Documentation Requirements and the Equitable Distribution of Small Business Relief Funding

The share of completed applications from historically underserved businesses increased after a city small business relief program reduced documentation requirements

Target a Priority Outcome The Small Business Administration (SBA) aims to advance healthy entrepreneurial ecosystems, especially for minority, veteran, and women entrepreneurs. SBA is particularly interested in exploring how documentation requirements affect access to resources for historically underserved communities.[1]

Translate Behavioral Insights Programs that provide capital to small businesses typically require applicants to provide documentation like a Profit and Loss Statement or Tax Return. Documentation requirements create burdens that may disproportionately prevent people from underserved communities from completing applications.[2] Reducing documentation requirements may increase the likelihood that members of these groups gain access to government support. In one city, a policy change reduced the documentation requirements for all businesses applying for a COVID-19 small business relief program (e.g. Profit and Loss statements were no longer required), creating an opportunity to build evidence on the role of documentation requirements in access to small business capital.

Embed Evaluation Documentation requirements may prevent businesses that start an application from submitting that application, which would eliminate the chance of receiving funding. The Office of Evaluation Sciences (OES) examined the likelihood of submitting a completed application, having that application go under review, and receiving funding, before and after the city program change. Success at each of these stages was observed for applicants from historically underserved groups (minority-owned, women-owned, veteran-owned, and disabled-owned businesses), and compared to the likelihood of success for other applicants. This project used an interrupted time-series design, leveraging the program change in documentation requirements, which was rolled out in the middle of the application period on May 21st, 2020. The reduction in documentation requirements happened at the same time as an announcement about the program, which could have changed the types of businesses that applied, so our analyses cannot isolate the causal impact of documentation requirements.

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[1] Executive Order 13985, Advancing Racial Equity and Support for Underserved Communities Through the Federal Government, defines underserved communities as including Black, Latino, and Indigenous and Native American persons, Asian Americans and Pacific Islanders and other persons of color; members of religious minorities; lesbian, gay, bisexual, transgender, and queer (LGBTQ+) persons; persons with disabilities; persons who live in rural areas; and persons otherwise adversely affected by persistent poverty or inequality.

[2] Christensen, Julian, Lene Aarøe Martin Baekgaard Pamela Herd, and Donald P. Moynihan. "Human Capital and Administrative Burden: The Role of Cognitive Resources in Citizen-State Interactions." *Public Administration Review.*

Analyze Using Existing Data The city shared its existing administrative data on the 12,454 businesses that started applications between March 2020 and July 2020. On the application, 3,256 businesses reported belonging to one or more of the underserved groups. Another 3,750 businesses did not answer these demographic questions and were excluded from the main analyses. The administrative data tracked each application's progress through stages: submitted; under review; and funded.

Results The primary outcome was the application completion rate: the proportion of businesses that *submitted* an application of those that *started* an application. The estimated completion rate for applicants from underserved groups increased from 21.6% on the day before the policy change to 47.7% on the day of the policy change, an increase of 26.1 percentage points ($p < .001$, 95% CI [19.64, 32.56]).[3] The increase in the completion rate on the day of the policy change was even larger for applicants who were not from underserved groups. The completion rate for this group increased from 3.9% on the day before the policy change to 45.7% on the day of the policy change, an increase of 41.8 percentage points ($p = .000$, 95% CI [35.46, 48.28]). As shown in Figure 1, the completion rate for applicants *not* from underserved groups started off much higher and declined over time, so the larger increase on the day of the program change was more dramatic.

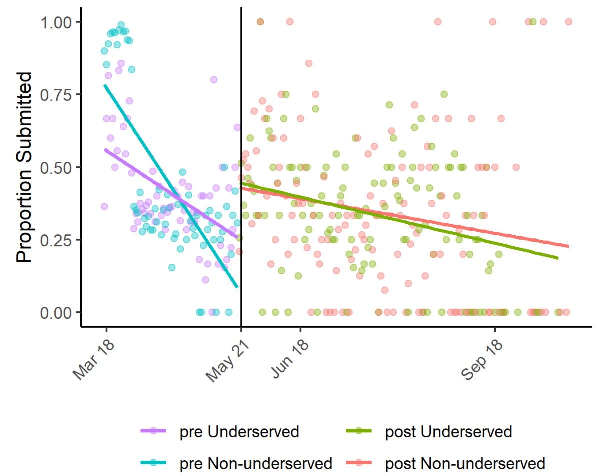

Figure 1. *Proportion of Started Applications that are Submitted, by Underserved Status*

However, when examining the completion rate across the entire time period, completion rates increased for applicants from underserved groups. The overall completion rate for applicants from underserved groups increased from 37.3% before the program change to 46.8% in the weeks after the program change, an increase of 9.6 percentage points ($p = .000$, 95% CI [6.6 , 12.6]). The completion rate for other applicants decreased from 43.9% to 42.3% after the change, a statistically insignificant decrease of 1.5 percentage points ($p = .601$, 95% CI [-4.5, 1.4]).

Build Evidence These findings suggest that a reduction in documentation requirements may help businesses owned by those from underserved communities to access relief funding. The policy change may have also helped some applicants who were not from historically underserved groups to complete their applications. This preliminary evidence lays a promising foundation for future evaluations to estimate the causal impact of documentation changes on access to resources for underserved communities.

[3] These estimates are regression adjusted. All of the results reported are statistically significant after controlling for the familywise error rate using the Holm-Bonferroni procedure.