4

Small Business Assistance

Chapter 4: Small Business Assistance

Overview

Small businesses[1] are often more financially vulnerable than large businesses in the wake of a disaster. Large businesses have continuity plans and insurance policies covering business interruption, property, and inventory; small businesses typically lack these resources. A 2014 joint report from the Small Business Majority and the American Sustainable Business Council found that only 43 percent of small businesses have any kind of disaster recovery plan.[2] Research from FEMA found that 25 percent of businesses do not reopen after a major disaster.[3]

Businesses owned by persons of color have even higher closure rates. Research shows that in the first few months of the Covid-19 pandemic, February to April 2020, the number of active US business owners fell by 3.3 million, or 22 percent, from the same period in 2020. Black-owned businesses were hit the hardest, experiencing a 41 percent drop in business activity, followed by Hispanic-owned businesses, which decreased by 32 percent, and Asian-owned businesses, which dropped by 26 percent.[4]

Small businesses are the backbone of local economies, providing essential items such as groceries, gas, childcare, and health services in the local community. Often the culture and character of the town are embedded in the small business community with local stores becoming multi-generational institutions. Furthermore, small businesses are vital employers. An estimated 61 million workers - 47 percent of private-sector jobs in the US – are employed by small businesses. They are crucial to the economy, contributing 44 percent of domestic GDP.[5] Economic development organizations[6] (EDOs) must invest in efforts that ensure small businesses are connected to the capital and technical assistance resources they need to continue performing their essential roles in employment, economic growth, and community development.

1 Small businesses — those with fewer than 500 employees according to the SBA — constitute 99.9% of all firms across the US. Of all US small businesses, 81% are non-employer firms, meaning they have no employees, while 19% are employer businesses, meaning they have employees.

2 **New Orleans Business Continuity Guide**, City of New Orleans, Aug. 2016

3 **Study: 40% of businesses fail to reopen after disaster**, Access, April 2020

4 The impact of COVID-19 on small business owners: Evidence of early-stage losses from the April 2020 Current Population Survey, National Bureau of Economic Research, June 2020

5 **Frequently Asked Questions**, US Small Business Administration Office of Advocacy, Dec. 2021

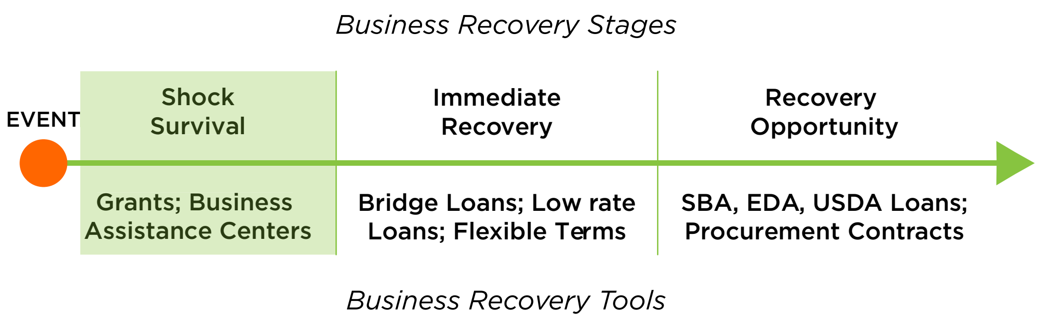
6 According to the International Economic Development Council's Introduction to Economic Development Manual, "Economic development can be defined as a program, group of policies, or set of activities that seeks to improve the economic well-being and quality of life for a community by creating and/or retaining jobs that facilitate growth and provide a stable tax base." Economic development organizations include municipalities, neighborhood groups, chambers of commerce, universities, utilities, state governments, regional entities such as public-private partnerships and Economic Development Administration designated Economic Development Districts.

A Framework for Post-Disaster Small Businesses Assistance

EDOs support small businesses in many ways, including technical assistance, financing, advocacy, and resource development. In a post-disaster environment, these efforts must be increased and expedited. For example, EDOs often find that their organizations need to pivot almost exclusively to business assistance in the immediate aftermath of a disaster.

The graphic below was developed at the Gulf Coast Business Reinvestment Forum, hosted by IEDC in 2005 with representatives of communities impacted by Hurricane Katrina. It shows how businesses need to be supported during different stages after a disaster, from shock to recovery. This graphic provides a useful starting framework for small business post-disaster assistance.

Figure 1: Post-Disaster Business Recovery Stages and Tools



Source: [Gulf Coast Business Reinvestment Forum Executive Report], IEDC 2005

Shock Survival

Small businesses, suffering from financial and physical shocks in the immediate aftermath of a disaster, will need expedited assistance focused on quick access to resources and funding. In this stage, EDOs may best serve businesses by creating business recovery centers (BRCs), which provide information about available local and federal resources. On-the-ground technical assistance can help business-es address immediate needs and provide education on the types of financing. A parallel website that showcases resources and contains a mechanism that allows users to self-eliminate non-applicable options should also be established. These centers can be provided both on site and virtually—during the Covid-19 pandemic, for instance, many BRCs became fully virtual.

If possible, grants to small businesses can be a lifeline in this phase. In the weeks following a disaster, they will face the need for working capital to meet payroll, replace damaged inventory and equipment, and fund other operational costs. Grants have not traditionally been a common avenue for financing. Typically, federal post-disaster financial assistance comes in the form of low-interest, deferred interest, or no-interest loans. However, in response to Covid-19, the federal government issued forgivable loans through the Small Business Administration's Paycheck Protection Program (PPP) to cover up to eight weeks of payroll. Other eligible uses of funds included interest on mortgages, rent, and utilities. Moreover, many local governments utilized the flexibility of Coronavirus Aid, Relief, and Economic Security Act (CARES Act) funding, and other funding sources to provide $5,000-$10,000 grants in the wake of temporary small business closures.

Establishing a Business Grant Program

A business grant program targets particularly impacted businesses that may not be willing to apply for a conventional loan due to debt concerns. It is not uncommon for small business owners to deplete their retirement and personal savings, borrow from family and friends, take out second mortgages on their homes, and max out their credit card borrowing limits to stay in business. Grants can ease this personal financial burden. Provisions common to forgivable loan programs include claw-back provisions[7] and requirements to meet certain employee retention targets or relocation limitations. Funding for these programs typically comes from local, state, or federal sources such as the Department of Housing and Urban Development (HUD)'s Community Development Block Grant Disaster Recovery fund (CDBG-DR).

In January 2022, Washington, D.C. relaunched the Small Business Rent Relief & Covid-19 Small Business Relief Grant Program as The Bridge Fund.[8] A non-competitive program, it awards funds to small businesses that have experienced a significant loss of revenue because of Covid-19, with priority going to organizations who did not receive PPP money and earned less than $2.5 million in annual revenue in 2019, 2020, and 2021. While many applicants have likely received some prior funds from the District or even federal programs, the Bridge Fund acknowledges that for businesses to survive and thrive under ongoing conditions, they needed sustained support. This is especially true for those who cannot depend on traditional financing.

Establishing a Business Recovery Center for Business Assistance

Immediately following a major disaster, a business recovery center (BRC) should be established to meet the immediate need for technical assistance and provide resources on short- and long-term financing. These centers should integrate local, state, and federal resources available to businesses. The BRC provides a place for the multitude of economic recovery stakeholders to come together, offering services through a common platform to avoid conflicting or duplicative guidance for businesses seeking support.

Technical assistance available at the BRC should include financial and business counseling services and locally relevant information, such as updates on utility restoration. The BRC can serve to facilitate the flow of critical restoration communication to business owners, as BRC's staff are typically informed with up-to-date information on disaster response and recovery and have a relationship with the community's Emergency Operations Center (EOC). (For more information on EOCs, please see *Chapter 3, Disaster Preparation*). Conversely, their direct lines to the business community can facilitate the exchange of information back to government officials. Resources related to financing should include information on local loan options such as revolving loan funds, bridge loans, or favorable terms from a bank consortium or Community Development Financial Institution (CDFI).

7 Claw-back provisions are requirements in the loan that commit the recipient to meet certain requirements during a fixed timeframe or the loan will be required to be paid back in a shorter time period. Typically, this is intended to serve as a deterrent to fraud, abuse, and local firms using these funds to relocate out of the local market.

8 **Mayor Bowser Launches New $40 Million "Bridge Fund" to Support Small Businesses**, Government of the District of Columbia, Executive Office of the Mayor, January 2022

More advanced efforts to implement a BRC include initiatives that seek to establish *pre-disaster* capabilities to integrate business assistance resources during more peaceful times. The value of this effort is that it builds day-to-day familiarity and trust between the business community and EDOs. Establishing these relationships as a core economic development function, rather than just in response to a disaster, positions communities to be more resilient to shocks and better enables them to communicate and share resources in times of need.

In light of the emergency of Covid-19 and the potential for similar crises in the future, BRCs must have the capacity to function on a virtual platform. Virginia's Small Business Development Center (SBDC) has developed an online Covid-19-centric BRC that allows business owners to assess their situations while providing guidance about necessary precautions and advising on universal business concerns like recordkeeping and marketing.[9]

Who Is Involved?

An EDO often takes responsibility for establishing the BRC in cooperation with regional, state, and federal partners including local Workforce Investment Boards (WIBs), SBDCs, and other Small Business Administration (SBA) representatives such as the local Service Corps of Retired Executives (SCORE), as well as representatives of other assistance programs as needed. If the disaster occurred in a community with a large industrial base, then the Manufacturing Extension Partnership (MEP), a program of the National Institute of Standards and Technology (NIST) may be involved.

In some states, SBDCs might take a leadership role; for more rural areas, the U.S. Department of Agriculture is likely to have representation at the center. Other representation may include alternative lenders such as representatives from CDFIs, non-governmental advisers like SCORE, specialized technical assistance counselors, and chambers of commerce, including African-American, Hispanic, and other racial and ethnically based chambers, to provide financial and technical assistance to small businesses.

9 **Covid Business Recovery Center**, March 2022

Delivering Technical Advice and Counseling to Impacted Businesses

Following a major incident, businesses must make critical decisions about how to reconstruct or salvage their business operations. In the wake of a disaster, new market realities emerge, presenting a host of both opportunities and challenges. In this environment, small business owners need counsel to avoid pitfalls and pursue the right opportunities. Small business advisors can help weigh whether businesses should take on further debt, particularly if their financial records are not in order. They also assist with connecting businesses to the best tools for their firm, provide market intelligence, and advise on finances and taxes. Small businesses may also need assistance in business planning, particularly in how to further market and promote their products in a post-disaster environment.

The BRC must be responsive to the needs of the business community for maximum effectiveness. For this reason, EDOs need to build a clear understanding of what approach will be most effective. For example, should business owners and managers go to a brick-and-mortar center for assistance? Or should counselors engage businesses on their premises with the technology, information, and documentation? Which services should be integrated as a service offering? Will there be dedicated connectivity with any one of a wide range of resources covering legal, taxation, zoning, permitting, capital access, workforce, or relocation assistance? This should be a part of the determination process in developing BRCs.

Types of Technical Assistance Services

Businesses need guidance in preparing their financial records to qualify for loans or grant assistance – such as a USDA loan, SBA loan, or a loan product from a private lender or CDFI. Tax and accounting preparation is a useful service to offer at BRCs. Additionally, financial advisers can discuss the need to restructure loans or how to request requirement waivers to federal assistance programs. Local EDO staff can aid in many other areas, such as resolving relocation issues to retain the business in the community. Other types of technical assistance, which may require specialized skills include human resource management, legal services, and the development of marketing plans.

SBDCs, local business colleges, MEPs, CDFIs, and other nonprofit organizations have often partnered to develop a comprehensive list of technical assistance providers or to provide their staff members to advise small and medium-sized businesses. It is important to establish a network of these support organizations so that they can quickly connect with businesses and get to work.

Resources for Business Recovery Centers

The U.S. Department of Housing and Urban Development's **Community Development Block Grant Disaster Recovery (CDBG - DR)** program can help fund capacity after a disaster. CDBG-DR funds target cities, counties, and states in presidentially declared disaster areas and low-income communities. The grants can be used for a variety of functions, including housing, economic development, infrastructure, and the prevention of further damage.

The U.S. Economic Development Administration's **Economic Adjustment Assistance (EAA)** program can provide flexible funding to hire staff resources, planning assistance, and even construct facilities to support long-term economic development and recovery. This program can also fund the capitalization of a Revolving Loan Fund (RLF) that can provide additional capital resources for impacted businesses.

The SBA's network of **Small Business Development Centers (SBDC)** receives regular funding from SBA, the state, and often a higher education institution where they are hosted. Many of these funding sources, including SBA, have increased funding levels or allowed for adjustments to existing funding to provide additional business assistance resources to support a business recovery center.

Steps for Establishing a Business Recovery One-Stop Center

The steps for establishing a BRC are outlined below. Ideally, a community will have conducted some pre-disaster preparation activities and talked about the process and lead agency for establishing a BRC. The steps are as follows and will be explained in detail below:

Step 1: Gather resources for financial and technical assistance

Step 2: Select a physical space that is centrally located

Step 3: Identify resources to increase staff capacity for BRC operations

Step 4: Set up an easily accessible method to access business recovery services

Step 5: Market BRC services to local businesses through both traditional and grassroots methods

Step 6: Prepare the paperwork

Step 7: Train staff to be sensitive to mental health needs

Step 8: Plan for the long term

Step 1: Gather resources for financial and technical assistance.

Begin contacting community stakeholders as quickly as possible to document what resources are available. This includes any local organization that provides financial or technical assistance to small businesses: SBDCs, community colleges and universities, local financial institutions, WIBs, chambers of commerce, trade associations, and EDOs.

Typically, this information is collected and updated on one website, whereby all the other partnering organizations are linked and referred to. It can also be shared via hard copies, such as a flyer or brochure.

Step 2: Select a physical space that is centrally located.

Communities typically establish a physical business recovery center in the most impacted area to provide close access to affected businesses. The physical BRC should be in a different location than FEMA's Disaster Recovery Center (DRC). When employing a virtual model, the method is slightly different because the location of the "home base" is less relevant than the mobility, connectivity, and services offered online. After Hurricane Ida landed in August 2021, the SBA launched a Virtual Business Recovery Center to provide personalized loan application assistance for affected business owners while maintaining public health protocols of the pandemic; the VBRC had an active hotline 12 hours a day, 7 days a week for 25 Louisiana parishes.[10]

Since many small businesses have their personal property (e.g., home) linked with their businesses' assets, it is often important for the EDO to work with the state office of emergency management and FEMA to ensure appropriate referrals are being made to business owners who come to the DRC as a homeowner but will likely need business assistance as well. EDOs should also be prepared to equip and maintain a BRC at varying levels of intensity over a flexible period, as many businesses encounter rebuilding barriers long after local assistance centers have a shutdown.

Step 3: Identify resources to increase staff capacity for BRC operations

Providing sufficient staff capacity for a BRC can be an intimidating barrier for many EDOs during business as usual, let alone after a major disaster. After a disaster, there will likely be immediate demands for staff time and resources, mandatory responses to business and governmental inquiries, and EDO staff themselves might be personally impacted. Despite these challenges, EDO staff members will be relied on to respond to businesses' pressing recovery needs.

One way EDOs have been successful in meeting this demand is by viewing the BRC operations as an extension of their existing mission. By incorporating this responsive capability into their existing work, it becomes more plausible to engage in pre-disaster planning, building resource-sharing partnerships, and establishing recovery networks.

10 **SBA stands ready to assist Louisiana businesses and residents affected by Hurricane Ida; SBA Virtual Recovery Centers to open Tuesday, Aug. 31**, Small Business Administration, Aug. 2021

Step 4: Set up an easily accessible method to access business recovery services.

Having a variety of access points for business recovery services is recommended, as physical BRCs will not always be feasible, and business owners will have varying levels of comfort with online outlets. If possible, other means of communication should be established such as a telephone hotline or a number to text.

Step 5: Market BRC services to local businesses through both traditional and grassroots methods.

It is recommended that the lead EDO develop a marketing and promotion campaign to advertise the BRC's location (physical or online) and services. Traditional methods are important, such as a reference on your organization's website homepage and PR outreach to local radio, TV, and newspaper outlets. But it is just as necessary to have a transparent and engaging social media platform. Organizations that serve the public, along with leaders in high-profile positions, are increasingly expected to have an accessible and frequently updated online presence. By building a popular and educational profile, the BRC is establishing itself as a constant within its community. More information about how to engage on social media can be found in *Chapter 7, Crisis Communications*.

Grassroots campaigning—taking flyers directly to businesses, setting up public events in popular community or industry spaces—can also be effective. Canvassing directly to impacted businesses, other local EDOs, local government, and the public will help establish social capital in the community. Thus, when a crisis does hit the region, more people will already know and trust in BRCs.

Step 6: Prepare the paperwork.

Provide business recovery materials and loan/grant applications in relevant languages to assist major demographic groups in your community. If there are common forms or loss documentation required by major local insurers, responsible parties, or others to receive assistance, the center should become intimately familiar with the requirements and parameters for how to assist others in completing the necessary paperwork.

Step 7: Train staff to be sensitive to mental health needs.

Consider offering mental health services and providing a brief mental health services training session to the center's staff. The psychological impacts of disaster can be severe, especially if there is a large social and humanitarian component. Business counselors must learn to pay attention to these types of needs, identify the warning signs that may appear, and connect those individuals with the appropriate mental healthcare resources. Sometimes, the most important referral a business counselor can make to a business owner after a disaster is for crisis counseling assistance.

Those managing the center must monitor their staff as well. The long hours of application training and assistance, incredible workload, and repeated exposure to trauma can rapidly impact mental health. Building in staff rotation schedules, externally enforced time away from front-line duties, and offering supportive elements can be critical to sustaining center activities for the duration needed.

Step 8: Plan for the long term.

Depending on the nature and magnitude of the disaster, communities should have the BRC up and running within a week of the event. In some cases, communities have quickly established them just a few days after the event.

Be prepared to keep the center open in a way that is flexible to the demands of the businesses in the community. For some disasters/communities, establishing a brick-and-mortar center is critical in the first four months after a disaster. Later, a virtualized option may be the most effective. In the case of pandemics, virtual is the most vital option. Consider applying for state, federal, and foundation/non-profit grants to fund center staff and operations.

Consider Accessibility

Having a mobile unit of disaster recovery resources allows business owners to stay in place and have the services brought to them. This is especially helpful in rural areas where driving times can be a prohibitive cost to businesses. Bringing a mobile unit to a rural town can save multiple business owners/managers' time and allow them to remain at their businesses.

For those communities that are not able to develop a mobile unit, a case management team system is a service approach that can address the needs of the businesses. Case management programs can be established within the first few weeks of a disaster. Case management allows business owners to receive assistance on their timetable and their property. Each case may last up to several years, and case managers follow through with each client until the recovery plan is completed.

Support staff of FEMAs Mobile Communication Office Vehicles serving USNS Comfort, Javits NY Medical Station, and NYCEM in the Covid-19 pandemic. 5-7-2022 Source: **www.dvidshub.net**

Delivering Business Recovery Workshops

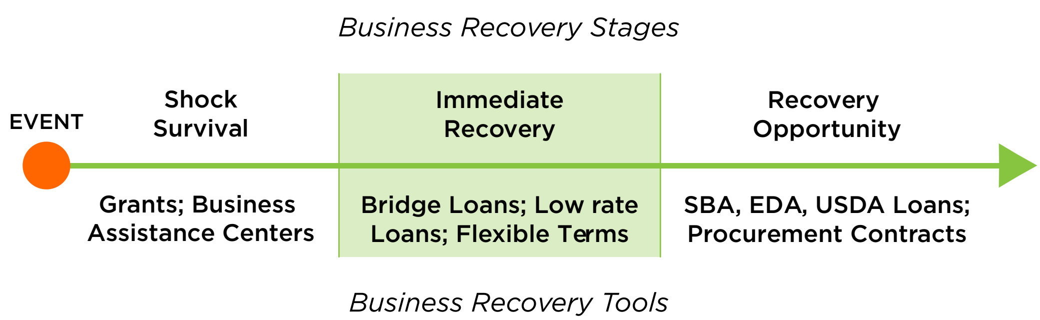
An EDO or chamber can hold workshops to address both common and unique recovery issues for local businesses. Workshop speakers should include representatives from local, state, and federal agencies. This includes groups such as the SBA, IRS, USDA Rural Business Program, SBDC, SCORE, local permitting office(s), and other local professional service advisers such as tax preparers and lawyers. It is also important to engage other economic recovery partners – other EDOs, business districts, chambers of commerce, and municipalities – to create a more extensive network of resources and marketing channels.

The workshops can be implemented on a relatively small budget and can serve local businesses on a local or regional basis. Local government facilities can serve as meeting space, and EDOs and their partners can advertise through existing communication channels. After the massive 2017 wildfires in Northern California, Sonoma County Economic Development Board and the City of Santa Rosa launched a BRC, hosting an open workshop for all on SBA funds as well as regional programs--Wildfire Relief Fund, North Bay Fire Relief Fund, and the Creative Sonoma Recovery Fund—to assist in recovery and rebuilding efforts.[11]

Immediate Recovery

In Immediate Recovery, the second stage of assistance needed by businesses is financing that is easy to access in an expedited manner. Traditional commercial bank loans usually cannot meet these needs and are considered risky for small businesses in the immediate aftermath of a disaster. Furthermore, many small businesses cannot access commercial capital for a host of reasons including lack of financial documentation, low or compromised collateral, credit issues, and sometimes, simply the perception—not fact—of not being bankable. In the immediate weeks and months following a major crisis, these small businesses are in desperate need of working capital to get back up and running. Small, locally provided loans offer quick financing to enable firms to start working on rebuilding efforts

Figure 1: Post-Disaster Business Recovery Stages and Tools



In the short term, small businesses need access to financing with low interest and flexible terms. This is often termed "gap financing" as it provides businesses with working capital until they can secure funds from other sources, such as insurance claims and long-term financing sources such as SBA loans. These funds are typically made in smaller amounts than long-term financing – often ranging from $5,000 to $25,000 for a small business. There is much that EDOs and chambers of commerce can do to help local small and midsized businesses secure appropriate short-term financing.

Establishing a Revolving Loan Fund

A revolving loan fund (RLF) is a pool of public and private sector funds in which the capital is recycled to make successive loans to businesses. Loans made by an RLF are repaid with interest and the payments are returned to replenish the lending pool so new loans can be made. The continuation of the fund depends on the collection of existing loans. As a result, RLFs often need to be recapitalized to sustain the program.

11 County of Sonoma – Events, November 2017

Revolving loan funds (RLFs) are well structured for long-term financing since the repayment of old loans can be used to finance new loans. RLFs can be capitalized through private funds and public funds which include state and local appropriations or federal grants, with the three most common sources being HUD's Community Development Block Grant program (CBDG), the United States Department of Agriculture (USDA), and EDA's Economic Adjustment Assistance (EAA) program. Under this program, EDA's Revolving Loan Fund (RLF) Program, awards competitive grants to eligible recipients to capitalize or recapitalize lending programs that service businesses that cannot otherwise obtain traditional bank financing.[12] HUD's CDBG program can also be used to fund RLFs. CBDG-funded RLFs typically target job creation, particularly for those not typically represented in business ownership including people of color and low-income individuals.

The administrators of RLFs are typically EDOs or a consortium of EDOs, other business-serving organizations, non-profits, and CDFIs or other lenders. When developing an RLF, administrators have significantly more freedom to establish flexible loan terms and qualifying standards. RLFs can offer below-market interest rates, loan guarantees, and micro-loans, and can use alternative credit data such as utility bills or character references as qualifications for lenders. However, the fund should remain profitable enough to continue with recycled money.

12 Revolving Loan Fund Program, EDA, March 2022

VERMONT

Vermont is home to 7,000 farms and a strong community of farm businesses. In January 2011, Pete Johnson of Pete's Greens' barn burned to the ground. The community sprang into action, with individuals and organizations donating money to help Pete rebuild his barn. Afterward, Johnson partnered with the Center for an Agricultural Economy (CAE) to create the Vermont Farm Fund, a revolving loan fund, with the contributions he had received.

The farm fund would prove useful after Hurricane Irene swept across the Connecticut River Valley of Vermont in August 2011. Rain totals of 4 to 8 inches in some places contributed to flooding across central and southern Vermont.

At that time, the Vermont Farm Fund had been created, but had not yet launched a loan application process. Following Hurricane Irene, the staff expedited the process to provide emergency loans to disaster- impacted farms. Additionally, the fund opened for donations from individuals and organizations to increase its balance. One local foundation, the Waterwheel Foundation in Burlington, Vt., donated $50,000 to the fund.

In less than three weeks, the first interest-free emergency loans were provided. Many of the farmers who received the loans were vegetable farmers whose season had just ended. The farmers received a repayment grace period of up to one year (due to the crop cycles and ability to repay), with the loan to be repaid in two years. Loans were available to farmers throughout Vermont who could show proof of over $20,000 in annual gross sales (thus, no hobby farmers) and who had suffered an agricultural loss due to weather-related disaster or fire.

A majority of the loans were for $5,000 or $10,000. An advisory committee of six members from all across the state reviewed the applications and quickly make decisions. The applications were emailed to the advisory board who reviewed them and voted by email. Several loan applications were received immediately after the storm, with others continuing to trickle in through January 2012.

As of November 2013, 98 percent of the loans had been repaid, with none in collection. The Vermont Farm Fund is now able to provide innovation loans to help farmers and food producers with the costs of starting up a business. The fund benefits from the state's farm community culture, with farmers wanting to repay quickly so that fellow farmers can receive an emergency loan when needed.

Establishing a Bridge Loan Program

RLFs are a mechanism to provide small loans to businesses. Often those loans can be categorized as "bridge loans," that is, a short-term cash infusion that allows businesses to defray short-term expenses and survive until they can be paid back after receiving longer-term financing. A bridge loan is designed to provide no-fee financing with flexible terms so that businesses can have quick access to working capital. Local, state, or federally funded emergency "bridge loans" should be distributed to impacted businesses within the first few weeks after a disaster.

While states like Florida and Louisiana created state emergency bridge loan programs in response to hurricanes, and New York provided a combination of business grants and short-term loans post-September 11th, most states have not set up this structure nor do they have the mechanism for rapidly distributing these funds to businesses.

Outreach and Working with Local Financial Institutions

EDOs and chambers should reach out to a variety of lending sources such as local banks, credit unions, CDFIs, and other alternative financial institutions to identify available lending products, financial terms, and the reasons behind funding gaps. This information can prove useful in educating local businesses on the various sources of local funding available to them as well as determining if there is a need for additional alternative sources of funding.

It is recommended that the chamber and EDO leadership hold discussions with decision makers at local banks about potential solutions to lending challenges faced by small businesses. Local banks are unlikely to want to take on high-risk loans with small businesses that do not appear survivable on paper, particularly in a post-disaster environment where local markets may not be functioning properly. They may, however, consider creative options for lending that enable taking an equity position in the business in exchange for a low-interest or forgivable loan. This equity stake in a small to midsize business would provide an appropriate incentive for a small business owner to repay the loan.

CDFI and Other Alternative Financing

Private and nonprofit small business assistance providers like CDFIs can play a critical role in quickly deploying funds, but they have limited resources with which to do so. With the appropriate capital, loan loss, and operating support, these financial partners can assist small businesses through the lingering effects of a catastrophic event, particularly at a time when the market is unwilling to invest with so many unknowns.

Creating a Bank Consortium

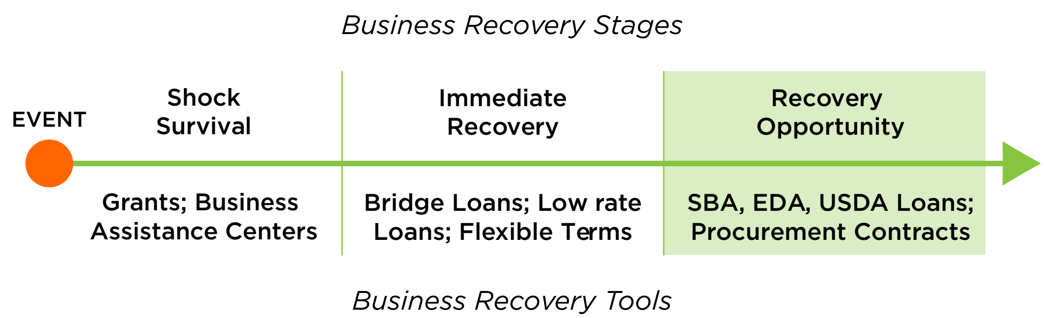
Before a disaster strikes, EDOs can bring local banks to the table to discuss the possibility of creating a bank consortium to provide a pool of funds for business recovery in the event of a future disaster. It is in the best interest of the banking community to help the local economy to recover so they can maintain a healthy source of banking customers. Banks do not want to see customers default on their current loans or demand for financial products dry up. The best time to discuss financial products, terms, and limits for lending to disaster-impacted businesses is during "blue sky" periods.

Post-disaster lending is critical in helping the local economy get back on its feet and private financing plays a key role in that process. While federal loans and grants are invaluable sources of financing when a local community or region has exhausted its sources, federal resources are insufficient in meeting local needs. Federal lending programs can take a long time to appropriate funds and come with several requirements that may be difficult to satisfy. Private financial institutions can meet local business needs more expediently.

Recovery Opportunity

After business owners rebuild their property and reopen, their needs will shift to obtaining the necessary cash flow to cover rent or mortgage, payroll, inventory, and other medium-term expenses. Financial assistance to address more long-term needs often includes sources that require more paperwork and authorization. Sources could include federal loan programs from the SBA, USDA, CDBG, or EDA, insurance claims, local banks, renewed profits, or other sources of income.

Figure 1: Post-Disaster Business Recovery Stages and Tools



When the long-term recovery stage sets in, a small or midsized firm may have to adjust to a changing local or regional market, and thus may need to revamp its product or service, train its workforce with new skills, find new customers, and seek out new vendors. A local EDO, chamber of commerce, bank, or CDFI can manage these programs to ensure that businesses can operate long-term and continues to meet local business recovery needs as they evolve.

Federal Sources for Small Business Financing

Federal entities fund both individual businesses and programs that assist small businesses – for example, capitalizing RLFs. The list below explains how individual businesses can access financial assistance following a disaster. For federal programs that support programming, see *Chapter 8, Accessing Federal Resources.*

U.S. Small Business Administration (SBA)

The SBA's Disaster Loan Program serves as a major source of business recovery assistance after a disaster. The SBA Office of Disaster Assistance's mission is to provide low-interest disaster loans to homeowners, renters, and businesses of all sizes. They also allocate loans to private and nonprofit organizations to repair or replace real estate, personal property, machinery and equipment, inventory, and business assets that have been damaged or destroyed in a declared disaster.

SBA's disaster loans are the primary form of federal assistance for the repair and rebuilding of non-farm, private sector disaster losses. In addition to the Paycheck Protection Program and Economic Injury Disaster Loans (EIDL), SBA has launched several grant initiatives for businesses suffering from Covid-related loss—the Restaurant Revitalization Fund, the Shuttered Venues Grant, debt relief for existing SBA borrowers, and cross-program eligibility.[13]

With upgrades in technology and process, the SBA has shortened the timeline between disaster loan application submittal and approval from two months, as experienced after Hurricane Katrina, to approximately 2 to 3 weeks. For Covid EIDL loans, SBA committed to a 30-day turnaround between approval and receipt of loans of $500,000 or less; the cap of recipient funds was lifted from $500,000 to $2 million.[14] Furthermore, applicants can use the same online **Disaster Loan Assistance portal** to apply for all SBA loans.

Business Physical Disaster Loans

SBA makes physical disaster loans of up to $2 million to qualified businesses or most private nonprofit organizations that are in a declared disaster area. The loan can be used on the following repairs or replacements:

- Real property
- Machinery
- Equipment
- Fixtures
- Inventory
- Leasehold improvements

The SBA Business Physical Disaster Loan program covers disaster losses not fully covered by insurance and provides a lower interest rate for businesses unable to obtain credit. Repayment terms can be up to 30 years, depending on the applicant's ability to repay. There are incentives if you help reduce the risk of future property damage caused by a similar disaster. For more info on eligibility and terms, visit the **Disaster Loan Assistance** portal.

Economic Injury Disaster Loans (Working Capital)

The SBA EIDL program is for small businesses, small agricultural cooperatives, and private nonprofit organizations that have suffered substantial economic injury. If small businesses are unable to meet their obligations and pay their ordinary and necessary operating expenses, EIDLs are available to provide the necessary working capital to help small businesses survive until normal operations resume after a disaster. Currently, SBA's limits on unsecured disaster loans, which do not require collateral, are $25,000 for physical damage and economic injury; if applicants can secure capital, their maximum loan amount can be up to $2 million, for physical damage and economic injury combined.

13 **Covid-19 relief options**, US Small Business Administration, 2021

14 **SBA announces updated guidance regarding applicant deadlines Covid economic injury disaster loan**, US Small Business Administration, Nov. 2021

Regardless of whether the business suffered any property damage, the loan amount will be based on the business' actual economic injury and the company's financial needs, and interest will not exceed 4 percent. For more info on eligibility and terms, visit the **Disaster Loan Assistance** portal.

Disaster Assistance and Emergency Relief for Individuals and Businesses from the IRS

Taxpayers who are adversely affected by a presidentially declared disaster will qualify for tax relief from the Internal Revenue Service (IRS), which includes a postponement of tax filing as well as being able to claim losses on the previous year's taxes. It is made possible by a special tax law provision, which is established for major disasters that have been presidentially declared. The source of a tax refund that could be mailed as soon as two months following the filing of paperwork can be an important source of financial relief as well as help small businesses with needed funds for working capital.

Businesses in a federally declared disaster area can get a faster refund by claiming losses related to the disaster on the tax return for the previous year, usually by filing an amended return. The IRS offers resources on its website including videos and audio presentations on planning for a disaster. They discuss important topics such as business continuity planning, insurance coverage, record keeping, and other tips for small business owners after a disaster.

The **IRS Disaster Assistance and Emergency Relief** for Individuals and Businesses page has more information.

Procurement

The Stafford Act requires FEMA to contract with businesses located in the affected area when feasible and practical. State and local government agencies also have contracting opportunities. EDOs can help affected businesses enter the procurement process so they will be eligible for contracts in the area.

Local Contracts

Often, state and municipal governments will have pre-disaster contracts in place for anticipated needs. For example, pre-disaster temporary housing contracts may engage hotels, dormitories, or other facilities. Other services that may be provided through pre-disaster agreements include building inspections, grant writing, public transportation, and human services.

Pre-disaster contracts are advertised as procurements via public announcements and governments' websites. Another benefit to EDOs engaging with emergency management planning is that they can amplify contract opportunities to local businesses through their networks, thereby ensuring that local firms secure pre-disaster contracts. Any communication about contract opportunities should be sure to include requirements for registration in a database system and should highlight any advantages given to businesses classified as Minority and Women-Owned Business Enterprise (MWBE).

Federal Agency Contracts

To secure a contract from a government agency, businesses must be sure they are following the correct procedures. EDOs may refer interested businesses to the local Procurement Technical Assistance Center (PTAC), which are specialized, federally funded offices that serve as the bridge between government buyers and local suppliers.[15] PTACs can assist businesses in determining suitability for contracting, securing necessary registrations, identifying bid opportunities, writing proposals, and preparing for audits. Many EDOs have strong relationships with one of the over 300 PTACs in the United States, or even host a PTAC in their organization.

15 Association of Procurement Technical Assistance Centers, March 2022

Businesses interested in federal contracts can start by registering with the **System for Award Management**. . In that system, businesses should complete the Disaster Response Information section to be included in the Disaster Response Registry which is used by FEMA and the Army Corps of Engineers. Businesses should also fill out the Industry Liaison Program Vendor Profile form and follow the instructions to submit it to FEMA. Additionally, according to the Association of Procurement Technical Assistance Centers (APTAC), businesses should update their internet presence to make sure their website has the correct contact information and a clear description of the goods and services offered.[16]

Conclusion

Small businesses are crucial to local and national economies. The Covid-19 pandemic has exposed the vulnerability of small businesses to crises, natural or otherwise. However, EDOs can help by providing businesses with recurring resiliency training, advising on disaster preparation and recovery resources, and acting as dependable community stakeholders.

16 **Hurricane Disaster Contracting for Harvey and Irma**, March 2022