humanitarian terms)	What are the high ROI programs the state can put money into today? Who could help identify additional stimulus/relief opportunities?
Speed vs Compliance	Releasing funding quickly and directly vs. carefully implementing program-management best practices (eg, around measurement, mitigating leakage, and transparency)	Where do funding streams introduce new eligibility standards or program designs that will create opportunities for flexible work arrangement (FWA)? Where are we willing to raise our risk threshold and where do we have to draw a hard line?
Magnitude economic impact vs Equity	Prioritizing support to areas with highest economic multiplier vs. ensuring funds are equitably distributed among state population (including to vulnerable/hard-to-reach populations)	Have we identified the most vulnerable populations and ensured programs exist to address their needs? Have we identified which programs will create the highest liquidity?

Table of contents: Safeguard our livelihoods

Assessing and responding to the economic impact of the crisis

The scale of the problem

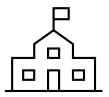
Effective implementation of relief and fiscal recovery efforts

Examples of economic interventions

Support to small businesses

Senior leaders may consider economic interventions for both the immediate and long term¹

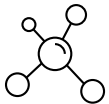
Design principles for immediate interventions



Minimize job separations wherever possible to keep individuals in the labor market, in particular for separations at risk of being permanent



Prioritize measures to maintain the financial stability of at-risk populations and businesses

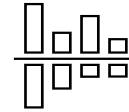


Ensure interventions support workers critical to the provision of care (eg, target relief to healthcare and other front-line workers)

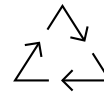


Prioritize interventions that are easy to operationalize and have a high return on investment (eg, high fiscal multiplier, proven outcomes)

Design principles for long-term interventions



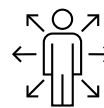
Take a fact-based approach to understanding expected long-term economic impact in prioritizing sectors, regions, and populations



Prioritize measures that have multiple reinforcing benefits (eg, re-employing people supported by unemployment benefits)



Be prepared for future waves of interventions as the situation is rapidly evolving



Find the “opportunity in the crisis” to advance bold moves/strategies that previously may have faced inertia

All economic interventions are and will continue to be dependent on the success of public health interventions and efforts to “flatten the curve”

CONFIDENTIAL AND PROPRIETARY

Any use of this material without specific permission of McKinsey & Company is strictly prohibited

1. These are intended to be actions for consideration rather than a specific set of recommended actions

States can help business and people with four types of economic efforts

	1	2	3	4
	Relieve	Restart	Recover	Reimagine
Goal	Focus on economic survival by ensuring critical needs of people and businesses are met	Restore confidence in economic activity when public health conditions are in place and lasting interventions provide for continued safety	Return aggregate demand to pre-crisis levels and set a trajectory of inclusive growth for the economy, restoring commerce and confidence	Reshape and transform sector strategies, operating models, and new ways of learning and working to ensure resilience and growth in a post-pandemic economy
Implementation	Minimize job separation, deploy financial and other supports immediately to households and businesses	Establish and clearly communicate “open when ready” guidelines and policies by sector and geography (for businesses)	Stimulate demand and long-term growth (eg, large-scale infrastructure programs) and ensure competitive talent pool (eg, reskilling programs)	Incentivize the growth of emerging post-pandemic businesses and support the most disrupted sectors, geographies in reinventing themselves

CONFIDENTIAL AND PROPRIETARY
Any use of this material without specific permission of McKinsey & Company is strictly prohibited

Relieve: State leaders may consider several examples of economic interventions others have taken to help people and businesses (1/4)¹

NON-EXHAUSTIVE



People

Employment

Subsidize employees' salaries (full or partial) for a period of time to prevent widespread layoffs

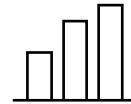
Match workers with businesses experiencing surges— including matching workers to high-demand critical sectors in new roles and matching workers to currently high-demand lateral roles

Ease barriers to go to work

Critical expenses

Suspend automatic shutoffs of essential residential utilities

Halt residential foreclosures (eg, moratorium)



Business

Liquidity support

Support real-estate-related interventions to assist small and medium businesses (SMBs)

Provide immediate tax relief for SMBs and businesses in food/hospitality/travel

Ensure additional support for self-employers who may not have access to cash and traditional corporate benefits

Provide state intervention in accounts receivable

Federal relief management

Immediately create response center to allow for smooth administration of federal CARES funds and develop plan for mass communications to affected parties (eg, SMBs)

CONFIDENTIAL AND PROPRIETARY

Any use of this material without specific permission of McKinsey & Company is strictly prohibited

1. These are intended to be actions for consideration rather than a specific set of recommended actions

Restart: State leaders may consider several examples of economic interventions others have taken to help people and businesses (2/4)¹

NON-EXHAUSTIVE



People

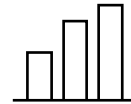
Employment

Rapidly retrain displaced workers to switch to jobs with lower barriers to entry/in high demand due to COVID-19

Quality of life

Give consumers more immediate disposable income through individual loan/grant programs

Create public-health notices and guidance to address fears around delivery and take-out



Business

Most at-risk (SMBs, retail, food)

Purchase goods and services directly from businesses experiencing revenue loss

Encourage communities to support small businesses

Health and regulatory

Give clear guidelines on clear criteria for resuming operations, as well as best practices

Large corporations

Systemically ease mid-term regulatory burdens

Encourage, with public gratitude or other publicity efforts, larger business supporting small businesses

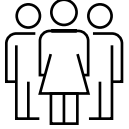
CONFIDENTIAL AND PROPRIETARY

Any use of this material without specific permission of McKinsey & Company is strictly prohibited

1. These are intended to be actions for consideration rather than a specific set of recommended actions

Recover: State leaders may consider several examples of economic interventions others have taken to help people and businesses (3/4)¹

NON-EXHAUSTIVE



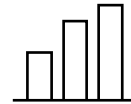
People

Employment

Administer training programs or provide employers training subsidies to re/upskill workers whose jobs see structural changes

Provide allowances for employee-training programs and incentives for unemployed workers to reskill

Identify shovel-ready infrastructure that can be fast-tracked to increase employment opportunities and support long-term infrastructure health and resiliency



Business

Most at-risk (SMBs, retail, food)

Help local businesses navigate digital marketplaces and work with tech companies to aid transition

Engage local chambers of commerce in supporting the growth of small businesses

Rethink regulations to support independent contractors and other unconventional business owners

Large corporations

Work with largest employers headquartered in state/city to ensure co-prioritization of major regional players in leading the way

Holistic economy

Assess intersection of economic and health effects by sector in order to return to stable and sustainable growth patterns

Continue to support the hardest-hit sectors (travel, hospitality) while also ensuring that other core sectors are not left behind

CONFIDENTIAL AND PROPRIETARY

Any use of this material without specific permission of McKinsey & Company is strictly prohibited

1. These are intended to be actions for consideration rather than a specific set of recommended actions

Reimagine: State leaders may consider several examples of economic interventions others have taken to help people and businesses (4/4)^{1, 2}

NON-EXHAUSTIVE



People

Employment

Create state or regional “transition hubs” in partnership with training providers and employers

Map adjacent jobs/careers based on shared or similar skills

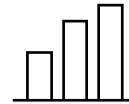
Critical expenses

Incorporate thinking around direct cash payments, SMB-oriented grants, and other enacted interventions into long-term policymaking

Infrastructure

Build digital infrastructure for enabling remote work via investments to upgrade public-sector systems

Invest in infrastructure and achieving "next-gen" infrastructure such as clean energy, widespread 5G, and IoT-connected transportation



Business

SMBs

Upgrade how SMBs work and their role in state economy

Holistic economy

Critically explore supply chains through resilience lenses

Reconsider public-health infrastructure, requirements, and norms for most at-risk sectors

Rethink how core sectors like education, tourism, and leisure can be transitioned to virtual interaction

CONFIDENTIAL AND PROPRIETARY

Any use of this material without specific permission of McKinsey & Company is strictly prohibited

1. Example actions from past crises
2. These are intended to be actions for consideration rather than a specific set of recommended actions

Table of contents: Safeguard our livelihoods

Assessing and responding to the economic impact of the crisis

The scale of the problem

Effective implementation of relief and fiscal recovery efforts

Examples of economic interventions

Support to small businesses

SMBs stand to face disproportionately high levels of adverse impact due to COVID-19



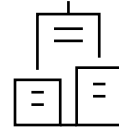
Critical to US economy

SMBs comprise **99.9% of all US businesses** by number (31.8 million)

80% are self-employed businesses

SMBs collectively employ **~85 million Americans**; roughly 9% are veteran-owned entities

Account for ~44% of economic activity and create two-thirds of new jobs

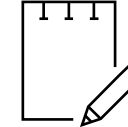


Uniquely vulnerable

Small businesses hold **relatively little cash on hand**: Median have a 27-day cash buffer, with 25% of SMBs holding a cash buffer of less than 13 days' expenses

High prevalence of SMBs in **heavily impacted sectors** (eg, food and beverage, services)

Potential **direct health impacts** to proprietors of SMBs, ~60% of whom are >45 years old



Unprecedented need

Federal relief package has created **orders of magnitude** more demand than SBA has had to deal with previously

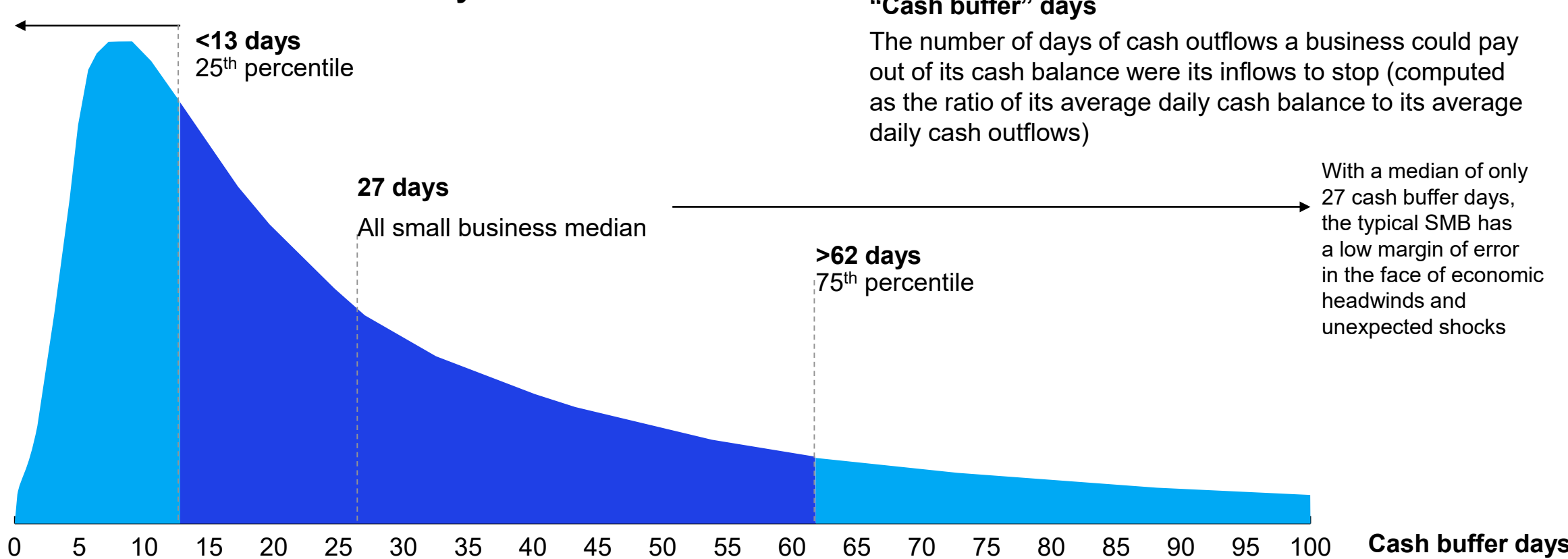
Shelter-in-place policies nationwide are impacting revenues by 100% in some areas as **non-essential businesses are shut down**. Financial shock could be immediate with rent and mortgage payments coming up

CONFIDENTIAL AND PROPRIETARY

Any use of this material without specific permission of McKinsey & Company is strictly prohibited

Most small businesses hold less than one month of expenses in cash reserves, resulting in a low margin of error in unexpected shocks

Distribution of cash buffer days

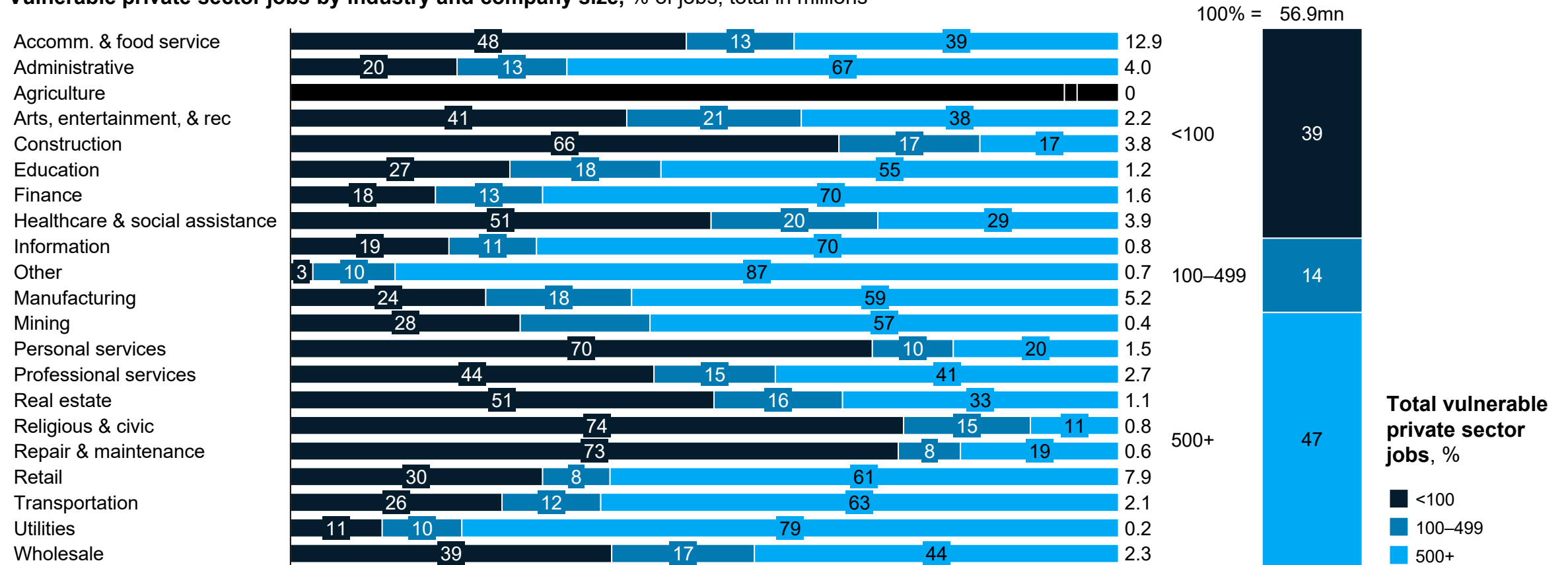


CONFIDENTIAL AND PROPRIETARY
Any use of this material without specific permission of McKinsey & Company is strictly prohibited

More than a third of vulnerable private-sector jobs may be in small firms with fewer than 100 workers

AS OF APRIL 22

Vulnerable private-sector jobs by industry and company size, % of jobs, total in millions



CONFIDENTIAL AND PROPRIETARY

Any use of this material without specific permission of McKinsey & Company is strictly prohibited

Note: Vulnerable jobs are those estimated to be furloughed, laid-off, or otherwise unproductive (eg, kept on payroll but not working) during periods of high social distancing (stay-at-home policy enacted and non-essential businesses closed)

States might consider targeted interventions for small and medium businesses to provide relief in the short-term (1/2)¹

NON-EXHAUSTIVE

Program Details	Initiative 1 Maximizing share of federal relief For SMBs	For banks
	<p>1A Establish central website with relevant information and links for state SMB owners</p> <p>Create “COVID information for SMBs page” on state websites with the latest information available and links to relevant sites (eg, SBA website, local small business development centers); could be updated in the future with latest FAQs/guidance, or additional features such as a chat bot or Turbo Tax-style feature where business owners can input information about their business and biggest concerns (eg, rent, payroll) and receive tailored guidance</p>	<p>1D Create forum for sharing knowledge among banks</p> <p>Hosted forum for local bank executives/CEOs to share best practices, discuss pain points, and share feedback regarding processing SBA loans</p>
	<p>1B Create volunteer network of financial coaches to guide SMBs through loan process</p> <p>Recruit qualified volunteers to guide SMB owners through SBA application process and offer advice on managing through the crisis; volunteers could include financial advisers/accountants (including retirees) as well as bank leaders or other finance workers; would require clear guidance to distribute to all coaches</p>	<p>1E Launch a bank education campaign</p> <p>Education campaign for banks consisting of online portal, weekly email outreach sharing latest news from SBA, loan processing best practices, etc</p>
	<p>1C Conduct communications campaign to engage and push updates to SMB owners</p> <p>Create a “community digest” (eg, weekly newsletter combined with social media) to circulate updates, relevant press, information about latest resources, and common questions/experiences from the SMB community—engage business associations to help with circulation/gathering inputs (including associations who reach typically underserved SMBs, such as minority/women-owned businesses)</p>	<p>1F Connect banks to surge support/temp staffing</p> <p>Match banks with temporary human resources to help them meet increased demand in loans; temp resources could work in roles that do not require prior banking/loan knowledge (eg, customer support, paperwork processing); could develop temporary talent pool to match temps with banks</p>
		<p>1G Connect to digital tools to increase capacity</p> <p>Help banks identify digital tools that could help increase loan processing efficiency (eg, paperwork processing tools, risk modeling tools) and increase a bank’s loan’s capacity</p>

CONFIDENTIAL AND PROPRIETARY

Any use of this material without specific permission of McKinsey & Company is strictly prohibited

1. These are intended to be actions for consideration rather than a specific set of recommended actions

States might consider targeted interventions for small and medium businesses to provide relief in the short-term (2/2)¹

NON-EXHAUSTIVE

	Initiative 2	Initiative 3
	Support the “missing market” of SMBs in the state	Take local action to help SMBs stay financially stable
Details	<p>2A Create a coalition of community banks that pledge to serve vulnerable SMBs</p> <p>Convene a group of community and local banks that pledge together to help core clients, reach out to the underserved, and create a media campaign around their outreach</p> <p>2B Incentivize lending and address banks' concerns about risk</p> <p>Provide guaranteed funds to encourage and de-risks lending state banks (eg, community banks) that may not be expanding their client base to underserved SMBs</p> <p>2C Expand the Community Development Financial Institutions (CDFI) Program to help more funds reach vulnerable SMBs</p> <p>Invest in CDFIs to enable them to sustainably serve small businesses</p> <p>2D Offer low/no-interest bridge loans</p> <p>Offer loans as funding to bridge to the arrival of federal funds, or to support those who do not qualify for SBA loans</p>	<p>3A Delay/help manage expenses</p> <p>Convene bank and real estate companies to enact 90-day deferment for rent and mortgage for SMBs; convene key businesses to deliver cash savings to SMBs, such as utilities, telcos, internet services deferring payment or offering discounts to SMBs</p> <p>3B Stimulate demand for local businesses</p> <p>Stabilize revenue through a local campaign for individuals, businesses, and government to consume local goods</p> <p>3C Accelerate receivables from government and large corporate customers</p> <p>Stabilize revenue by accelerating receivables on goods/services already provided to government or large corporate customers</p> <p>3D Offer grants to SMBs</p> <p>Offer grants to vulnerable SMBs (eg, self-employed, minority-owned) instead of loans to limit debt burden</p>

CONFIDENTIAL AND PROPRIETARY

Any use of this material without specific permission of McKinsey & Company is strictly prohibited

1. These are intended to be actions for consideration rather than a specific set of recommended actions

Conclusion

Amidst the chaos and incoming advice, it's hard to know exactly what leaders should do today

We hope this document provides leaders with actionable information to consider as they respond to the unique health and economic challenges posed by COVID-19. In particular, we would like to point out examples of steps that governments have already taken to protect their people and economies and emphasize that state and local government leaders can initiate immediate actions to save lives while also protecting livelihoods.

The next normal will likely look unlike anything we've seen before the coronavirus

The pandemic that changed everything. We aim to provide leaders with an integrated perspective on the unfolding crisis and insight into the coming weeks and months. On the following page, we've provided a number of additional resources you can access for guidance and information.

Additional resources

For all formal guidance, you can find up-to-date information at CDC's COVID-19 website, with a section specific to healthcare professionals or healthcare organizations:

<https://www.cdc.gov/coronavirus/2019-ncov/healthcare-facilities/index.html>.

You can also visit the WHO, CDC, and FEMA's COVID-19 portal at <https://www.coronavirus.gov/>.

We have developed a broader perspective on implications for businesses across sectors that can be found here: <https://www.mckinsey.com/business-functions/risk/our-insights/COVID-19-implications-for-business>. This supplemental material discusses implications for the wider economy, businesses, and employment. It describes some of those challenges and how organizations can respond to protect their people and navigate an uncertain situation.

Our public-sector specific insights can be found here: <https://www.mckinsey.com/industries/public-sector/our-insights>. This material is targeted towards public sector leaders in the COVID-19 crisis.

There are a number of academic institutions publishing credible, up-to-date information on the spread of COVID-19, such as <https://coronavirus.jhu.edu/map.html>.

McKinsey
& Company

