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WEATHER AND WASTE:

Rethinking Small Business Support Following a Natural Disaster

Executive Summary

As of November 1, 2024,¹ there were 24 confirmed weather-related disasters whose damage created losses exceeding \$1 billion each in the United States—one of the costliest years since 1980. As the number of natural disasters per year has increased, from 3.3 in the 1980s to more than 17 over the past decade,² most attention has focused on how to make physical infrastructure more resilient to natural disasters. Little attention has been paid to how to make small businesses in affected communities more resilient. The Federal Emergency Management Agency (FEMA) estimates that 40 percent of small businesses do not reopen following a natural disaster and that 25 percent of those that do reopen close within one year—a 65 percent failure rate.³

Small businesses are the backbone of the American economy and the economic first responders after a natural disaster. They provide the critical infrastructure to help communities respond and recover in times of crisis. Yet beyond FEMA grants and Small Business Administration (SBA) loans, the typical post-disaster response is disjointed, decentralized, and inefficient.

There are few programs designed specifically to ensure small business survival in the wake of a natural disaster. After Hurricane Sandy, the Government Accountability Office reported: “Federal disaster recovery programs are spread across more than 30 federal entities making it difficult for communities to figure out who to turn to for help. State and city officials involved in Sandy-affected areas told us that challenges navigating federal programs limited their ability to maximize federal funding—resulting in missed opportunities.”⁴

Missed opportunities have an economic cost. It is unmeasured waste that diminishes the return on government and institutional investments in our nation’s small businesses. Government waste and inefficiency are not simply overspending; they are spending in a way that does not maximize the return on that spending. Approaches to reducing government waste should focus on not only cutting spending but also increasing the efficacy of the dollars that are spent.

It takes years to start and build a business. Federal and state governments invest billions of dollars to spur entrepreneurship and support small businesses. In the face of increasing and more widespread natural disasters, can the economy afford a consistent 65 percent small business failure rate? Could our nation’s small businesses benefit from launching a formal cross-agency federal commission to increase the efficiency and efficacy of federal disaster recovery spend alongside a national disaster resource hub designed to streamline federal, state, and philanthropic disaster assistance?

The Milken Institute recommends the following actions to improve the post-disaster small business survival rate:

- Appoint a cross-agency Small Business Resilience czar who will convene a Small Business Disaster Response and Recovery Council to coordinate federal resources, reduce overlap, and increase the efficiency and efficacy of government spending and investment in small businesses.
- Create a Small Business Resource and Connections Hub to serve as a clearinghouse for federal, state, and philanthropic resources and to facilitate the public-private connection to those resources.
- Establish a long-term recovery fund for disaster loans at the SBA.
- Update national, state, and local disaster resilience plans to incorporate small business preservation as a goal.
- Provide immediate grant relief for businesses that could not open because of a lack of municipal utilities yet face denial of business interruption insurance claims.
- Provide one-time tax credits to small businesses that donated time, resources, and space to the community during the recovery process.
- Create a standardized post-disaster application like the Free Application for Federal Student Aid to streamline the post-disaster grant and loan application process for small business owners.

The Milken Institute is uniquely qualified to lead these efforts because of its power to convene key public and private institutions in a way that can drive actionable change for small businesses across the nation.

Between Hurricane Helene and the fires in Los Angeles, we believe it's time to test new, innovative strategies geared specifically toward saving small businesses after a natural disaster. Instead of letting these devastating natural disasters feed the bleak statistics, it's time for a new disaster response playbook to support our nation's small businesses.

View the full report:



ENDNOTES

1. "Billion-Dollar Weather and Climate Disasters," National Centers for Environmental Information, November 1, 2024, <https://www.ncei.noaa.gov/access/billions/>.
2. "Are Major Natural Disasters Increasing?" USAFacts, September 6, 2024, <https://usafacts.org/articles/are-the-number-of-major-natural-disasters-increasing/>.
3. *Federal Disaster Assistance for Businesses: Summaries and Policy Options* (Congressional Research Service, July 17, 2023), <https://web.archive.org/web/20241226082759/https://crsreports.congress.gov/product/pdf/R/R47631/2>.
4. *Hurricane Sandy: An Investment Strategy Could Help the Federal Government Enhance National Resilience for Future Disasters*, GAO-15-515 (US Government Accountability Office, July 30, 2015), <https://www.gao.gov/products/gao-15-515>.