

CAPITAL ACCESS & MARKET EFFICIENCY ARE  
KEY TO DISASTER RECOVERY EFFORTS

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# THE CURRENT FORECAST... EXPECT AN INCREASE IN SEVERE WEATHER EVENTS WITH MINIMUM CHANGE IN DISASTER RECOVERY PROCESS

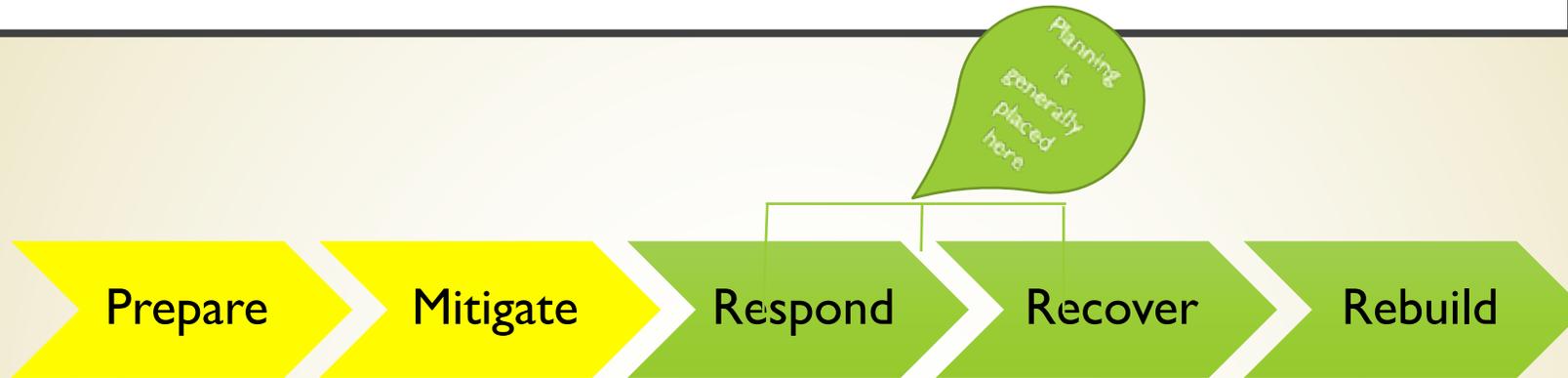
- The severity and pace of natural disasters are increasing.
  - Extreme weather events with Presidential declaration in the United States grew from an estimated combined \$20 billion in the 1980s to more than \$85 billion between 2011-12.
  - Economic impact of US extreme weather events was nearly \$190 billion for FY 2011 – 2012, with more than \$90 billion spent in disaster relief for events of a \$1 billion or more, with an estimated \$60 billion of the recovery costs covered with federal government funds.
  - Twenty-five declared extreme weather events that exceeded \$1 billion, with Super Storm Sandy exceeding \$50 billion at FY 9/30/2011.
- Recovery funding need continues to exceed availability of and access to capital and other resources.
  - US Small Business Administration is the nation's primary disaster loan program; administering funds not only to small businesses but also to individuals, not-for-profits and larger companies to provide recovery relief.
  - Federal disaster-relief funds for small business recovery by the US Small Business Administration and the US Department of Commerce Economic Development Administration was around \$1.6 billion out of an estimated \$60 billion in spending during 2011-12.
- Government is built to last, not to act fast.
  - Disaster recovery efforts fall under federal jurisdiction. Congressional approval requirements for supplemental funding, stringent federal agency program management, combined with strict adherence to rules/regulations, often takes months to complete despite best intentions by elected and government officials.
  - Government's ability to act quickly in the aftermath of a disaster is critical to the recovery effort and successful outcome. Internal discussions on whether to administer programs through existing agency bureaucracy or to source independent recovery experts, in many instances, contribute to delays in on-the-ground recovery efforts.

Data Source: States of Denial: States with the Most Federal Disaster Aid Sent Climate-Science Deniers to Congress published by The Center for American Progress, a progressive think tank, 2013.

# LESSONS LEARNED FROM RECENT DISASTERS

1. “Business as Usual” approach to disaster recovery hinders small business recovery efforts.
  - While the US Small Business Administration is the federal government’s primary disaster lender, the SBA faces significant complexity and constraints in making disaster loans. Based on findings cited in a 2007 US Senate Small Business Committee report the SBA was deemed to not have delivered disaster loans as evidenced by a significant backlog of loan applications, nearly 50% decline in approvals and low loan closings.
2. Private/Not-for-Profit Capital is a more flexible capital source during disaster recovery.
  - Following Hurricane Katrina, community development financial institutions, such as Seedco Financial Services, and local commercial and community banks were actively engaged in lending/grant programs and providing technical support to small businesses and not-for-profit organizations in the Gulf Coast area. Many of these lenders were able to secure low cost funding and/or grants from commercial banks, philanthropy, the US Department of Commerce Economic Development Administration (EDA) and other private sources.
3. Public-Private Partnerships are critical to ensuring market efficiency, stability and resiliency.
  - Cross-functional, cross-sector and inter-governmental dedicated disaster recovery management enhances coordination-implementation efforts throughout the management process. Timely decision-making around budget and operational matters are added benefits to ensure prompt response to those in need of assistance. New York State, for example, launched a stream-lined rapid repair program initiative to make their affected homes temporarily habitable. Separately, a \$10M emergency loan fund was established to provide low-interest emergency loans to small contractors to cover repairs, provide working capital and/or to help them during the recovery process. The benefit was twofold, government was seen as being responsive to the needs of homeowners and also providing much needed capital to small businesses during a crisis.
4. Opportunity to be innovative and nimble with recovery program solutions.
  - While disaster recovery management is complex and time-consuming, it is one of the few opportunities for mission-oriented lenders and not-for-profit organizations to design and implement innovative solutions on a scalable basis. Following Hurricane Katrina, Seedco Financial Services catapulted as the #1 lender to commercial fisheries, namely serving the Vietnamese community. By working closely with local organizations to deepen our team’s cultural understanding and insight in to the business community, combined with our extensive knowledge in commercial and retail lending, we designed a unique program to structure loan payment terms with the cyclicity of fishing revenue and cash flows. In doing so, we were able to improve overall portfolio quality and payment performance. This new structure also helped to preserve loan quality during the Gulf Coast BP Oil Spill.
5. High level, high touch community engagement is a essential.
  - A core competency of mission-oriented lenders and community development organizations is community relations, especially during a disaster. These organizations serve as a conduit between the community - individuals, small businesses, not-for-profits –government and the private sector yet community engagement is often viewed as an afterthought in the disaster recovery management process. Two significant challenges identified during disasters are poor communications and a general distrust or confidence in government’s ability to act quickly. The effects of Superstorm Sandy, Katrina and countless other disasters continue to linger years later while waiting for federal resources to be approved and/or distributed.

# IMPROVING DISASTER RECOVERY LENDING EFFORTS



- Plan beforehand. People don't plan to fail, they fail to plan.
  - A June 2015 report issued by FEMA's US Fire Administration on lessons learned from operational response to disaster recovery efforts cited that repeated mistakes flow from a failure to share and learn from past mistakes. While the functional need for command and control generally works, what ensures a more successful outcome is to ensure the preparation and readiness of resources when and where needed. Developing and testing an emergency test system is appropriate not only for government but for mission-oriented and private lenders.
- Develop an integrated-risk management and mitigation strategy.
  - Chaos ensues following a disaster leaving individuals, small business owners and others not knowing who or where to turn for help. Understand the risks facing small businesses and the community to develop a set of actions to help with on-going mitigation and resiliency efforts. Develop and maintain updated contact information with key local, state and federal agencies and private organizations that you may partner with on the disaster.
- Create Partnerships before you need them.
  - Engaging with the SBA, commercial and community banks, not-for-profit lenders, philanthropy and corporations prior to a disaster should enhance market efficiency with customers and the community during a crisis situation. These discussions present an opportunity for your organization to strengthen ties with the community and to position you as a "go to" resource in difficult times. Explore other sectors, i.e., the insurance industry for financing partnerships.
- Be innovative. Innovation is your friend.
  - Government by design is risk-averse, disasters are the one of the few times officials are receptive to innovative solutions. The key is to demonstrate scalability and measurable community impact. Remember, you are helping government solve a problem. In some cases, they may not know the problem existed. Do your homework. Identify and prioritize the issues, the financial resources required and capacity to deliver.

# EMERGING TRENDS/OPPORTUNITIES IN DISASTER RECOVERY LENDING

Discussions are taking place globally on disaster risk management on innovative risk financing solutions. Some present unique opportunities that may be adopted to the United States standards/requirements.

- Peer-to-Peer Lending Platforms could play future role in disaster recovery lending.
  - US House of Representatives Small Business Committee held hearings in May 2015 on P2P to better understand the model, risks/opportunities and to explore the relationship with commercial banks. The Committee also inquired about such platforms ability to provide disaster recovery loans since the SBA was unable to quickly turnaround capital. The P2P platform has the ability to provide speed, performance and access to capital. Funding Circle, Lending Club, Prosper, OnDeck Capital, etc.
- Bank Small Grants Programs to fund disaster risk management modeled after international programs sponsored by the World Bank
  - World Bank administers programs geared towards not-for-profit organizations for disaster risk management and related activities. These grants are typically US\$5-25K and approval is subject to a local mandate.
- KIVA and similar models are being explored as ways to raise larger capital amounts for short-term loans to focus on target communities.
- Social Funds – grant funding tool
- Risk Financing – growing area with multi-lateral development banks
  - Micro-finance and Micro-insurance – bundled financial services
  - Catastrophe Funds – public/private partnerships with insurance and re-insurance companies