Louisiana Small Businesses Five Years Post-Katrina:

Assessing LDRF Program Impacts And Measuring Existing Needs

Michael A. Turner, Ph.D., Robin Varghese, Ph.D., Patrick D. Walker, M.A.

With research assistance by Daniel Graubman

March 2011

PERC
RESULTS AND SOLUTIONS

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The findings and conclusions contained in this report are expressly and exclusively those of the authors.

Table of Contents

Key Findings

In 2009 and 2010 PERC examined the continuing impact of Hurricane Katrina and other disasters on small businesses and the self-employed in Louisiana. Primary to this research was an examination of the impacts of aid received from the Community Development Organizations (CDOs) funded in part by the Louisiana Disaster Recovery Foundation (LDRF) as well as aid received from other sources. For this research PERC conducted five case study interviews of small business operators and the self-employed who received aid from LDRF-funded CDOs, surveyed over 1,600 small business operators, and analyzed tens of thousands of Experian small business credit files. The following are key findings of this research

Scope and Magnitude of Needs

- **Hurricane Katrina's Impact Persists.** In 2010, 62% of New Orleans MSA businesses had sales below pre-Katrina levels. 71% of businesses that sought aid from the LDRF-funded CDOs had sales below pre-Katrina levels.
- **Minority-owned and -operated Businesses More Severely and Persistently Impacted.** Minority-owned and -operated businesses were more likely to have been negatively and very negatively impacted by the hurricanes of 2005.
- **Access to Credit Still Major Hurdle for Many.** Over a third (38%) of small business owners/operators believed access to loans at competitive and fair interest rates is a major challenge. Black business owners/operators were more likely than average to consider access to credit as a major challenge with 50% indicating their credit had been reduced since the beginning of the credit crisis in 2008.
- **Recovery interrupted**. Delinquency rates on obligations in credit files of local businesses rose between 2005 and 2007, fell between 2007 and 2009 as recovery took hold, and began rising again between 2009 and 2010 with the economic crisis.

At Least 100,000 Businesses in Louisiana Still Feel Negative Impact from 2005 Hurricanes. In addition, it is estimated that there are approximately 7,800 small businesses in Louisiana that were very negatively impacted by the Hurricanes of 2005, are still off over 50% from their pre-Katrina sales, want (and could use) assistance from a CDO for current needs, and could be accepted by a CDO. The cost of aiding these 7,800 businesses is estimated to be approximately $20 million.

Efficacy and Impact of LDRF Aid

LDRF-funded Aid Distributed Over Two Months Faster Compared to Other Aid. LDRF-funded aid organizations disbursed aid months faster than other organizations, such as the SBA.

Aid was Critical. The vast majority of recipients of aid distributed by the LDRF-funded organizations saw the aid as "very useful" or "critical." Specifically, 91% of financial aid (loans or grants) and 78% of technical assistance was considered very useful or critical.

Aid Works. Of the businesses that applied for but did not receive aid, 52% indicated that if they had received aid their business would have been much better off or would have survived. Those that received aid from the LDRF-funded CDOs (1) showed a much higher degree of sales recovery, (2) had a much more optimistic assessment of near- and long-term business prospects, and (3) more frequently expected to hire over the next year than did those very negatively impacted business that did not receive LDRF-funded assistance.

Benefits from Modest Grants and Assistance in Sourcing Funds. Small grants and initial seed funding by the aid organizations had big impacts for some businesses. Modest grants may enable the entrepreneur to invest in ways that make a big difference (have a high return on investment). Aid organizations acting as a central resource for loans, grants and insurance claims information and assistance with applications reduces confusion and allows the small business owner to make better decisions.

Community-based Aid is Key. Loans and aid from an aid organization that maintains close contact with the borrower, understands the borrower's situation and where the funds and resources will be used may have a greater likelihood of being used wisely. Non-profit non-governmental aid organizations may be able to lend and aid more quickly and hold a business over (bridge financing) until other assistance is received or revenue is restored.

Every Dollar of Aid Distributed Likely Produces Over a Dollar of New Wages from New Jobs. It is estimated that for every $100 worth of aid distributed, $103 a year of wages from net new jobs would be produced. Much of these new wages, in turn, are spent locally, creating additional employment and wages. Using a reasonable economic multiplier of 1.5, $100 worth of aid distributed might produce $155 a year in new wages. In addition to increased net hiring, aid increases the survivability of the assisted small businesses, with all the associated tangible and intangible benefits.

Sustaining Recovery

- **Community Rebuilding Efforts.** Small business success in some measure (and depending of the type of business) is a function of the success of the surrounding community. Small business aid organizations advocating for a community of small businesses can help focus efforts and enable coordination in ways individual businesses cannot.

- **Long-term Interaction.** Since recovery for many businesses is gradual and their needs constantly vary, longer-term interaction results in a better understanding of capabilities and recovery strategies, and aid directed by a steady source can lend stability to the turbulence of an inevitably difficult recovery. Relationships built between caseworkers and business owners were clearly important to the individuals interviewed and cannot be underestimated in the development of aid approaches.

- **Focus of Aid Should Also be on Young Businesses and Entrepreneurs.** In addition to aid needed for those businesses directly impacted by the hurricanes of 2005, the renewal and recovery of New Orleans and the other areas of Louisiana hard-hit by the hurricanes of 2005 requires vibrant young businesses and a hospitable environment for entrepreneurs to start new businesses. Aid should also be directed to these areas. Of the small businesses surveyed, owners of newer or younger businesses were twice as likely (32%) to report extreme difficulty in accessing credit than were more established businesses (16%).

BP Oil Spill

- **More than One-Third of Respondents Reported Negative Effects from BP Oil Spill.** In the August 2010 survey of small business owners and operators, 60% indicated that their business was not impacted by the spill and its aftermath, 37% indicated it was impacted negatively, and 3% indicated a positive impact.

- **Those Negatively Affected Saw Moratorium as Negative.** Around three-quarters of those who indicated their business was negatively impacted by the oil spill believed the impact from the moratorium on the deep-water oil and gas drilling was as negative as or more negative than the direct impact of the oil spill.

- **Negatively-Affected Businesses Less Confident in State of Business.** Plans to hire declined between the February and August surveys, from 29% to 23% of small businesses. In the August survey, only 18%of those that were negatively impacted by the BP Oil Spill planned to hire over the next year, 25% of those that were unaffected planned to hire, and 40% of those that were positively affected planned to hire.

1. Introduction

The Louisiana Disaster Recovery Foundation (LDRF) has provided direct assistance to over 3000 small businesses in Louisiana to assist with recovery following the hurricanes of 2005. Despite the LDRF's positive impact, and the positive impact of other organizations and government agencies, the Louisiana Recovery Authority recently estimated that roughly 75,000 small businesses in the state still continue to struggle for reasons directly related to the 2005 hurricanes. The recent and dramatic macroeconomic downturn has only exacerbated challenges for small businesses.

This project seeks to understand whether and how existing LDRF small business development programs have impacted small business recovery and how they may be extended to meet the remaining needs of small businesses in Louisiana.

The LDRF mission of generating full economic and social recovery of those areas in Louisiana directly affected by the 2005 hurricanes remains ongoing. To understand the impact of previous efforts and to optimize future development endeavors, it is important to assess the impact of existing LDRF-funded programs and identify existing needs. This report is one of two components of a project that measures the impact of LDRF-funded aid programs on small business recovery and identifies unmet needs of small business in the areas affected by the 2005 hurricanes. The second component is a case study report examining five cases of small businesses that received aid from LDRF-funded organizations.

The intentions behind this study are twofold. First and most straightforwardly, this research aims to measure the scope of small business needs following Katrina, how LDRF-funded aid programs have addressed these needs, and to what extent these programs have made a difference relative to similar businesses that have not received aid. Second and less obviously, this study presents an approach to monitoring and evaluating the effectiveness of these projects as they progress. This approach itself is designed to help the LDRF assess their programs for any needed intervention. The study is therefore also an attempt to develop data tools for monitoring the aid programs.

Our approach ultimately relies on the generation of a comprehensive data set by combining commercial credit files (appended with the owner's socio-demographic information), data from surveys of both aid recipients and businesses that did not receive aid, and data from the applications of aid recipients for LDRF assistance.

Because starting points and challenges may be particular to sectors and regions, we also conducted field research in order to further understand successful and unsuccessful aid recipients.

Once data sets were assembled, we:

- **quantified the current state of Louisiana small businesses operating in areas directly and indirectly affected by the 2005 hurricanes;**
- **established the nature and extent of unmet development needs among small business owners; and**
- **measured the magnitude of resources required to address existing unmet needs.**

Since the 2005 hurricanes, a deep financial crisis has left businesses in need. Many business that were on their way to recovery now face new challenges as recovery cycles were derailed by a financial crisis followed by a deep recession. While Louisiana has not been affected as much by the recession in comparison with the rest of the nation—the state's unemployment rate in December 2010 was 8.0% compared to a national average of 9.4%—many businesses that were only beginning to recover from the hurricanes are facing new challenges. As such, it is important to provide effective small business assistance to a class of businesses that are currently underserved.

Small businesses have been and continue to be hit especially hard by the financial crisis. This much is clear to all observers of the economic climate. Less well understood, however, is the peculiar nature of the challenge that small businesses face. The Nobel Prize winning economist Joseph Stiglitz recently noted,

"Large businesses are flush with cash, and small changes in interest rates—short-term or long—will affect them little. A banker rightly asks if such a business comes asking for money, 'what's wrong with it?'

But it is SMEs that are the source of job creation in most economies, including the U.S. Many of these enterprises are starved for cash. They can't borrow money at the interest rate that big banks, big firms or government can. They borrow from banks, and many of the smaller local and community banks on which they depend are in dire straits—more than 800 are on the FDIC's watch list.

Yet even if the banks were willing and able to lend, lending to SMEs is typically collateral-based, and the value of the most common form of collateral, real estate, has fallen 30% to 40%. No wonder, then, that [their] credit availability is so constrained[1]."

[1] Joseph Stiglitz. "Why Easier Money Won't Work." Wall Street Journal. (Eastern Edition). New York,

[2] Haltiwanger, John C., Ron S. Jarmin and Javier Miranda. Who Creates Jobs? Small vs. Large vs. Young Working Paper 16300, Available at http://www.nber.org/papers/w16300

In addition, recent research using data from the US Census confirms the importance of small businesses in creating new jobs but, importantly, also finds that startups and young businesses largely account for the disproportional job growth arising from small businesses[2].

It is in this context that the profound value of LDRF small business loans, grants, and other aid programs, as well as the aid programs of similar organizations, are to be understood.

2. Impact of the 2005 Storms

It has been over five years since the first and most devastating of the hurricanes struck much of the Gulf Coast and the ensuing flood devastated New Orleans and lower Louisiana. In the following period, aid efforts have engaged local small businesses as part of economic revitalization.

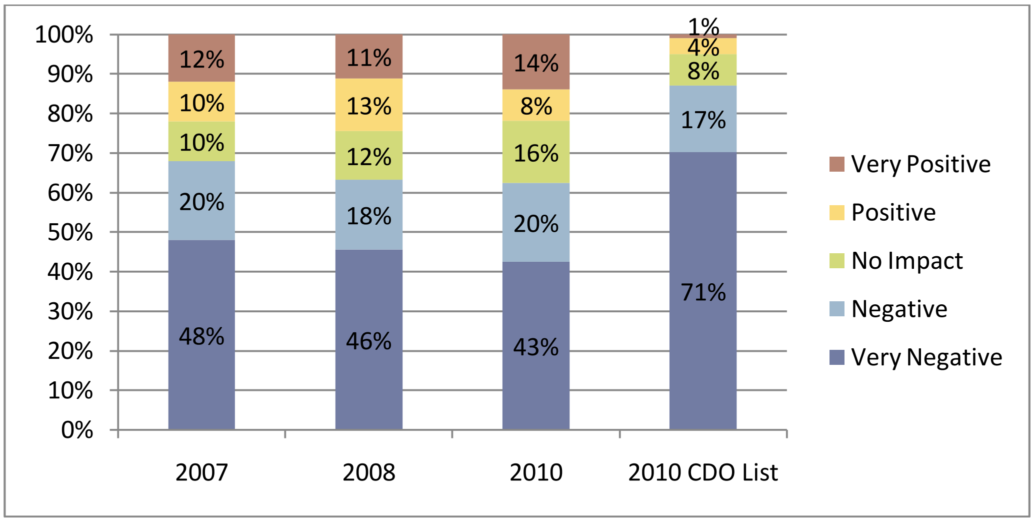
Small business assistance prompted by natural disaster aims at recovery. As such, whether or not the impact of the hurricanes is still a major factor in the activity of small businesses is a pertinent question for two reasons:

First, if the effects of the hurricanes are still strongly felt by small businesses, the benchmark of recovery must take this into account. If the loss of markets, supplies, assets, and access to financing that followed the hurricanes is still felt by small businesses, then the standard of recovery has been affected.

Second, if the effects of the hurricanes are still strongly felt by small businesses then the time frame for measuring success or failure must take this into account. Except in the case of poor performances of aid recipients, and systematically measured against similar businesses in the control set, continuing impacts of the hurricanes may be an indicator of an ongoing recovery process.

We surveyed businesses about the impact of the hurricanes on their sales, asking the same question we asked in surveys in 2007 and 2008. Figure 1 illustrates the results of the 2007, 2008 and 2010 survey responses to the question, "If your business was operating in 2005, how were your sales impacted by the 2005 hurricanes?" The 2007 and 2008 surveys included businesses in those areas of the Gulf Coast hardest hit by the 2005 hurricanes, primarily the New Orleans MSA and the Gulf Port-Biloxi MSA. The 2010 survey results shown are for only the New Orleans MSA. The 2007, 2008, and 2010 lists of small businesses came from Experian. The last column shows results for surveyed businesses from lists provided by community development organizations (CDOs) funded in part by the LDRF. Those from the CDO lists included aid recipients, those that applied for but did not receive aid, those that were either denied or did not accept aid, and those that may not have even applied for aid but interacted in some way with the CDOs (such as requesting information).

Figure 1: Impact on Sales from 2005 Hurricanes



As can be seen in figure 1, of those businesses operating in 2005, between 2007 and 2010 owners/operators have become slightly less likely to report negative impacts from the storms—from 68% in 2007 to 64% in 2008 to 63% in 2010. This may be due to two factors: (1) a fading perception of the severity of negative impacts from the storms over time and/or (2) higher exit rates of those businesses more severely (negatively) impacted.

The most striking feature of figure 1 is the huge difference between businesses from the CDO lists and the random sample from the Experian list for 2010. The results for this question lend strong credence to the hypothesis that aid-seekers are those businesses whose sales were much more negatively affected by the 2005 hurricanes than the typical small business. Approximately 71% of the former responded that they had been 'very negatively' affected by the 2005 hurricanes, as opposed to 43% of those from the random sample.

Moreover, 22% of those businesses that did not seek aid stated the effect of the hurricanes on sales had been 'positive' or 'very positive,' compared to approximately 5% of LDRF-funded aid-seekers.

These stark differences most likely stem from the facts that: (1) CDOs did a remarkable job identifying the neediest of small businesses, (2) the neediest of small businesses applied disproportionately, or (3) both. These differences caution that aid seekers were starting from a lower base of sales (and sales-related) activities. Assessments of their performance relative to those businesses that did not seek aid should factor this difference into account.

Figure 2: If your business was operating in 2005, how were your sales impacted by the 2005 hurricanes?

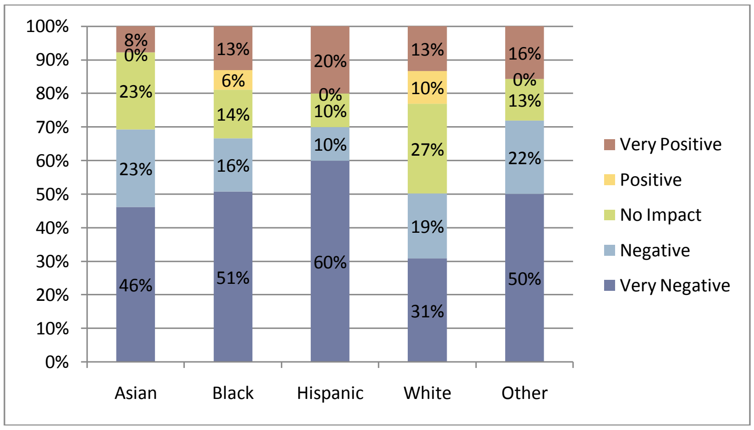


Figure 3: Closures of Business Related to 2005 Hurricanes

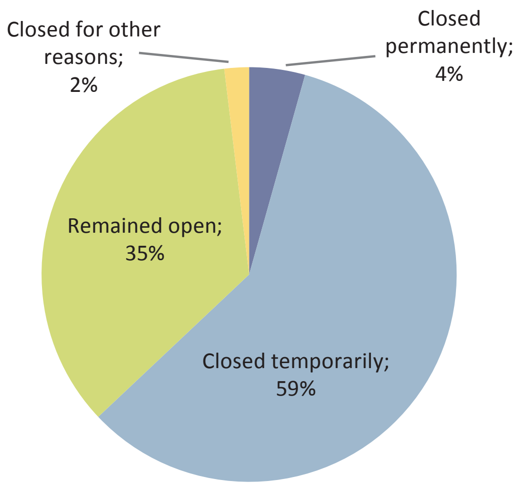


Figure 2 is consistent with earlier PERC findings that Black-owned and -operated small businesses were more negatively impacted by the 2005 hurricanes relative to white-owned businesses[3].

Using the temporary or permanent closure of business as a significant impact, it should be noted that the majority of businesses were significantly affected by the hurricanes. Of the 6% of businesses that closed permanently, two-thirds (or 4% of the total) did so because of the hurricanes. This rate of closure caused by the hurricanes (4%) is twice the 2008 national average.[4] In fact, the share of businesses that 'closed for other reasons' than the hurricanes is comparable to the rate of closure in normal times.

Nearly 60% of small businesses closed temporarily, while only 35% remained open. The true level of business closures is undoubtedly higher than indicated in figure 3, since contacting owners of businesses that have closed permanently is more difficult than contacting owners of businesses that have remained open. PERC's first analysis used the rate of business phone disconnections to examine business closure rates.[5] PERC found disconnections rates to be much higher for black-owned business than for other businesses.

[3]Turner, Michael, Robin Varghese, and Patrick Walker. "Recovery, Renewal, and Resiliency: Gulf Coast Small Businesses Two Years Later." August 2007.

[4]See Small Business Administration, "Frequently Asked Questions About Small Business." Updated September 2009, http://www.sba.gov/ADVO/stats/sbfaq.txt. Visited on March 24, 2010.

[5]Turner, Michael, Robin Varghese, and Patrick Walker. "Recovery, Renewal, and Resiliency: Gulf Coast Small Businesses Two Years Later." August 2007.

Figure 4: Location and Line of Business Changes Following 2005 Hurricanes

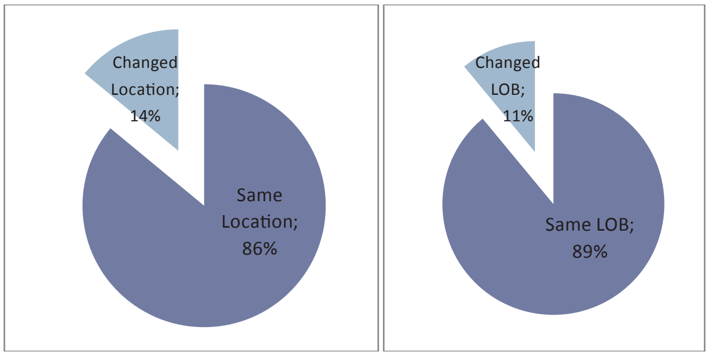
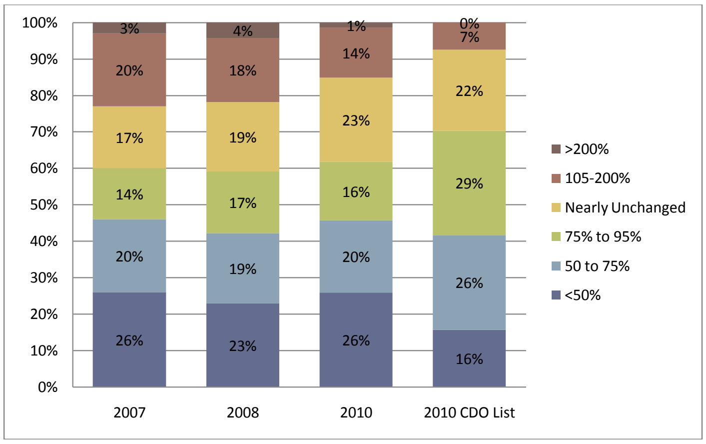


Figure 5: Sales Relative to Pre-Katrina Levels



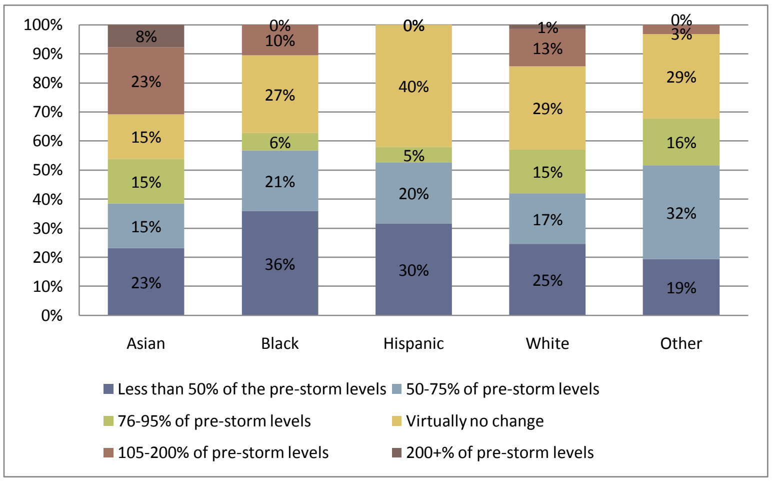
In response to the loss of the premises, of customers, or of suppliers, businesses can move, and in response to changing supplier and demand, can change the line of business. PERC also investigated business relocations and changes to line of business, finding that 14% of respondents indicated that they moved following the hurricanes, and 11% changed their line of business. Two percent changed both location and line of business, in effect becoming a new business.

Figure 5 illustrates the change in sales relative to pre-Katrina levels. Respondents were asked, "How would you compare the level of business activity/sales now compared to pre-Katrina levels?" Compared to 62% of businesses in the comparison group, 71% of aid-seekers reported that their sales were lower than pre-Katrina levels[6]. This difference suggests one of two differing conclusions: (1) aid-seekers are in greater need than those not seeking aid, or (2) aid has been relatively ineffective. The latter conclusion is less likely given responses to how the two sets of businesses were impacted by the hurricanes as illustrated in figure 1 and for reasons indicated in following sections. It should be noted that a smaller share of aid recipients had sales of 75% or less than pre-Katrina levels than the comparison group: 42% compared to 46%, respectively.

The results also suggest that there is an unmet need for assistance among businesses in the non-aid recipient group. Of these businesses, 62% indicated that their sales have yet to recover to pre-Katrina levels.

[6] This difference is statistically significant at the 95% confidence level.

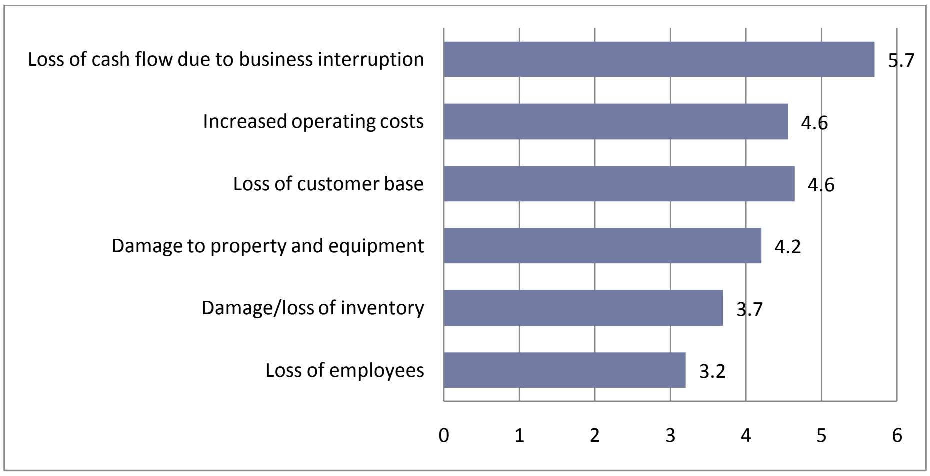
Figure 6: How would you compare the level of business activity/ sales now compared to pre-Katrina levels?



As shown in figure 6, and as found in PERC's 2007 survey, black business owners and operators are still more likely (relative to other ethnic groups) to report current sales at less than half the level of their pre-Katrina operations[7]. Sixty percent of Hispanic-owned businesses reported sales below pre-Katrina levels. Additionally, no Hispanic-owned businesses reported sales above pre-Katrina levels.

The hurricanes impacted businesses in a number of ways, as illustrated in figure 7. Three effects are of consequence and continue to have impacts (see figure 27, which suggests that operating costs remain high and that faltering demand is still an issue, one perhaps exacerbated by the recession). Cash flow (5.7 on the 1-to-10 scale of degree of impact), increased operating costs (4.6 on the 1 to 10 scale of degree of impact), and loss of customers (4.6 on the 1 to 10 scale of degree of impact) were cited as significant problems for businesses. In the next section we examine the current state of business in greater detail.

Figure 7: Rank of Factors Most Negatively Impacting Business from 2005 Hurricanes



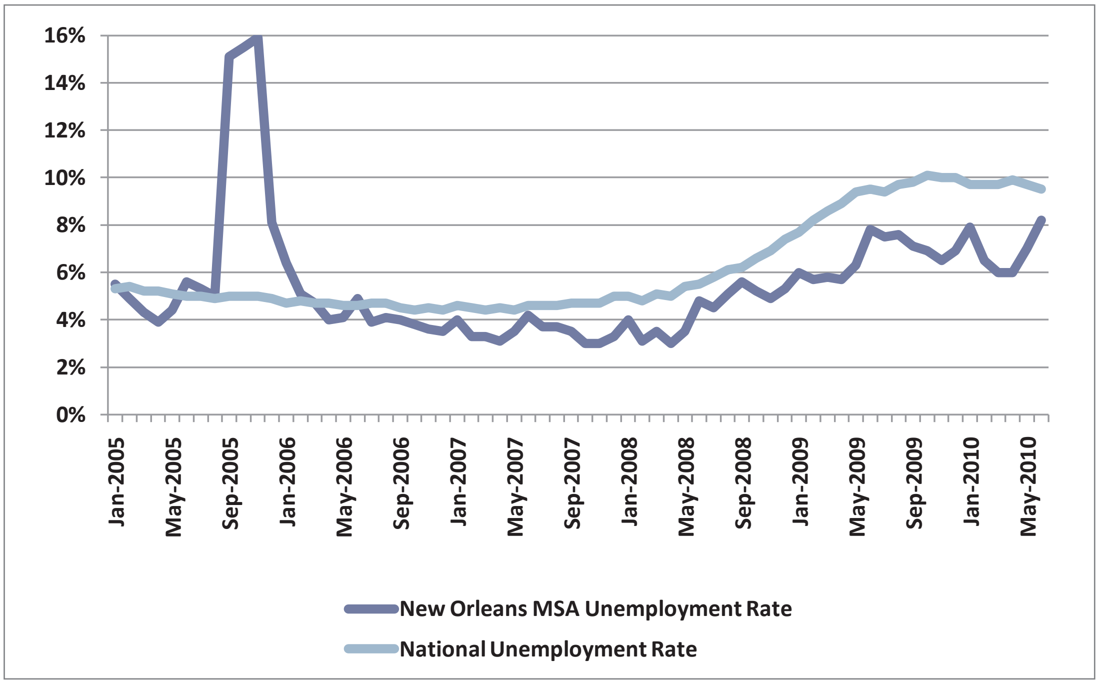
(on a scale of 1 to 10, with 1 being no impact at all, 5 being a moderate impact, and 10 being a devastating impact)

[7]Turner, Michael, Robin Varghese, and Patrick Walker. "Recovery, Renewal, and Resiliency: Gulf Coast Small Businesses Two Years Later." August 2007.

3.State of Business, 2005 to the Present

During the first eight months of 2005, the unemployment rates of the nation, of Louisiana, and of the New Orleans MSA tracked each other very well (figure 8). During the months immediately following Katrina's landfall, the Louisiana and New Orleans MSA unemployment rates spiked; thereafter those rates quickly fell and have remained below the national average. These lower-than-average unemployment rates reflect the labor shortages caused by the decline in the labor force (from the population exodus following Hurricane Katrina) and rebuilding efforts. Also clear in figure 8 is that while Louisiana and the New Orleans MSA have had relatively low unemployment rates in the initial years following 2005, the state and the MSA are very much tethered to the national economy. By mid-2008, the state and MSA rates trended upward, tracking the rate of the nation. The national recession that began in December 2007 and the sharp economic decline that began in September 2008 clearly impacted the state and MSA's economies.

Figure 8: Unemployment Rates: New Orleans MSA, Louisiana, and the Nation



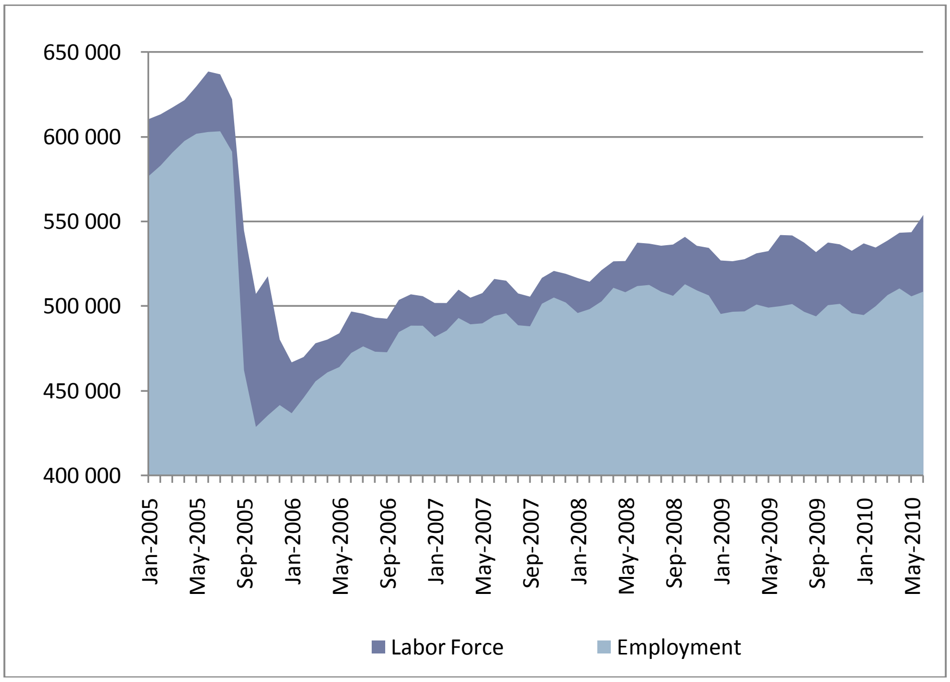


Figure 9: New Orleans MSA Labor Force and Employment Levels

Figure 9 shows changes in the two underlying variables of the unemployment rate, the size of the labor force and the number of those employed for the New Orleans MSA. A dramatic decline in the labor force and those employed is seen immediately following Hurricane Katrina's landfall. The labor force and number of employed persons made strong recoveries in 2006 and continued to recover more slowly thereafter. Neither has fully recovered, with both still down over 80,000 from the levels seen immediately prior to Hurricane Katrina.

What is also clear from Figure 9 is that while the labor force has increased somewhat (although very slowly) between early 2008 and mid-2010, employment has not. If employment is used as a gauge of recovery, it appears that the New Orleans MSA's recovery ended around September 2008, when the nation entered a sharp economic downturn.

A business's performance, however, extends beyond the quantitative measures of operationality and number of employees, and can be gauged through qualitative analysis. One key measure of how well a business is performing financially is the average number of days beyond term (DBT) it is on its obligations (credit and other bills). A business that is current on all of its bills has a DBT of zero. A business with one bill ten days late and one bill twenty days late has a DBT of fifteen.

The following results use several years of data from Experian's database of small business credit information. The data, for the subset of businesses present, are matchable with data between 2005 and 2010 (with the exception of 2008, as PERC did not have the needed data for that year). That is, the figures are based on the same set of businesses over time. As such, the results should be thought of as indexes measuring the financial well-being of businesses existing since 2005.

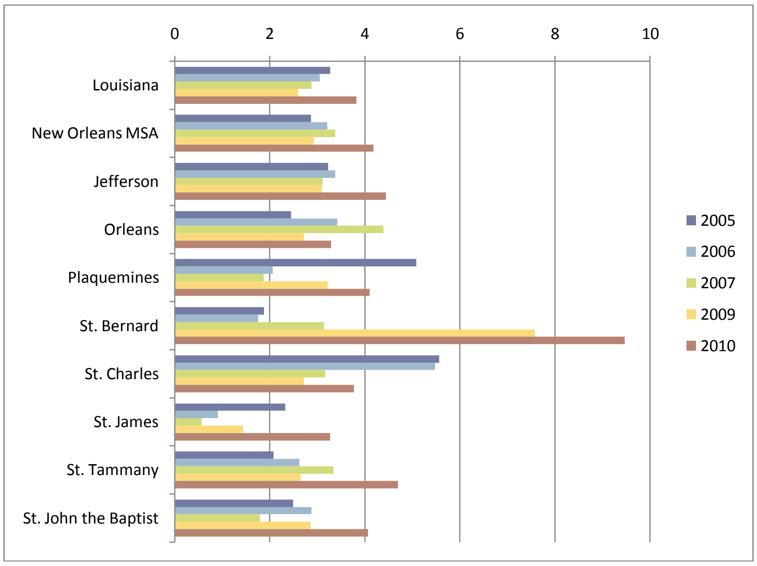


Figure 10: DBT by Geography

Figure 10 indicates that there was an increase in financial stress on businesses in the two years following Hurricane Katrina for the overall New Orleans MSA, Orleans Parish, St. Tammany Parish, and St. Bernard Parish. These were among the hardest and most directly hit parishes of the New Orleans MSA and Louisiana. The entire state of Louisiana, however, witnessed declining DBT for businesses in the two years following Hurricane Katrina, possibly benefiting from the growing national economy. At the state level, some of Hurricane Katrina's impact may have been netted out, with businesses, operations, and workers leaving the most-impacted areas of Louisiana for less-impacted areas.

Between 2007 and 2009, there is a noticeable decline in DBT in Orleans Parish and the larger New Orleans MSA. However, for all the parishes shown, the New Orleans MSA, and the state as a whole, there appears to be a strong upward trend between 2009 and 2010. It would appear that whatever recovery was beginning to take hold by mid-2008 was swiftly overtaken by the sharp national downturn that began in late 2008. This is consistent with the unemployment rate and the levels of employment for the region.

It should be noted that the performance of businesses in St. Bernard parish have been systematically and drastically worsening since 2007, i.e., since before the economic crisis. As the crisis was severely impacted by the hurricane and the ensuing relocation of much of the population (i.e., of the market), the trend is not entirely surprising. What is surprising is that the growth rate at which businesses are beyond term is itself increasing. This rise in the rate of delinquencies speaks to the need for assistance.

It may be misleading to interpret these results as indicating that the recession is having a more negative impact on small businesses than did the hurricanes of 2005. It may be, for instance, that DBT did not rise as much post-Katrina due to government and other aid flowing to small businesses, debts and other obligations being forgiven, insurance payouts, and the waiving of reporting derogatory credit information (in some cases) after the 2005 storms. Unfortunately, comparatively little aid and assistance has gone to small businesses negatively impacted by the economic downturn.

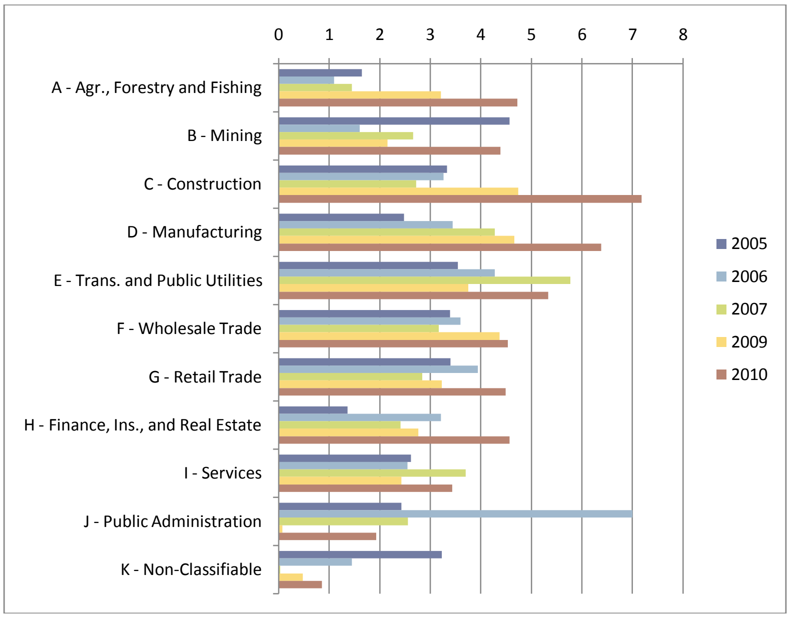


Figure 11: DBT by Industry (New Orleans MSA)

Figure 11 shows that the construction and manufacturing sectors appear most negatively impacted by the recession. Given the nature of the recession and the crisis—the withdrawal of capital, especially for real estate—this increase in delinquencies is not surprising. Service sectors have been comparatively resilient.

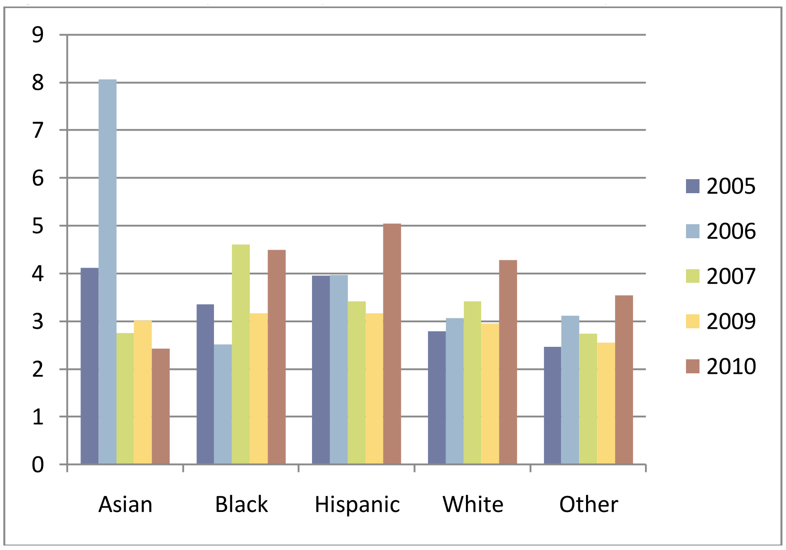


Figure 12: DBT by Ethnicity of Business Owner/Operator (New Orleans MSA)

Figure 12 shows that except for Asian-owned/-operated businesses, the spike in DBT between 2009 and 2010 was witnessed across all ethnic groups of business owners/operators.

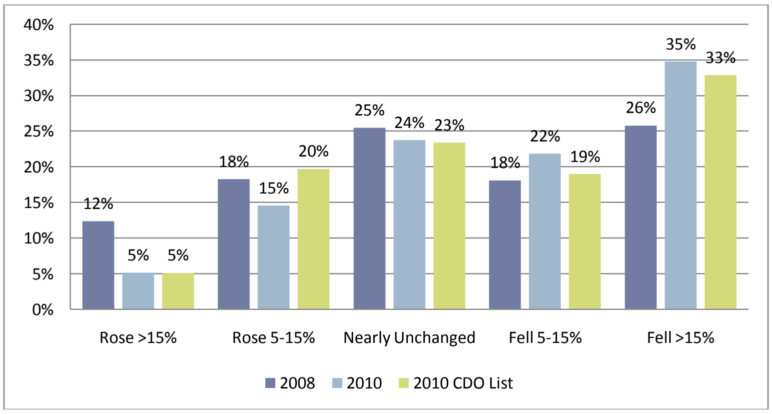


Figure 13: Change in Sales Over Previous Year

Figure 13 shows how sales have changed over the previous year as indicated by respondents in the 2008 and 2010 surveys. As shown, sales changed more negatively in 2010 than in 2008, probably owing to the severe recession.

Of the respondents from the random sample of businesses surveyed in 2010, 20% indicated that sales rose. For most of this subset (15% of the total pool), sales rose between 5% and 15%, while the remainder (5% of the total) saw increases in excess of 15%. Businesses from the CDO lists saw 2010 sales increase at a higher rate over 2009 than did businesses in the 2010 comparison group.

It could be that the aid-seekers witnessed declines in sales previous to the prior year—which was the reason they were seeking aid—and the rise in sales represents somewhat of a recovery. This is consistent with the findings from the previous section that the aid-seekers had sales more negatively impacted by the 2005 storms.

- Approximately 20% of the comparison group saw sales increases in 2010 as compared to 25% of aid-seekers.
- Aid-seekers saw modest increases in sales (5% to 15%) at a level nearly a third greater than that of the comparison group: 20% compared to 15%, respectively.
- A comparable share of aid-seekers and the comparison group saw sales increases of more than 15%.

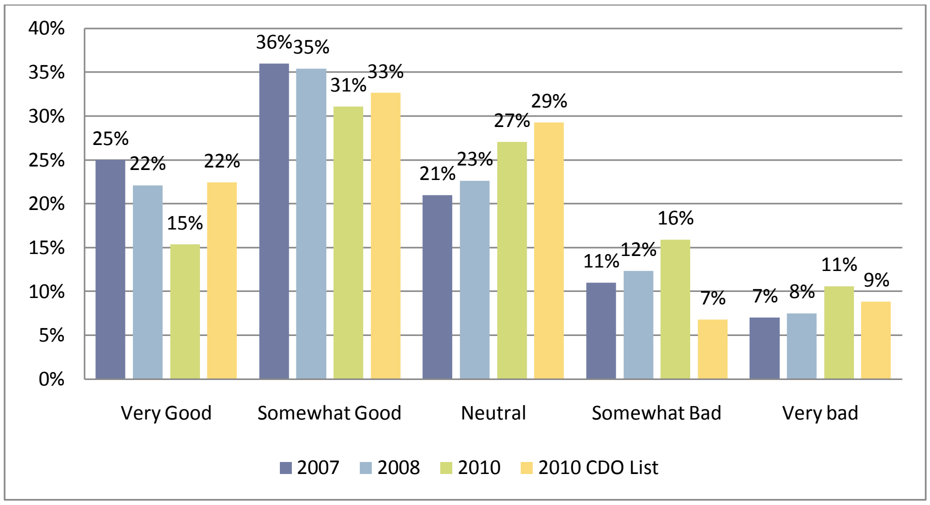
Of the random sample of businesses 57% had sales decreases in 2010 of 5% or more. (24% indicated little or no change, i.e., + - 5%.) This comparison group experienced a greater decrease in sales than did aid-seekers.

- Approximately 19% of aid-seekers' sales decreased between 5% and 15% in 2010 as compared to 22% of the comparison group.
- Approximately a third of aid-seekers and businesses in the comparison group saw decreases in sales of more than 15%.

Generally, the decline in the change in sales between 2008 and 2010 suggests the recession has had a significant negative impact on recovery in the region.

Respondents were asked about their view of prospects for the coming year and beyond. Figure 14 shows the responses regarding near-term prospects, and figure 15 shows the responses for longer-term prospects. Both figures provide comparisons with responses in 2007 and 2008. The larger pool of businesses and the comparison set were more pessimistic about both the near-term and long-term than the overall set of respondents in 2007 and 2008; aid-seekers' level of optimism was greater than those from the random sample of businesses. It should be noted that all were less negative about longer-term prospects than about shorter-term ones.

Figure 14: Near-term Prospects (over the next year)



Survey respondents were asked how they feel about the prospects for their business over the next year. Of those from the 2010 survey, 15% indicated that they felt "very good" about their prospects, 31% felt "somewhat good," 27% felt neutral about their prospects, and 27% felt bad in some way.

Aid-seekers were more optimistic than the comparison group about their prospects for the coming year, the year following, and beyond.

▶ Approximately 15% of the comparison group responded that prospects for the coming year were "very good," compared to 22% of the aid-seekers group; a larger difference is seen for longer-term prospects (19% vs. 27%).

▶ A slightly larger share of the comparison group responded that their prospects for the coming year were "somewhat good" than did the aid-seekers group (33% vs. 31%).

▶ Of the aid-seekers, 16% felt the prospects for the coming year were bad, while 27% from the comparison group felt that way.

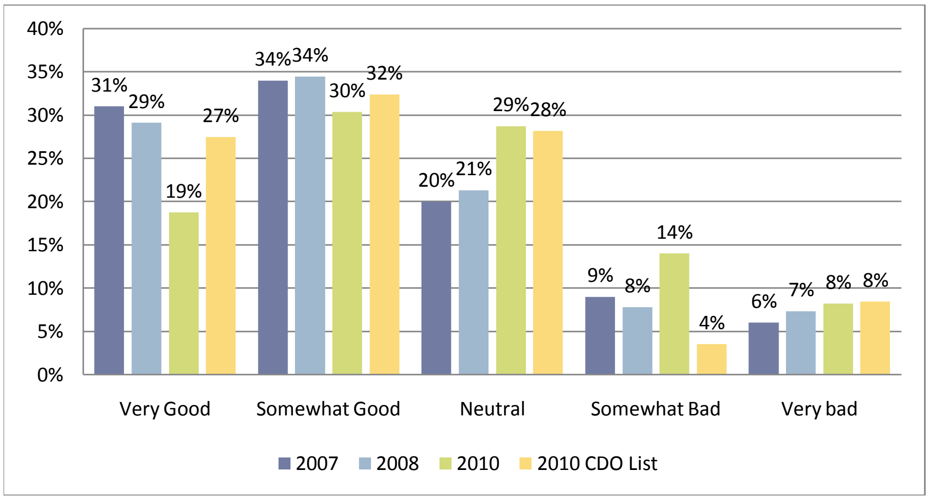


Figure 15: Longer-term Prospects (beyond one year out)

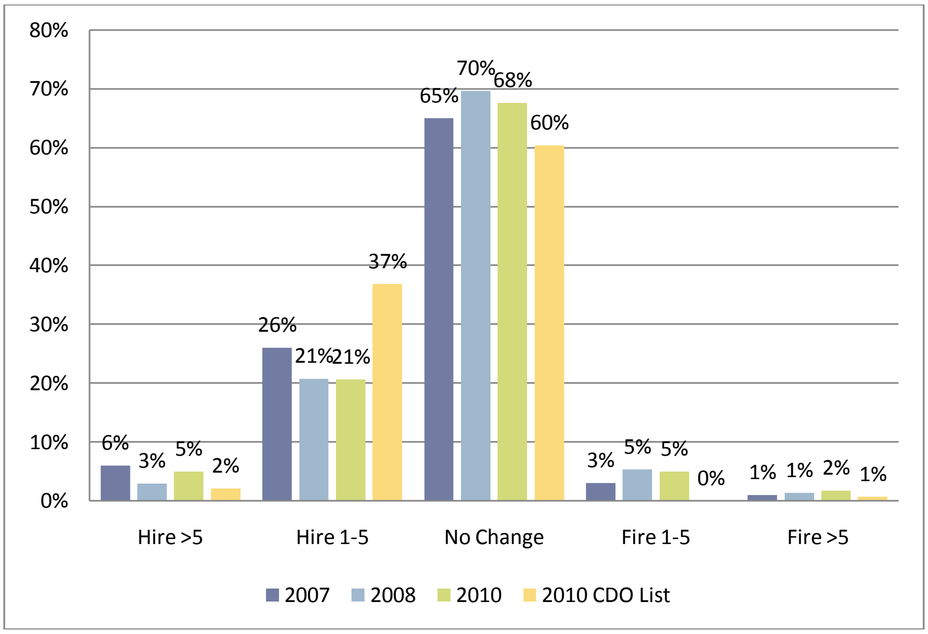


Figure 16: Expectations to Hire/Fire Over Next Year

Expectations to hire/fire over the coming year appear most significantly. Aid-seekers are more likely to expect increases in employment over the coming year than either the comparison group or the overall pool of businesses. Moreover, the share of aid-seeker respondents who expect to hire over the next year is the larger than any share of any overall pool, 2007's, 2008's and 2010's.

The increased likelihood of hiring among the aid-seekers is statistically significant at the 95% level of confidence.

4. Small Business Aid

Thirteen respondents who received loans from LDRF-funded organizations provided loan amount information; for this group the median loan was $10,000. Thirty respondents from this group provided grant amount information; the median grant for this group was $3,000. This compares to the control samples' median loans of $50,000. For the control sample, thirty-seven respondents reported loan amount information. Nearly all of the loans were from the SBA. The median interest rate reported for this group was 3.9%.

One interesting difference between those that received LDRF-funded aid and those that received SBA loans is the reported severity of hurricane impacts on business sales. Where 71% of those who received aid from LDRF-funded organizations reported the most severe impact, that their business was affected "very much negatively," only 42% of those who reported receiving non-LDRF funded loans (and did not receive LDRF-funded aid) reported the most severe sales impact.

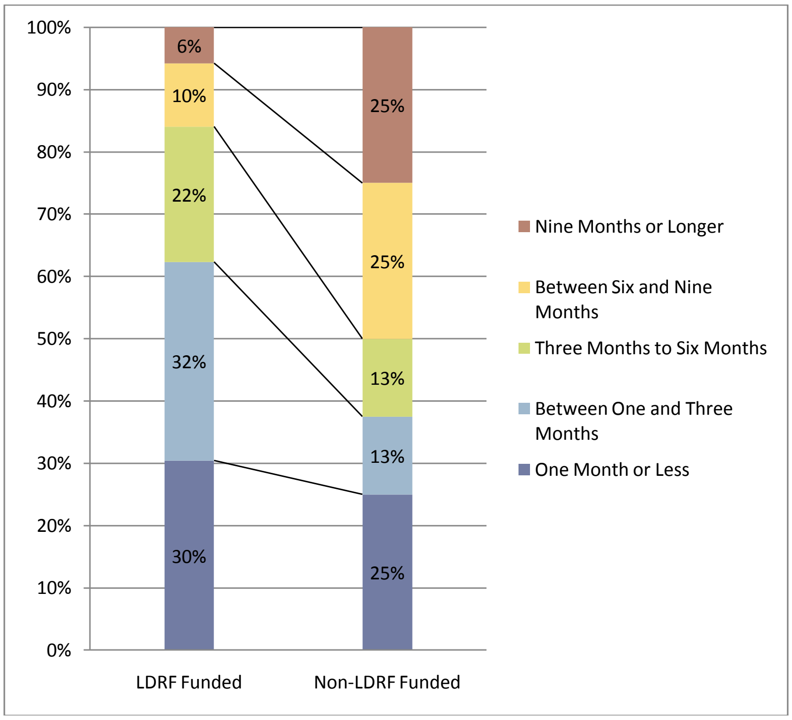


Figure 17: Time to Receive Aid

Figure 17 shows that there is also a big difference in the speed with which aid is delivered. The LDRF-funded aid was received much quicker than the non-LDRF funded aid. For instance, 62% of the LDRF aid was dispersed in three months or less. Only 38% of the non-LDRF funded aid was distributed as quickly. Within six months of applying, 84% of the LDRF aid was distributed, while only around half of the non-LDRF aid was distributed as quickly. The LDRF-funded aid got to applicants roughly one to three months faster than the non-LDRF aid.

Figure 18: Perceived Usefulness of Technical Assistance Received from LDRF-Funded Organizations

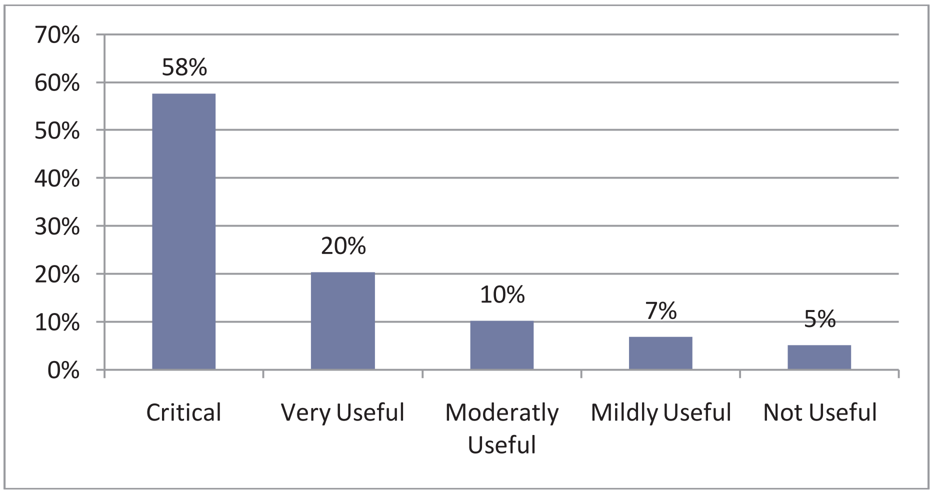


Figure 18 shows that nearly 80% found technical assistance from LDRF-funded organizations aid to be either critical or very useful. Only 5% saw no value in the technical assistance.

All those that received funds from LDRF-funded organizations indicated that they had used the funds for the purposes requested on their aid applications. Ninety-one percent indicated that the investments made with the funds were either very useful or critical.

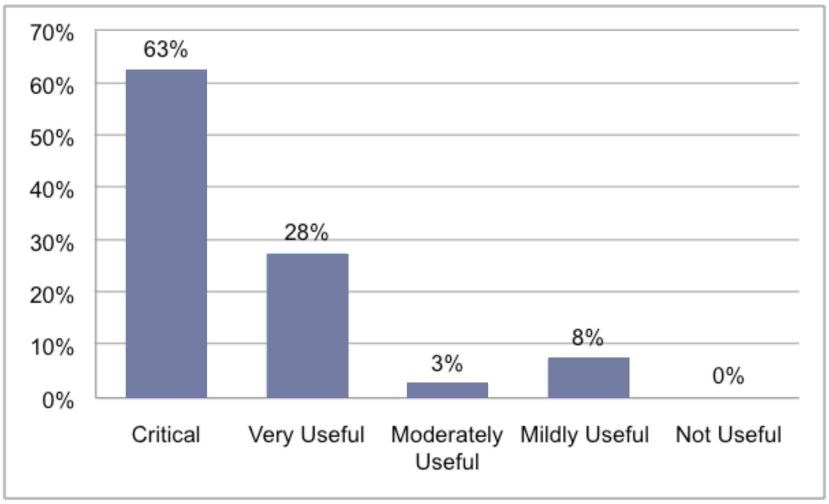


Figure 19: Perceived Usefulness of Investments Made with Funds Received from LDRF-Funded Organizations

Responses from the survey question on how funds were used, as shown in Figure 20-A, indicate that nearly half (46%) of all aid recipients used funds to recover from the damage to property, capital, and goods caused by the hurricanes. Thirty-two percent of firms used it to compensate for cash flow disruptions and the negative consequences of those disruptions to operating expenses (24%) and credit obligations (8%). A slight majority of the funds were used for repairing or replacing damaged property, equipment, or inventory.

The breakdown of organizations that did not receive aid by the intentions for how to use grant money is noticeably different to that of the businesses that did receive aid, as indicated in figure 20-B. For those that sought but did not receive funds from LDRF-funded organizations, 21.6% planned to use such funds for repairing or replacing property, equipment, or inventory directly damaged by the hurricanes. Thirty percent indicated that they planned to use it for other purposes, including public relations, advertising, web page development, and starting a business.

Figure 20-A: Use of Investments Made with Funds Received from LDRF-Funded Organizations

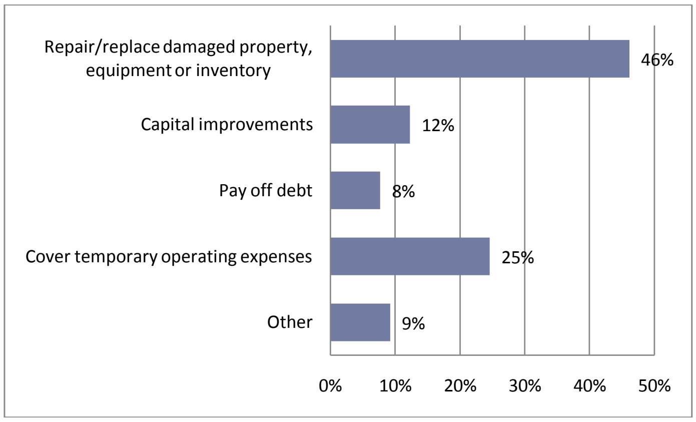
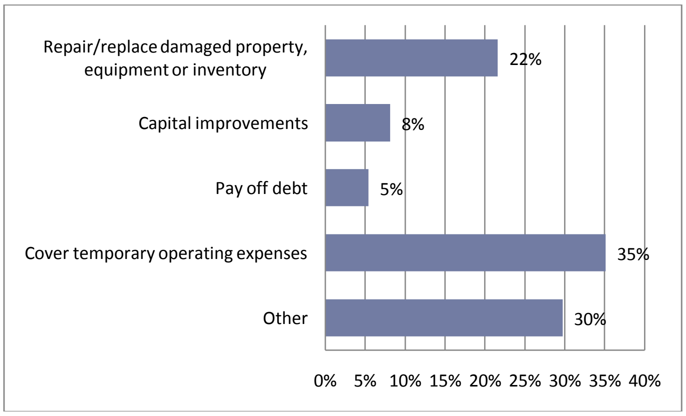


Figure 20-B: Planned Use of Investments If Funds Received from LDRF-Funded Organizations

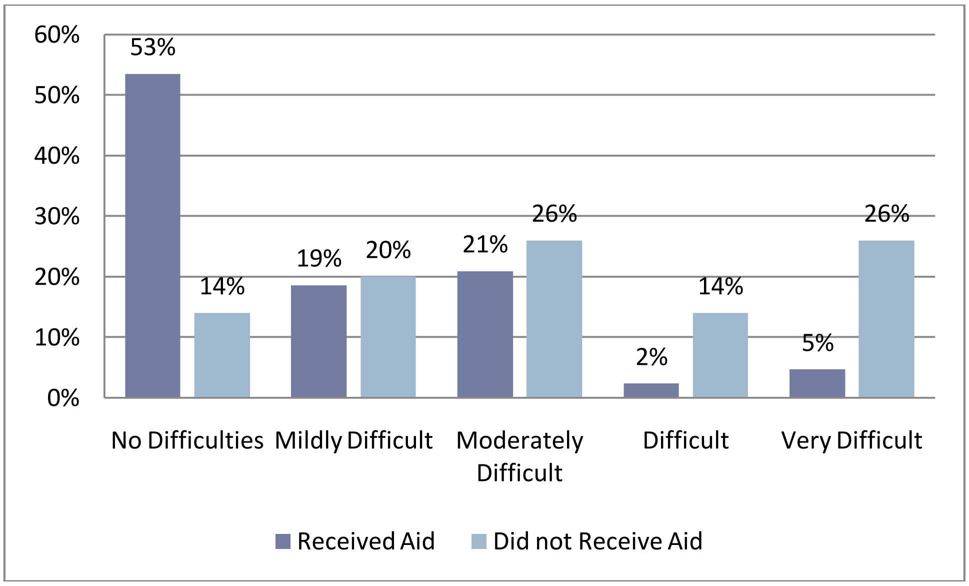
(businesses that applied but did not receive funding)



Figures 20-A and 20-B suggest that the CDOs dispensing aid largely targeted damaged firms and were more likely to turn away firms seeking assistance with funds for marketing (e.g., public relations, advertising, and web page development) and new business start ups. The focus of funding clearly seemed to be on saving those hardest hit by the hurricane, evidenced in selection of small businesses.

An alternative possibility is that many of those businesses that were directly damaged by the hurricanes in the non-recipient pool did *not* survive. The resulting differences in composition of businesses according to how they intended to use the aid reflect this bias. If so, then aid was successful in another way, in preventing a higher rate of damaged businesses from going under.

Figure 21: Difficulties in Applying for Aid From LDRF-Funded Organizations



We also surveyed aid applicants on whether the application process was difficult (figure 21). Slightly over 70% of those that received aid from LDRF-funded organizations indicated that the application process was not difficult or only mildly difficult. On the other hand, around two-thirds of those that sought but did not receive aid from the LDRF-funded organizations said the process was moderately or more difficult.

The respondents of the two groups (those that received aid and those that did not) were asked whether they would recommend any changes to the application process; 36% of those that received aid and 77% of those that did not would recommend changes.

The following are some of the comments from those who were unhappy with the process or who would recommend changes. As such, the following comments tend to be negative. It should be remembered that the majority of those who interacted with the CDOs were very happy with them and their caseworkers and would not recommend changes.

Negative Comments, Criticisms, and Suggested Changes of those that RECEIVED CDO AID

- "If [CDO] or another [CDO] was able to offer periodic free classes on QuickBooks or account[ing] it would be very helpful to small businesses."
- "Instead of help from graduate students … I needed help from other business owners in the photography business."
- "They asked for the same information repeatedly after it was given."
- "Maybe they could work faster."
- "Just have more assistance available."
- "[We] couldn't make any payments [and] were sued by [CDO] [and] had to let employees go. [It was] hard to compete with illegal immigrants. [We] lost all of our employees and are barely surviving."
- "[They] changed interest rates in middle of loan period. [I] wouldn't recommend it."
- "[It] took too long to further split funds, so [I] received less and it took longer. By that time, business dropped, so [I] stopped it. [CDO] is not good. It is difficult for them to understand business people's needs; they don't have business knowledge."
- "I wish they didn't take some of my grant money away."
- "The process takes forever."
- "[There was] no single point of contact."
- "Cumbersome paperwork; send money quicker."
- "They could have explained step-by-step [and] clearly stated how much the economic downturn is affecting the business."

Negative Comments, Criticisms, and Suggested Changes of those that DID NOT RECEIVE CDO AID

- "It's so subjective, just wished I could've talked to someone one-on-one."
- "[CDO] should have an automated email response to loan applications submitted online, saying 'Thanks for applying; If you don't hear from us in [amount of time] please call us at [#].'"
- "I did not like them."
- "They could at least acknowledge the applicants."
- "Make [the process] easier and respond to applicants."
- "Make resources more readily available."
- "They need to have more funds available."
- "Make it less intrusive, but overall it's great."
- "They refused to answer the phone or return calls or emails."
- "[CDO] should reply."
- "[I] only met with them, [gave my] presentation and never heard back."
- "It's unpleasant, ineffective, and understaffed."
- "Not sure why the business idea was rejected, but the process is okay and [CDO] is great."
- "[I] never actually started the application process. A woman from [CDO] came and said she liked [our] idea but I never contacted them again."
- "Help those who need it!"
- "Professionalism and promptness is needed."

- "I didn't like the process."
- "It's very difficult for the average small business to get financial help."
- "[I] gave information to the organization but never heard back, [so I] didn't actually apply."
- "The process is frustrating."
- "Everyone needed help but I guess there wasn't enough to go around."
- "[I] wish they would help."

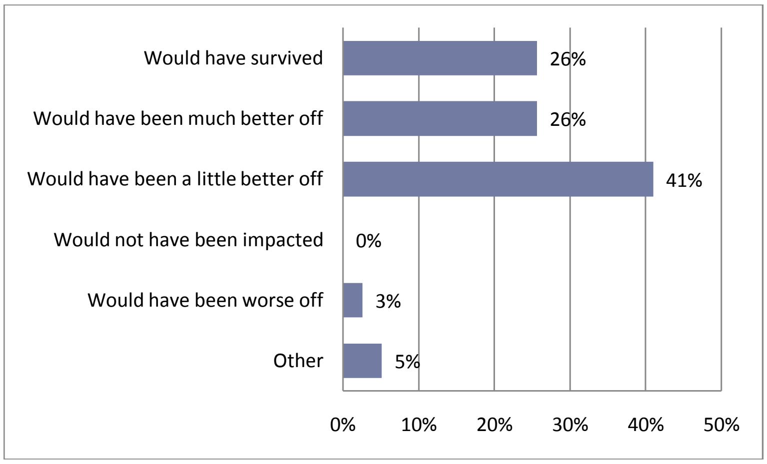
Other General Comments

- "So much red tape has steered me away from trying to get assistance. [A] company asked [me] to give $7,000 upfront to receive a grant and now [I'm] skeptical of organizations offering aid."
- "[My] main concern is not having knowledge of what's available as far as aid for [my] business."
- "[I] want to seek aid but really have no idea where to start. [I'm] afraid to get into debt."
- "I'm very disappointed because the process is so tedious and difficult for people who need it most."
- "They want you to jump through hoops in order to get aid for your small business. I only depend on myself."

Aid applicants likely always desire a faster process. However, compared with other aid such as SBA loans, the LDRF-funded organizations appear to have a fairly fast application and aid disbursement process. The second desire, for more resources and funds, may be somewhat outside of the control of the CDOs, though to the extent that the CDOs can demonstrate the usefulness of their assistance via statistical data and case studies, they may be able to influence funding. A clearer process with better communication is certainly an area that the CDOs can adjust without much cost. Finally, the CDOs may want to examine to what extent their current programs meet the needs of their clients.

In addition, a general comment heard a number of times was that some small business owners who sought assistance from a particular CDO were simply told their business did not meet the criteria to be assisted. Similarly, some business owners were told the type of assistance they were seeking was not available from the CDO. While many or most CDOs may already do so, a comprehensive list of locally available small business resources should be utilized to help redirect small business owners or entrepreneurs seeking assistance at a CDO that may be unable to assist them.

Figure 22: Impact on Business if *Had* Received Aid from LDRF-Funded Organizations (businesses that did not receive such aid)



The businesses that sought aid but did not receive it from the LDRF-funded organizations were asked how their small business might have been impacted if they had received the aid for which they had applied. Half of the business owners indicated that their business would have been much better off or survived, 41% percent indicated that their business would have been a little better off, and only 6% indicated their business would have not been impacted or would have worse off (presumably by taking on debt).

When comparing businesses that received aid from LDRF-funded CDOs to those that did not, the fact that a much larger share of the CDO-assisted businesses were negatively and very negatively impacted by hurricane Katrina should be taken into account. Since a large majority of the CDO-assisted businesses were very negatively impacted by Hurricane Katrina, the following comparisons are made between CDO-assisted businesses and non CDO-assisted businesses at the same point in time, February 2010, and only for business that were very negatively impacted by Hurricane Katrina (as reported by the business owner/operator).

Figure 23: Differences in Sales Relative to Pre-Katrina Among Businesses that Reported Being Very Much Negatively Affected by Hurricane Katrina

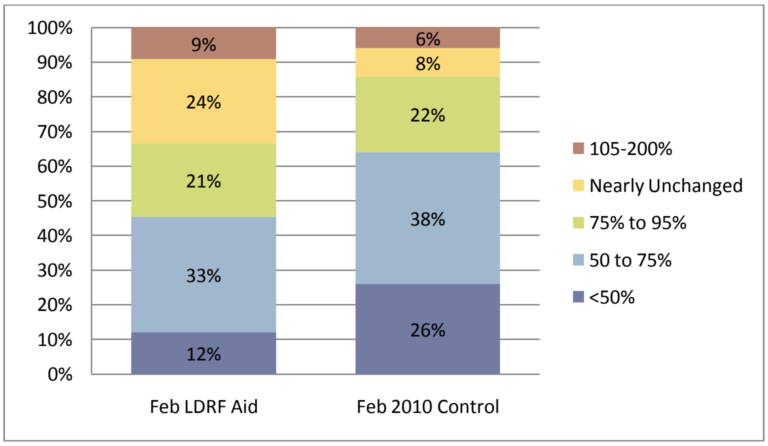


Figure 23 compares sales relative to Pre-Katrina levels between the two sets of businesses. For those business very negatively impacted by Hurricane Katrina, CDO-assisted businesses were much more likely to recover sales relative to the non CDO-assisted business. Around a third of the CDO-assisted businesses essentially fully recovered compared to around 14% of those not assisted by the CDOs. And while 45% of CDO-assisted businesses still had sales down by more than a quarter from pre-Katrina levels, 64% of businesses not assisted by the CDOs had sales similarly down.

Figures 24 and 25 compare these groups (those very negatively impacted by Hurricane Katrina) on their expectations for the prospect of their business over the near- and long-term.

Over both the next year (near-term) and beyond (long-term) business owners and operators who were assisted by the LDRF-funded CDOs were more positive about the prospects for their businesses.

Half of the CDO-assisted businesses were positive about business prospects over the next year while only 38% of businesses not assisted by the CDOs were positive. And while 22% of CDO-assisted businesses were negative about business prospects over the next year, 38% of those not assisted by CDOs were negative. A similar pattern is seen for the longer term prospects of the businesses.

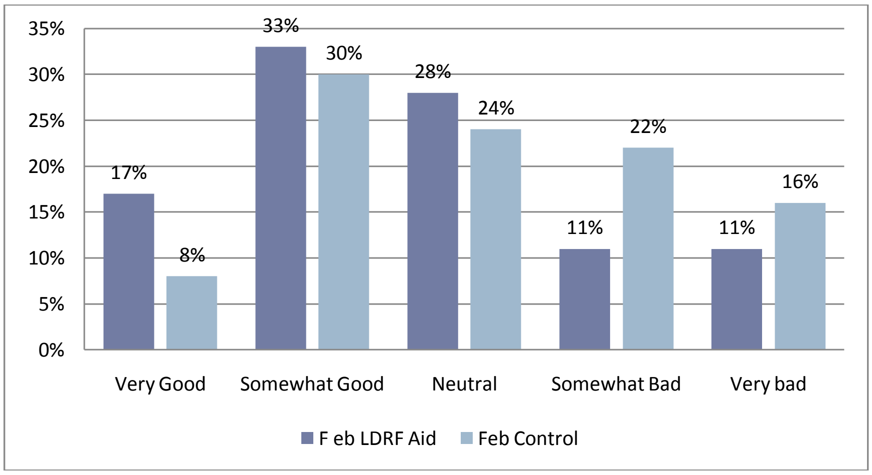


Figure 24: Differences in Near-Term Business Expectations Among Businesses that Reported Being Very Much Negatively Affected by Hurricane Katrina

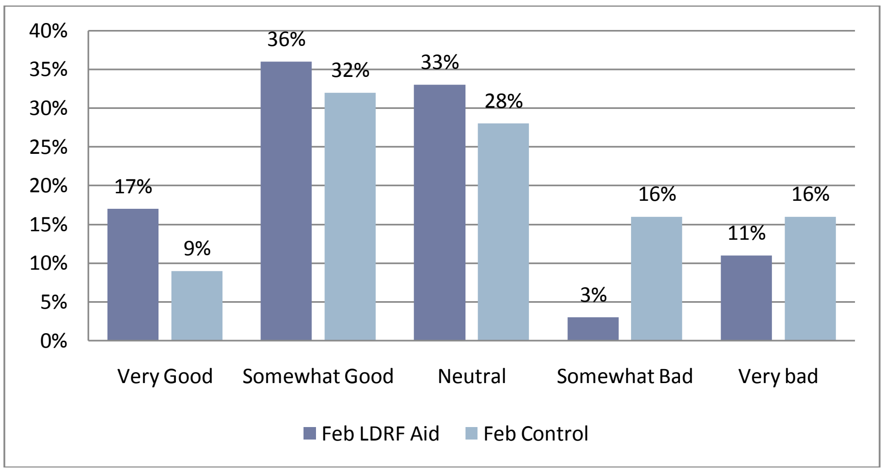
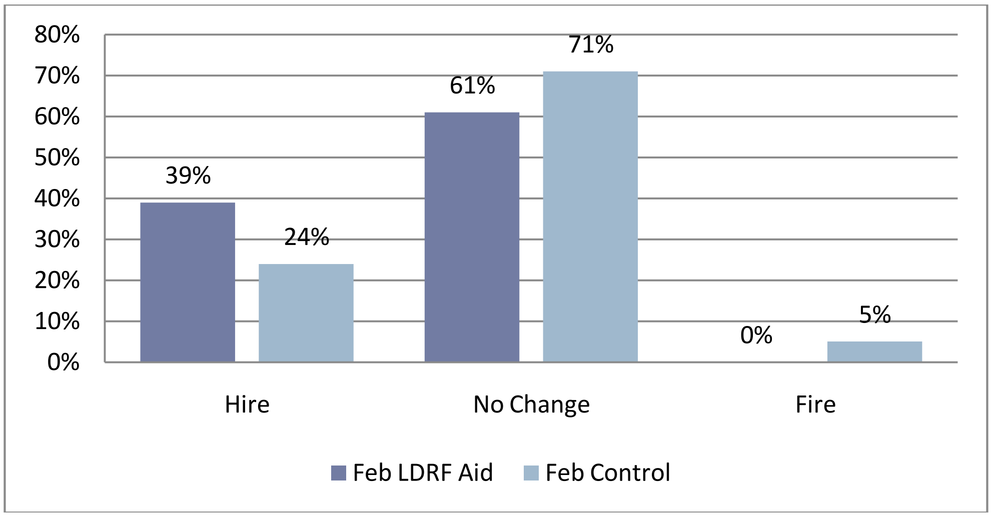


Figure 25: Differences in Long-Term Business Expectations Among Businesses that Reported Being Very Much Negatively Affected by Hurricane Katrina

Consistent with their differing levels of optimism, those businesses most severely impacted by Hurricane Katrina indicated that they were much more likely to hire and less likely to fire if they had received aid from an LDRF-funded CDO. Comparing levels of optimism and future expectations to actual sales changes in a previous study, we found clear evidence that the future expectations were related (though perhaps weakly) to actual outcomes[8]. Therefore it may not be surprising to find actual hiring outcomes, while not perfectly described by figure 26, reflect greater hiring among those businesses that received aid from LDRF-funded CDOs.

Figure 26: Differences in Hire-Fire Expectations Among Businesses that Reported Being Very Much Negatively Affected by Hurricane Katrina



[8]Turner, Michael, Alyssa Lee, and Patrick Walker. "Recovering But Not Recovered: Gulf Coast Businesses Three Years Later" August 2008

5. Current Small Business Challenges and Needs

We asked respondents about the degree of challenge posed by various aspects of business activity. Specifically, they were asked to rank the difficulty presented to their company on a scale of 1 to 10, with 1 being not difficult at all and 10 being extremely difficult. Figure 27 shows the responses as to the perceived types of challenges faced and figure 28 shows perceptions about the sources of the challenges.

Operational challenges related to supply and labor and regulation have steadily become less important issues over time, as the hurricanes recede into the past. These were among the hurdles that businesses identified as primary in 2007 and 2008. By 2010 labor and supply issues were hardly issues at all.

Figure 27: Challenges Facing Small Businesses

(On a scale of 1 to 10, with 1 being not difficult at all and 10 being extremely difficult)

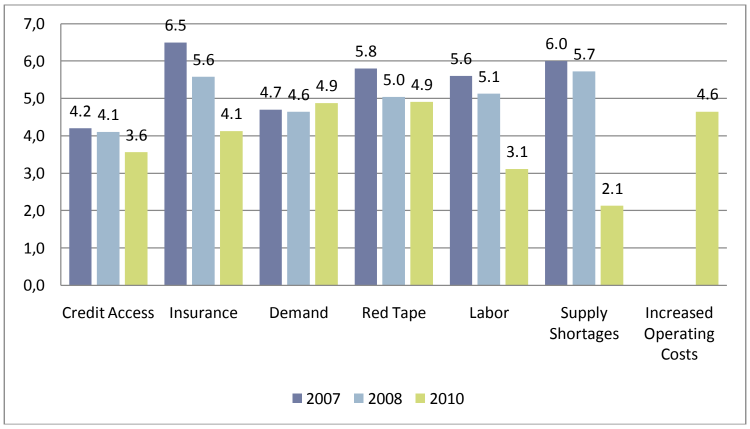
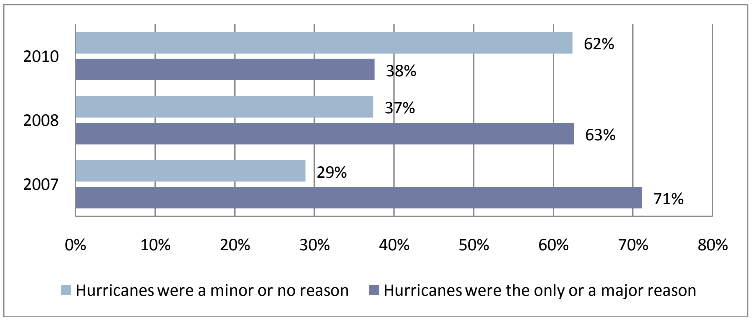


Figure 28: Perceived Cause of Challenges



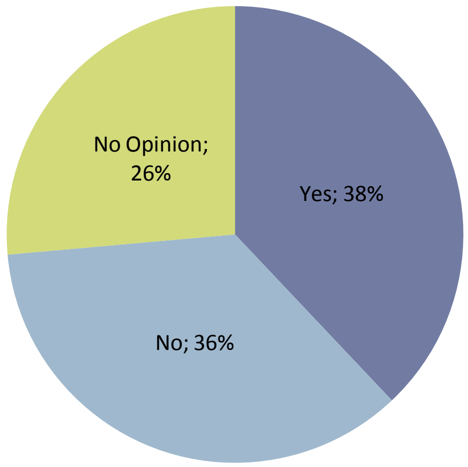
Access to insurance and insurance payouts remained a major challenge, albeit less so than in years past. According to the 2010 survey, access to insurance and the ability to receive payouts was the fourth most significant obstacle faced by businesses, after demand, red tape, and increased operating costs; it was the most significant obstacle of the set of challenges common with previous surveys, in keeping with the results of those surveys.

Access to credit as a challenge has declined slightly since 2007. The only challenge to have increased since 2007 is demand, which has risen to tie red tape as the top obstacle. This is consistent with the current persistent economic downturn overtaking other causes of challenges faced by small businesses.

Nonetheless, while it is true that the hurricanes, as expected, are perceived as less as cause of challenges to business activity in 2010 than they have been in years past, they surprisingly remain cited at the sole or major cause of economic challenges by over a third of respondents nearly five years after the disasters (figure 28).

The survey also indicates that access to credit remains a challenge and is perhaps becoming more so for some key groups. For instance, the aid-seekers and black-operated businesses cite credit access as more of challenge relative to other groups. Figures 29 through 34 illustrate survey responses regarding issues of credit and credit access.

Figure 29: Is Access to Loans at Competitive and Fair Interest Rates a Major Challenge?



First, a plurality of respondents (38%) from the total pool indicated that access to credit is a major problem. Twenty-six percent of respondents had no opinion, suggesting that they have not attempted to access credit and thus are not able to determine whether it is a problem or not. If those without an opinion on access to credit break in similar shares for those who have opinions, nearly half of all small businesses have credit access challenges. Access to credit is much more of a challenge for aid-seekers than for our control.

This difference lends some credence to the hypothesis that those businesses that face greater operational and market challenges are more likely to seek and/or receive aid. Again, as such, the standards for the success of aid will have to be conditioned simply because aid-seekers and businesses in the wider comparison group are not, on average, 'starting' at the same place.

Figure 30 suggests two significant differences between aid-seekers and businesses in the comparison group. First, aid-seekers are clearly more likely to see access to credit as a major challenge (43% compared to 36%). This may be one reason why they sought aid in the first place.

Second, aid-seekers were more likely to have an opinion about the difficulty of accessing credit; only 20% of aid-seekers had "no opinion" on the issue, compared to 29% of the comparison group. This difference suggests that more aid-seekers have experience with shopping for credit or with changes in credit access than do businesses in the comparison group.

Figure 30: Difference in Perceived Access to Loans at Competitive and Fair Interest Rates a Major Challenge to the Small Business by Sample

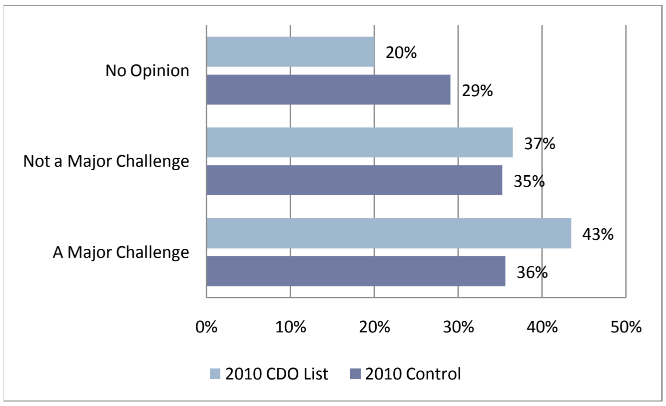


Figure 31: Change in Access to Credit Since the Credit Crisis that Began in Late 2008

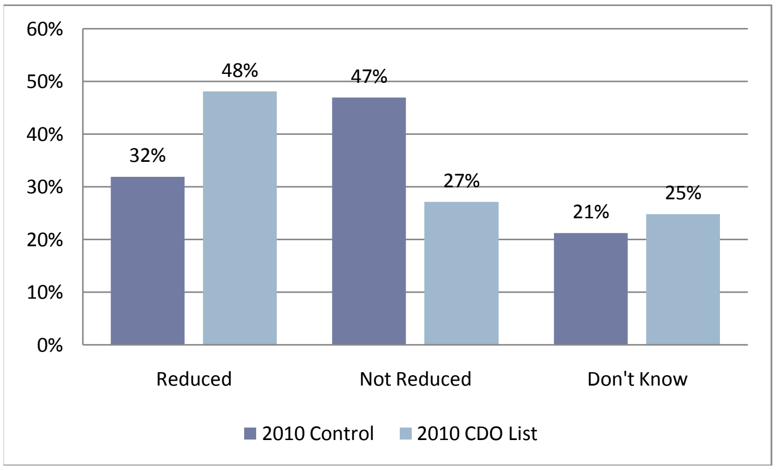


Figure 31 provides further evidence that aid-seekers face greater challenges in the market for credit that do other businesses. This difference may point to the cause of their search for aid in the first instance. We asked survey respondents, "Following the credit crisis that began in late 2008, did your access to credit get reduced?" Thirty-six percent of all respondents indicated that their access to credit was reduced, while 43% indicated that their access to credit was not reduced but either did not change or was increased.

The results also indicate that aid-seekers disproportionately felt this reduction in access to credit. Nearly half of all aid-seekers (48%) indicated that their access to credit was reduced, compared to less than one-third of businesses in the comparison group (32%) that responded similarly. Nearly half of all businesses in the comparison group (47%) indicated that their credit access was either unchanged or increased, compared to approximately one-quarter of aid-seekers surveyed: the difference was nearly 2 to 1.

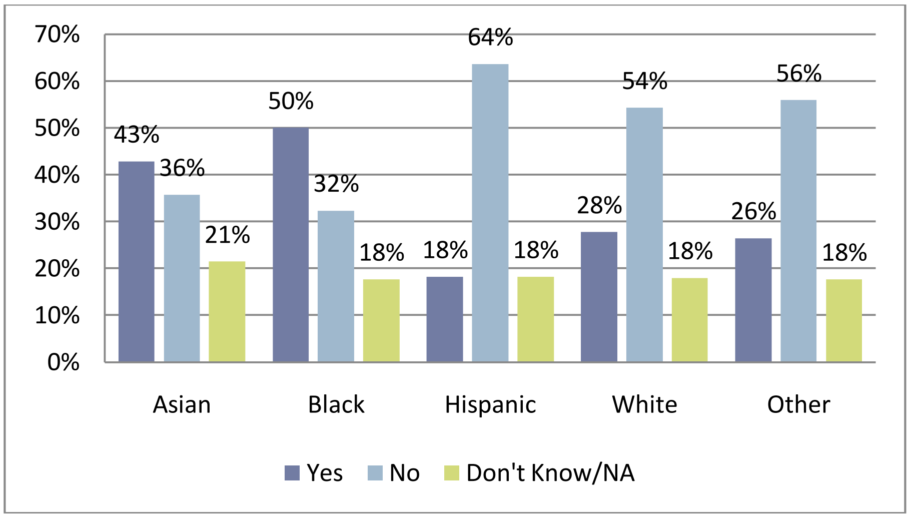


Figure 32: Following the credit crisis that began in late 2008, was your access to credit reduced?

As seen in figure 32, Black business owners/operators were much more likely to indicate that their credit had been reduced since the credit crisis of 2008.

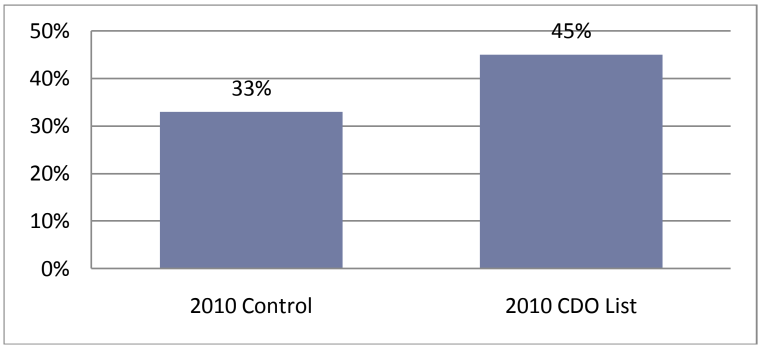


Figure 33: Share of Samples that Have Personal Credit Cards and are More Reliant on Personal Credit Cards for Business Purposes Since the Hurricanes of 2005

The survey results indicate that not only are aid-seekers more challenged in accessing credit, they are also more reliant on personal credit for their operations. Many small businesses often rely on the personal credit cards of the business owner for their credit needs. Figure 15 indicates that there is a marked difference in the use of personal credit cards for business purposes between the business in the comparison group and aid-seekers. Nearly half of aid-seekers (45%) indicated that they were dependent on personal credit cards for business operations, as compared to one-third of businesses in the comparison group (33%). The finding that the aid-seekers have become more reliant on personal credit cards is statistically significant at the 95% level of confidence.

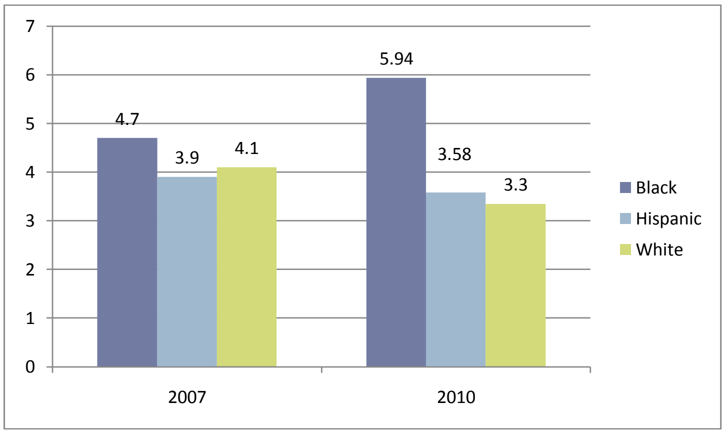


Figure 34: Difficulty of Accessing Credit
(On a scale of 1 to 10, with 1 being not difficult at all and 10 being extremely difficult)

It is unadvisable to use a single comparison in performance between those businesses that received aid and those that did not. The measure of success of aid must be nuanced; it may be the case that, given uneven "starting points," aid recipients doing as well as businesses in the control group is a sign of success. Consistent with the findings in figure 32, figure 34 shows that Black respondents were much more likely to consider credit access as a major challenge in 2010, relative to other groups and 2007.

The results shown in figure 35a, indicating that younger or newer businesses have greater difficulty accessing credit, is not surprising. These results, however, do point to the particular need among startups with regard to financing. It may be the younger smaller businesses that are most in need of need of specialized financing offered by CDOs.

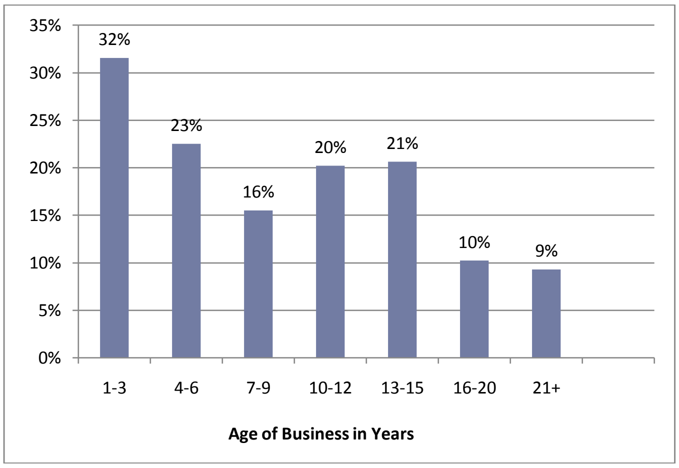


Figure 35a: Extreme Difficulty of Accessing Credit by Business Age

Figure 35b shows that among businesses 6 years old or older, there is little difference between the smallest small businesses and larger businesses in the share finding credit access extremely difficult. And there is also little difference between these groups and young businesses that are 'large' (having four or more employees). The group that stands out as having the most difficulty in accessing credit is the group made up of the youngest and smallest businesses. It is precisely the young and small businesses that have been shown in recent research to be particularly important in creating (net) new jobs.[9]

As seen in figure 35c, we also find evidence supporting the hypothesis that younger businesses contribute disproportionately to the creation of (net) new jobs. Figure 35c looks at the net share of businesses expecting to hire by age. By net share it is simply meant the share expecting to hire minus the share expecting to fire. So, for the youngest businesses, those 1 to 3 years old, 25% expected to hire and 4% expected to fire, therefore the net share expecting to hire is 25% - 4%= 21%.

This net share expecting to hire is slightly greater for younger businesses than it is for older businesses.

Figure 35b: Extreme Difficulty of Accessing Credit by Business Age and Size

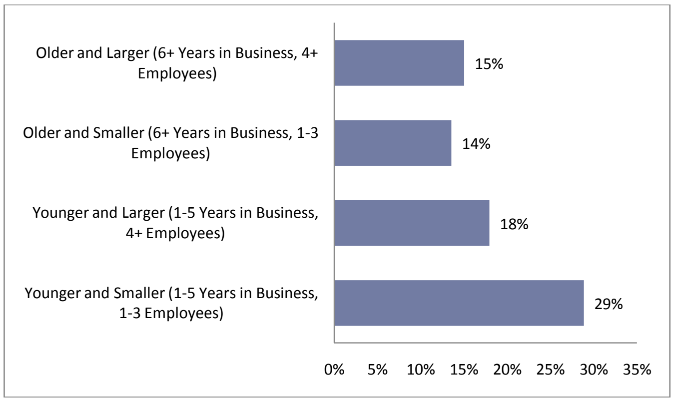
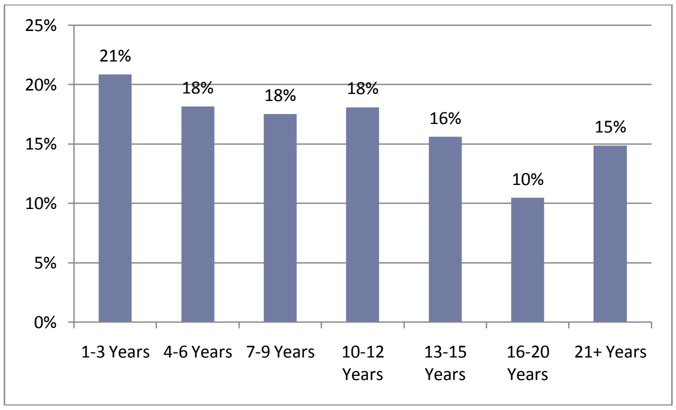


Figure 35c: Net Share of Businesses Expecting to Hire Over the Next Year by Business Age



[9] Haltiwanger, John C., Ron S. Jarmin and Javier Miranda. Who Creates Jobs? Small vs. Large vs. Young Working Paper 16300, Available at http://www.nber.org/papers/w16300

Figure 36: Current Unmet Needs

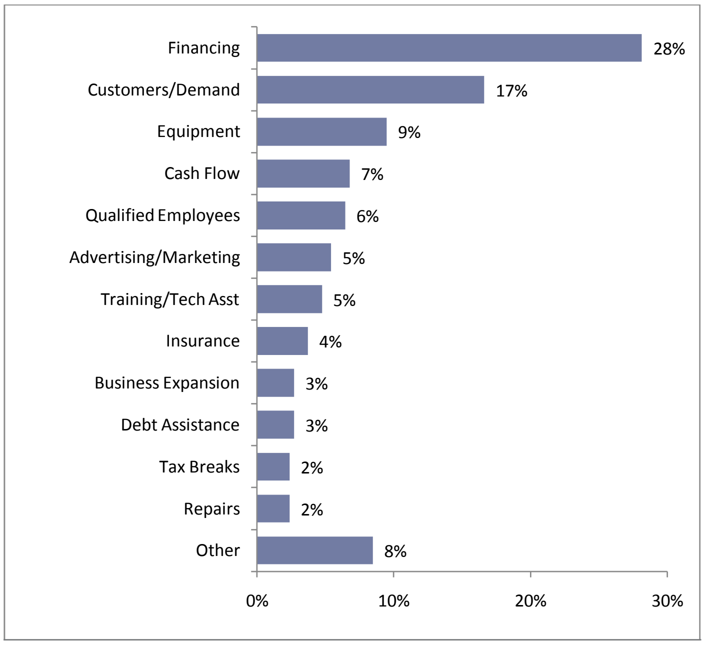


Figure 37: Most Useful Specific Assisstance that a CDO Could Provide

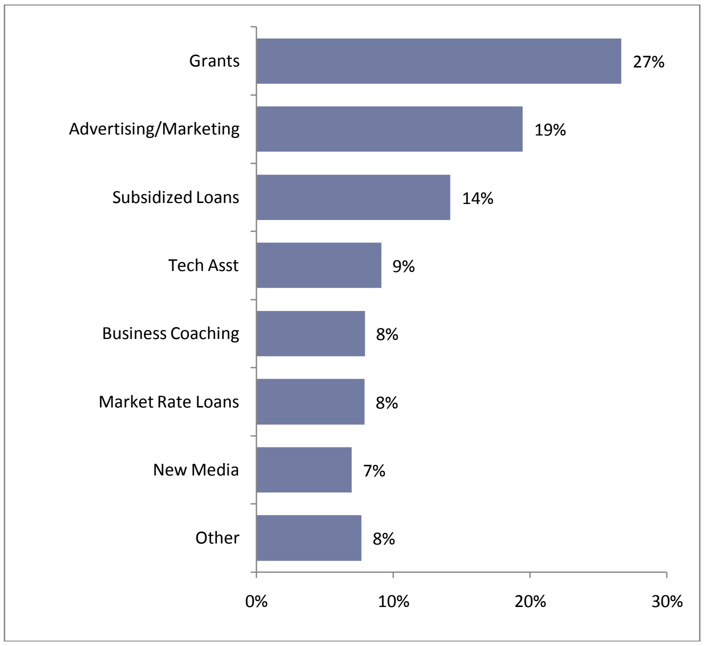


Figure 36 summarizes responses from an open-ended question asking the small business owners to describe their current unmet needs. Some respondents listed more than one need and some of the categories may be overlapping. For instance, cash flow may possibly be a need for more customers and/or financing. It was kept as a distinct category since that specific term was used so many times. The need to smooth over uneven cash flow is, of course, a real problem distinct from financing for investment or expansion or overall demand.

While figure 36 describes the unmet needs, figure 37 describes responses to which type of specific assistance from a small business aid organization would be most useful. This question was not open-ended but instead had the choices shown in the figure.

Nearly half of respondents indicated some form of financing as an unmet need, such as grants (27%), subsidized loans (14%), and market rate loans (8%). Nearly a quarter indicated unmet need for training, coaching, or technical assistance, such as training or technical assistance (9%), business coaching (8%), and new media help (7%). Nineteen percent indicated a need for marketing and advertising assistance, which is consistent with the need for customers indicated in figure 36.

Of course, advertising and marketing assistance could also be considered technical assistance, in which case the need for financing and technical assistance would be nearly evenly split.

Estimate of Total Small Business Need in the New Orleans MSA and Louisiana

In what follows, an estimate is made of the total number of small businesses that could use, want, and be assisted by LDRF-funded aid. These estimates should be taken as approximating magnitudes made with conservative assumptions.

To generate this estimate, we first obtained the percent of businesses in the 2010 survey that responded (1) that the business was very negatively impacted by Hurricane Katrina, (2) that sales were currently less than 50% of pre-Katrina levels, and (3) that aid from a CDO could assist in current needs of the business for the New Orleans MSA and all other parts of Louisiana.

Next, the number of businesses existing prior to 2006 in the New Orleans MSA and Non-New Orleans MSA was derived from the Experian Business Database.

Finally, the share of businesses that applied for aid, were accepted, and received aid, as observed in the survey, was used to approximate the accept/reject decision.

Altogether, this yields 5,541 businesses in the New Orleans MSA and 2,250 businesses outside of the New Orleans MSA that likely could need, want, and be accepted for LDRF funded aid.

While the actual aid and its cost could vary greatly, estimates of the cost of aid can be produced by combining the results of figure 36 (the most useful specific assistance that a CDO could provide) with assumed costs for types of aid. The average grant amount seen in the CDO application data was $5,270 (the median was $2,500). The actual cost of market rate and subsidized loan is more difficult to estimate. The average loan amount from the data provided was around $15,000. Assuming an average cost of 10% of the loan amount yields $1,500, if the average cost of technical assistance is also assumed to be $1,500 then the total funds needed to aid these nearly 7,800 businesses is $20,403,670 [10]. This estimate should be taken as conservative lower bounds, as they do not include businesses that started after the hurricanes of 2005 and have subsequently been impacted by other Hurricanes, the recession, and the oil spill. These estimates do not include the potential aid needs of entrepreneurs who have not yet started a business. Owners and operators of young businesses (post-Katrina) and entrepreneurs represent a key component of the recovery and renewal of New Orleans and Louisiana.

Finally, if we use the difference in the hire-fire expectations shown in figure 26 we can attempt to determine the employment impact of assisting these 7,800 small businesses. That is, we can come up with a return on investment in terms of potential new jobs or wages created or the prevention of the loss of existing jobs and wages with the assistance.

[10] This figure is derived as follows: .27*$5,270 +.22*$1,500 + .43*$1,500 + .08*$2,757 = $20,403,670 (where the cost of the other category is the average of the cost of the loans, technical assistance and the grants).

From figure 26, compared to the small businesses that did not receive aid, those that received aid were twenty percentage points more likely to expect to hire additional employees or not fire existing employees. If we conservatively assume that hire/not fire translates to one additional job gained or retained then for every five business aided, we would expect that business owners and operators would expect to save one job or create a new job.

Since expectations are different than actual outcomes we rely on survey work from the National Federation of Independent Business (NFIB).[11] The NFIB's February 2011 Small Business Economic Trends survey report has data on hire-fire expectations and actual employment changes and job openings. Comparing expectations to either job openings or actual employment changes over the last two years shows that there is, indeed, an optimism gap, in which hire expectations exceed actual outcomes or job openings. For this period, the gap is approximately ten percentage pointsJob opening also tend to be about half of expectations. We will use this to correct for optimism in expectations.

Thus, twenty percentage points more likely to expect to hire translates to ten percentage points more likely to actually hire. Thus for every ten businesses aided, one new job would likely be created or existing job saved.

According the US Bureau of Labor Statistics, the average hours worked per week by a private sector employee in the state of Louisiana in December 2010 was 36.6 hours. And the average pay per hour in December 2010 was $19.65 and the median per hour in 2009 was $14.16. This comes to $37,398 per year using the average and $26,949 per year using the median.

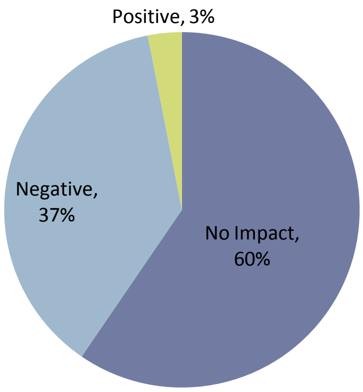
Since we estimated the average cost to aiding each business at $2618.46, then the cost for creating or saving one job would be ten times this, or $26,185. If we conservatively use the median state wage for the jobs created or saved then we see that for every one dollar of aid, $1.03 of new or saved wages likely results.

This benefit is in addition to the other benefits of aiding the businesses, such as business survival.

[11] http://www.nfib.com/Portals/0/PDF/sbet/sbet201102.pdf

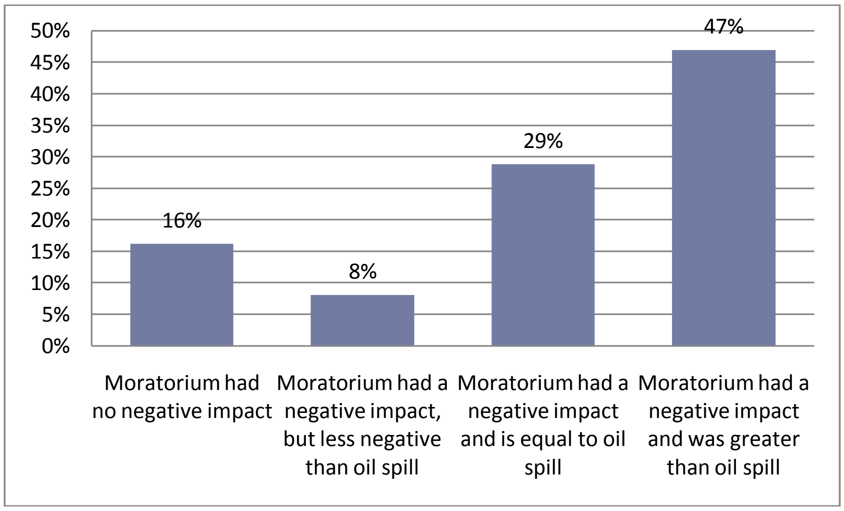
6. Impact of BP Gulf Oil Spill

Figure 38: BP Gulf Oil Spill Impact on Business



Four out of ten business owners/operators indicated their businesses were impacted by the BP Gulf oil spill and its aftermath in some way. Of this 40%, the vast majority (37%) indicate the impact was negative (figure 38).

Figure 39: Impact of Deep-Water Oil and Gas Drilling Moratorium Relative to Direct Impact from the Oil Spill, among those Negatively Impacted by the Oil Spill and Its Aftermath



Of those who indicated they were negatively impacted above, around three-quarters indicated that the negative impact of the deep-water oil drilling moratorium (imposed by the federal government following the oil spill) was equal to or greater than that of the oil spill itself. Given the importance of oil and gas industry to Louisiana and the Louisiana coastal community, this response is not surprising. Of course, these are subjective judgments, and the businesses are not likely to be in a position to assess total economic costs of the spill and of the response to make a meaningful comparison. It should also be remembered that these questions were asked at a time when the spill was very much an emotional issue accompanied by heavy local and national media coverage. Therefore, the actual impact of the oil spill and moratorium may differ from what the respondents thought at the time. The responses may be taken to be indicative of the short-run reaction to the spill.

It should be noted that the moratorium was not independent of the spill; it may have been a necessary policy response, and the negative impact of the moratorium unavoidable and directly attributable to the spill. Policy makers should take into account the potential negative impacts of the moratorium indicated here when determining the details, scope, duration and costs and benefits of a moratorium.

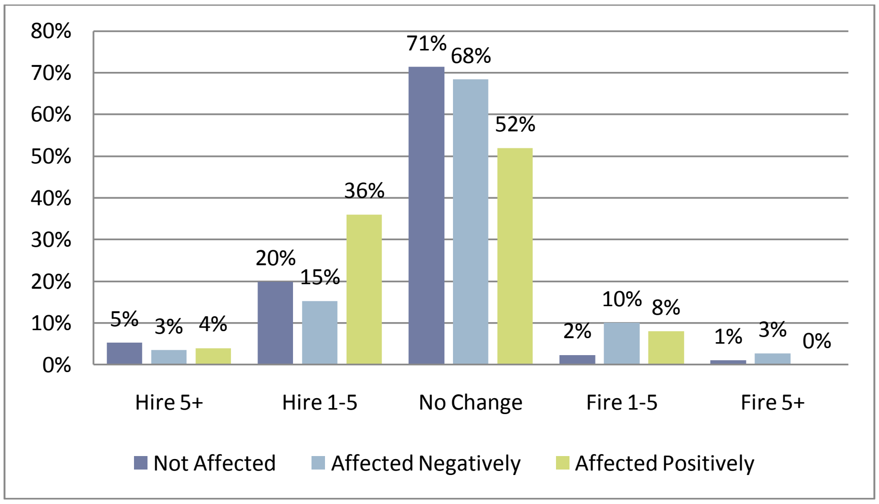
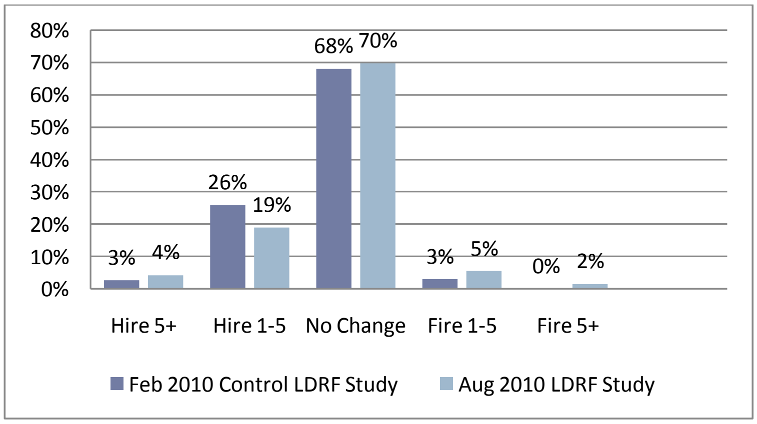


Figure 40: Plans to Hire/Fire for those Not Affected and Negatively Affected by the BP Gulf Oil Spill

Whatever the actual impact of the spill may be, expectations and sentiment were certainly affected. Figure 40 shows that those who indicated that they were negatively impacted had fewer hire plans and more fire plans over the following year relative to those that indicated their business was not impacted or positively impacted by the oil spill. Of course, this may not be causation but correlation. For instance, it may be the geographic areas and sectors the affected businesses were in that caused the difference.

Since businesses were surveyed prior to the spill (February 2010) and after the spill (August 2010) it is also possible to compare hire-fire expectations at those points in time.

Figure 41: Plans to Hire/Fire Before and After the BP Gulf Oil Spill



As seen in figure 41, the share of business owners and operators planning to hire falls slightly after the oil spill. Caution should be taken when attributing such changes solely to the oil spill. During this period, for instance, pessimism was growing about the prospects of a strong economic recovery. Nonetheless, it would be logical to conclude that businesses that were negatively impacted (or at least perceived a negative impact) would lower their expectations to hire over the next year. Figures 40 and 41 are consistent with this. As is unfortunately the case, expectations can become self-fulfilling in economics.

7. Conclusion

Owners of businesses that sought aid from LDRF-funded aid organizations overwhelmingly reported that their businesses were very negatively impacted by the hurricanes of 2005. They reported their businesses being much more negatively impacted than business owners had reported in previous years and in the control sample this year. This holds for the group of businesses that received aid and those that did not.

This suggests that when evaluating the success of businesses assisted by the LDRF-funded organizations, comparisons should not be made to the typical business, which suffered a much less severe impact from the hurricanes of 2005.

In addition to being disproportionately impacted by the storms of 2005, many of the businesses that applied for aid were impacted by the storms that followed, such as Hurricanes Gustav and Ike of 2008. Fishers and other businesses particularly vulnerable to hurricanes were impacted by both the storms of 2005 and subsequent storms. Some small business owners encountered additional difficulty in 2008 and 2009 that prompted them to apply for assistance. Some entrepreneurs were receiving aid in 2008 and 2009 to help launch businesses. Even some of those businesses that were impacted primarily by Hurricane Katrina (such as Ken's Pharmacy, examined in the case studies) were receiving aid to assist in recovery in late 2009. Recovery from storms as devastating as Hurricane Katrina takes years, even if it is not interrupted by other disasters. Therefore, even though Hurricane Katrina struck the Gulf Coast more than five years ago, aid aimed at recovery efforts is still being disbursed and businesses are still recovering.

The LDRF-funded aid organizations examined in this survey dispersed aid much faster than aid distributed from other sources, such as the SBA. The vast majority of aid distributed by the LDRF-funded organizations was classified by the business owners as "very useful" or "critical." All of the respondents indicated that they had used the aid for the purposes that they had indicated on their aid applications. Of the business that applied but did not receive aid, half of the business owners indicated that if they had received the aid their business would have been much better off or would have survived. The fact that so many businesses that applied but did not receive aid stated that aid would have materially assisted them may suggest that aid organizations may be very conservative in assessing need and may be resource constrained. Demand for aid may outstrip supply and capacity, but it is clear that the neediest of businesses are receiving aid even if all businesses are not.

In a direct comparison among businesses that were very negatively impacted by the hurricanes of 2005, those that received aid from the LDRF-funded CDOs showed greater recovery in sales relative to pre-Katrina levels, optimism regarding future business prospects, and intentions to hire in the next year.

Thousands of businesses still exist in a very narrow and serious definition of need--one that considers those businesses most negatively impacted by the hurricanes of 2005 and still below 50% of pre-Katrina sales. The subset of these businesses that would likely want and find CDO aid useful and be accepted for CDO aid is estimated to be 7,800. Funding in the neighborhood of $20,000,000 would likely be needed to assist these businesses as other businesses have been assisted thus far.

While the above figures are for the core of the small businesses most in need, it is estimated that at least 100,000 businesses face challenges that in some way are related to the 2005 hurricanes.

In addition to aiding business recovery for those businesses that were most negatively impacted by the 2005 storms, businesses established after 2005 and entrepreneurs should also be supported. If focus is on general recovery, then start-ups and young businesses need to be supported.

The approach we used is very promising as a method of monitoring LDRF-funded aid programs. This approach is valuable not simply as a means of answering the question of whether LDRF-funded aid programs are effective in assisting small businesses, but also in observing small businesses over the course of their engagement in LDRF-funded aid programs. While not discussed in the paper, this approach allows us to explore and monitor different aspects of the programs' impacts, allowing the LDRF, the CDOs, and the businesses themselves to make more effective decisions.

Appendix: Survey Details

The first of two surveys was conducted by phone between January 29th and February 19th, 2010. A total of 651 business owners (including business operators and self-employed persons) in Louisiana completed the survey. The business owners surveyed were sourced from two lists. The first list was a randomly generated list of Louisiana businesses (oversampling the New Orleans MSA and the areas of Louisiana hardest hit by the 2005 hurricanes) using Experian's National Business Database. The businesses (owners) surveyed from this list are, essentially, a control sample. It includes businesses that were not impacted by the storms, those that were, and some that applied for small business aid. This sample is referred to as 2010 Control in this report and contains responses from 487 business owners.

The second list used was compiled from application data and contact lists provided by the community development organizations (CDOs) examined in this series of reports and that have received funding from the LDRF. They are:

- The Idea Village
- NewCorp Inc.
- Good Work Network
- Capital Access Project
- Mary Queen of Vietnam: CDC
- Southern Mutual Help Association
- Operation Hope
- United Houma Nation

This second sample, referred to as 2010 CDO List in this report, contains responses from 164 business owners. These business owners sought aid or reached out to some degree to the CDOs examined in this study, either by actually applying for aid or by, at minimum, registering for information on a CDO's website.

In addition to this 164, seven respondents from the control/Experian sample applied for and received aid from the above listed CDOs. Of these 171 businesses, sixty-four received aid, forty-six applied but did not receive aid, and sixty-one only interacted with the CDO minimally and did not apply, could not remember whether they applied and/or received aid, or did not want to say whether they applied or received aid.

A second, similar study was conducted by phone from July 26th to August 17th, 2010. A total of 993 business owners and operators were contacted in Louisiana to complete the survey. A similar, randomly generated list of Louisiana businesses from Experian's National Business Database was used and again oversampling the New Orleans MSA and the areas of Louisiana hardest hit by the 2005 hurricanes occurred. A similar survey instrument was used in this second study, with additional questions added to gauge the economic impact of the BP Deepwater Horizon oil spill that occurred on April 20th, 2010 and the following six-month deepwater drilling moratorium put in place by the Obama administration on May 27th, 2010. Of the 993 businesses contacted, twenty-seven had interacted with LDRF CDOs. Of these twenty-seven businesses, seventeen received aid, eight applied but did not receive aid, and two interacted with a CDO minimally but did not apply for aid, could not remember whether they applied and/or received aid, or did not want to say whether they applied or received aid.

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