

Increasing Access to Small Business Grant and Loan Programs for Historically Underserved Groups

Documenting approaches and challenges in ensuring access to small business grant and loan programs during COVID-19.

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What was the challenge?

The Small Business Administration (SBA) has strategic goals to support small business revenue and job growth and to restore small businesses and communities after disasters. One such disaster has been the 2020 COVID-19 pandemic, which caused unprecedented disruption to small businesses.

Even in a healthy economy, racial and ethnic minorities, women, and veterans have more difficulty obtaining working capital to open and sustain small businesses,¹ and SBA supports strategies that make it easier for these groups to access funding.² There is concern that the challenges to these historically underserved groups will be exacerbated by the economic impact of the pandemic. Relief funding to support small businesses totaled over \$700 billion by August 2020. But numerous challenges limited access to emergency resources for minority and women owned businesses³ and there are early indications of increased rates of closure for minority-owned businesses.⁴

In addition to federal efforts, the Coronavirus Aid, Relief, and Economic Security (CARES) Act signed on March 27, 2020 also allocated \$5 billion for state and local communities to spend on activities including small business assistance. Local governments designed their own disbursement programs and made their own decisions about which groups to target for assistance and how to reach them. Some local governments topped up CARES Act funding with money reallocated from other budget categories or received from philanthropic donations. The Office of Evaluation Sciences (OES) documented the approaches local governments took in disbursing funding, the common challenges encountered by officials and applicants, and how these relate to SBA's access goals. This work identifies where further evidence is needed to get working capital to small businesses who need it, particularly under time constraints.

¹ Robb, Alicia. 2018. *Financing patterns and credit market experiences: A comparison by race and ethnicity for U.S. employer firms*. U.S. Small Business Administration Office of Advocacy. <https://advocacy.sba.gov/2018/02/01/financing-patterns-and-credit-market-experiences-a-comparison-by-race-and-ethnicity-for-u-s-employer-firms/>.

² U.S. Small Business Administration Strategic Plan | Fiscal Years 2018 – 2022 https://www.sba.gov/sites/default/files/2018-06/SBA_FY_2018-2022_Strategic_Plan.pdf, p. 10.

³ Flash Report: Small Business Administration's Implementation of the Paycheck Protection Program Requirements. 2020. (May 8). https://www.oversight.gov/sites/default/files/oig-reports/SBA_OIG_Report_20-14_508.pdf.

⁴ Fairlie, Robert W. 2020. The impact of COVID-19 on small business owners: Evidence of early-stage losses from the April 2020 Current Population Survey. *NBER Working Paper*. <https://www.nber.org/papers/w27309>.

What did we do?

OES conducted a descriptive study of local grant and loan programs. Information was gathered from seven local governments, which had diverse demographics in terms of population size, median household income, income variation, and racial and ethnic populations. These local governments offered different types of small business support during COVID-19, ranging from \$7,500 or \$10,000 grants, to no-interest or forgivable (i.e., some or all of the balance does not need to be repaid if the borrower meets certain conditions) loans up to \$15,000, to low-interest loans of up to \$50,000. Four data sources were used: publicly available information about funding programs, tailored conversations with local officials following up on specific program elements, social media to capture perspectives of applicants and observers, and analysis of previously published research.

What did we learn?

The demand for COVID-relief funding for small businesses was massive.⁵⁶ It was immediately clear the demand outpaced the supply of funds. By August 2020, most local governments had awarded and disbursed at least one round of funding, to between 120-450 businesses in each city. All grant offerings were oversubscribed, receiving up to 20 times more applications than they were able to fund. Most loan programs were also oversubscribed, although they were less popular than the grants.

Many local governments attempted to address access for business owners from historically underserved groups, but each took a different approach. Some local governments did not try to target any particular groups, but simply to distribute money quickly to eligible businesses. Others did have goals about making allocations **equitable**, but this meant different things in different places. Some local governments focused on disbursing funding equitably across geographic areas; others targeted businesses owned by women or specific racial or ethnic groups; some had specific numeric targets.

Statements about allocations show that reaching historically underserved groups was a priority for some locations. One city publicized its program by noting: “more than 65% of the recipients are women, minority, or women and minority owned businesses.” [Seattle](#) provided an online dashboard showing names and locations of all funding recipients and breaking down funded businesses by gender and race (8 categories) of owner; [Dallas](#) provided similar statistics without business names.

Along with different targets, local officials crafted different approaches. This was in large part because there was insufficient evidence about effective practices. Even local governments that had similar aims often took different approaches, given the lack of evidence to inform the program design.




There were three basic models for distributing grants and loans. Some funds were distributed on a **first-come, first-served** basis after verifying eligibility; other programs used a **lottery** to randomly select recipients from a pool of verified applicants; others assigned **points based** on criteria and awarded funds to applicants with the highest scores. The following *Comparison of Program Models* shows some of the tradeoffs between the different models adopted by local governments.

Local officials balanced speed, operational capacity, and the perceived benefits for beneficiaries in selecting one of these models. With little evidence to draw on, different officials made different assumptions. Some

⁵ Mecija, Melissa. April 14, 2020. San Diego expands Small Business Relief Fund. ABC10 News San Diego. <https://www.10news.com/news/local-news/san-diego-expands-small-business-relief-fund>.

⁶ Stiles, Marc. March 25, 2020. Demand for relief grants among small businesses in Seattle soars during COVID-19 pandemic. Puget Sound Business Journal. <https://www.bizjournals.com/seattle/news/2020/03/25/seattle-small-business-covid-19-relief-grant-due.html>.

Comparison of Program Models

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MODEL		Lottery	First-come, first-serve	Points
ROLE OF REVIEW COMMITTEE		Determining baseline eligibility. Documentation verification.	Determining baseline eligibility. Final decisions on applicant funding.	Determining baseline eligibility. Awarding points based on rubric categories.
SELECTION PROCESS		Selected via a random sorting process.	Selected on a first-come first-serve basis.	Selected based on total points.
LOCAL OFFICIALS	Administrative burden	✓ Lower	✓ Lower	✗ High
	Documentation requirements & verification	✓ Less	✓ Less	✗ More
	Potential selection bias	✓ Little/None	✓ Less	✗ More
	Control over selection process	✗ None	✗ Little/None	✓ More. Can be used to address equity.
APPLICANTS	Turn-around time	✓ Faster	✓ Faster	✗ Likely longer (due to admin costs)
	Perception of fairness	✓ Appears less biased	✓ Appears less biased	✗ Appears more-biased
	Weighted toward underserved groups	○ Only if lottery is weighted	✗ No	✓ Yes
	Time constraints and pressure to apply quickly	✗ High	✗ Highest	✗ High
	Knowledge gaps among applicants	✗ Both program process & documentation	✗ Both program process & documentation	✗ Both program process & documentation

expected lotteries, which give all applicants the same opportunity to receive funds, to be the most fair. Others thought that points-based systems would do a better job reaching historically underserved groups. Some local governments that used points gave more to business owners from underrepresented backgrounds, including race and ethnicity, gender identity, and veteran status. Other local governments focused on distributing funding to businesses in geographic areas that were home to larger underserved populations.

Regardless of the program model, there were several challenges for the local officials and a separate set of challenges for potential applicants. There is reason to think that some of these challenges may increase the barriers to accessing capital for members of historically underrepresented groups, in particular minorities.

Challenges for Local Government Officials

COVID-19 posed a wholly unprecedented challenge. In the face of a quickly evolving crisis, officials designed these funding programs in two months or less. They were under strong pressure to get programs up and running so funds could be distributed quickly and efficiently. Their major challenges were determining the details of program design, conducting outreach, contending with technical capacity issues, and ensuring objectivity. All of these challenges were intensified by the extreme time constraints and while local officials dealt with numerous other implications of the pandemic. The *Challenges for Local Governments and Applicants* shows where in the program design process these and other issues occurred.

Regarding basic program models, it is not apparent which selection process best reaches access goals. Some officials thought points-based programs would be fair and efficient. Points-based programs require more staff processing, meaning more time passes before funds can be disbursed. Without knowing how a points-based program meets access goals relative to a simple lottery, it is impossible to make an informed decision about whether these trade-offs are justified.

In addition to choosing a basic program model, officials had to agree on a number of specific program details. These included the amount of each grant or loan (e.g., should funding be a fixed amount or proportionate to business size?), how to structure it (e.g., as a grant or a loan? if a loan then for what duration at what interest rate?), what documentation to require, and how to restrict applicants (e.g., should those who had received PPP funds be excluded?). Some of these decisions were constrained by restrictions on the use of Community Development Block Grant (CDBG) funding, which was the mechanism for allocating these funds in the CARES Act. Small amounts and grants were seen as more valuable for start-ups; more small-dollar-amount offerings entailed more paperwork (because more transactions) for officials.

Lacking reliable evidence, it was unclear how these decisions would affect access across groups. For example, eligibility criteria that required demonstrating a loss of income may have advantaged larger businesses which were better able to demonstrate this loss.⁷ Minority-owned businesses tend to be smaller and operate with less equity.⁸ Some programs required documents like Profit & Loss statements or business tax returns that low-volume cash-businesses, such as those with sole proprietors who are disproportionately minorities, could not submit. As discussed in more detail in the *Challenges for Applicants* section, documentation requirements that were intended to safeguard local governments and allow them to perform due diligence could have disproportionately excluded businesses owned by members of historically underrepresented groups.

Given extreme time constraints, it was difficult to consider input from design committees or obtain feedback from potential applicants. This precluded efforts to design materials that considered the needs of underserved audiences. Based on previous research, lack of input on designs is particularly problematic for equity when underserved groups are not represented on planning committees.⁹ The small business fund in one city—which had a funding target of 51% women and minority-owned businesses—was criticized by

⁷ Federal Reserve Bank of Atlanta. Community and Economic Development Discussion Paper. 2018. *Mind the gap: How do credit market experiences and borrowing patterns differ for minority-owned firms?* by Alicia Robb, Mels de Zeeuw, and Brett Barkley. <https://www.frbatlanta.org/-/media/documents/community-development/publications/discussion-papers/2018/03-mind-the-gap-how-do-credit-market-experiences-and-borrowing-patterns-differ-for-minority-owned-firms-2018-09-14.pdf>.

⁸ Robb, Alicia. 2018. *Financing patterns and credit market experiences: A comparison by race and ethnicity for U.S. employer firms*. U.S. Small Business Administration Office of Advocacy. <https://advocacy.sba.gov/2018/02/01/financing-patterns-and-credit-market-experiences-a-comparison-by-race-and-ethnicity-for-u-s-employer-firms/>.

⁹ Nicholson-Crotty, Jill, Jason A. Grissom, and Sean Nicholson-Crotty. 2011. Bureaucratic representation, distributional equity, and democratic values in the administration of public programs. *The Journal of Politics* 73: 582-596.

observers for apparently not including any representatives from minority chambers or women's business organizations on the advisory committee.

A second key challenge was conducting outreach to build awareness of the funding program. Local governments do not generally have lists of small businesses with contact information that they can draw on—there are no email or physical mailing lists to make it easy to distribute this information across the board. Research on factors that contribute to racial gaps in access to capital suggests that there are differences in access to networks and (for immigrant-owned firms) language barriers.¹⁰ When information about a funding opportunity is shared through social networks and only available in one language, business owners from historically underserved groups may be less likely to learn about it. Some local governments did translate materials into multiple languages, distributed program fliers in underserved neighborhoods, or leveraged existing connections (e.g., with Community Liaisons) to target specific communities. Particularly given the time pressure, these approaches to diversifying engagement seemed to be more successful where there were pre-existing relationships to draw on.

Once funding programs began accepting applications, technical capacity and support was an additional challenge. Some application websites crashed or were confusing to navigate. A funding task force in Tulsa, Oklahoma received more than 700 inquiries the first week it launched.¹¹ Some local governments could not give adequate support to applicants who had questions or problems. Previous research shows that minority and women small business owners feel disproportionately discouraged from applying for credit.¹² Experiencing frustration when websites crashed or uncertainty when unable to get clarification led some members of historically underserved groups to abandon their partially-completed applications.

Some local governments also had technical challenges like verifying business locations (which were funding requirements or point-boosters) with outdated data that might not reflect location or name changes. Businesses that were younger or more transient might be more likely to be disqualified as a result of these kinds of technical challenges.

Technical capacity and support challenges often boiled down to insufficient staff capacity. Many local governments were understaffed for processing applications, particularly when the process had several steps (e.g., initial review for eligibility, recommendations, committee review). These limitations, which also slowed down disbursement, underscored the tradeoff between speed, operational capacity, and the perceived benefits for beneficiaries in program design. Those local governments that wanted to do more careful targeting and screening—perhaps in the service of equitable disbursement—may have inadvertently overwhelmed their staff.

The final major challenge for local governments was ensuring objectivity during the selection stage. Personal ratings and reviews may limit equity, as racial and gender biases can influence perceptions of

¹⁰ Federal Reserve Bank of Atlanta. Community and Economic Development Discussion Paper. 2018. *Mind the gap: How do credit market experiences and borrowing patterns differ for minority-owned firms?* by Alicia Robb, Mels de Zeeuw, and Brett Barkley. <https://www.frbatlanta.org/-/media/documents/community-development/publications/discussion-papers/2018/03-mind-the-gap-how-do-credit-market-experiences-and-borrowing-patterns-differ-for-minority-owned-firms-2018-09-14.pdf>, p. 23.

¹¹ Tulsa Responds Task Force securing COVID-19 relief funds for small businesses and nonprofits. April 8, 2020. *The Black Wall St. Times*. <https://theblackwallsttimes.com/2020/04/08/tulsa-responds-task-force-securing-covid-19-relief-funds-for-small-businesses-and-non-profits/>.

¹² U.S. Department of Commerce. Minority Business Development Agency. 2010. *Disparities in capital access between minority and non-minority-owned businesses: The troubling reality of capital limitations faced by MBEs*. <https://archive.mbda.gov/page/executive-summary-disparities-capital-access-between-minority-and-non-minority-businesses.html>.

ambiguous information.^{13,14} Some areas rated business recovery plans and then prioritized the highest-scored applications for funding. Officials who were committed to doing this rating objectively and to ensuring there were no conflicts of interest still found it difficult. Objectivity was even a challenge in areas that used lotteries, when they did a preliminary eligibility review before the lottery.

Challenges for Applicants

For applicants, the major challenges in the grant and loan process were awareness and documentation. These challenges could lead to unequal access to small business funding.

First, business owners from historically underserved groups may have been less likely to learn about the small business grant and loan programs. Government officials do not have lists of all small businesses, and small businesses were not automatically eligible for these programs. Grant and loan programs were generally advertised “through the grapevine” and on social media. This information is more likely to reach people with more social capital (e.g., those already connected to the SBA or city/state legislators) and better digital access (e.g., reliable computers and internet connections), who are disproportionately *not* from historically underserved groups.¹⁵

Funding information was shared during early stages of the pandemic when many people had limited time and attention available. Some racial and ethnic minority groups were disproportionately affected by COVID-19,¹⁶ and members of these groups could be more likely to be caring for, mourning, or worrying about friends and family. Unequal awareness of the program could lead to unequal access.

Some eligible business owners may have found out about funding programs but decided not to apply—or perhaps took too long to decide before the funding was gone. Historically, minority business owners are more likely to be refused loans than white business owners with the same credit history, credit score, and wealth.¹⁷ SBA has pointed to these findings in discussing its goal to increase access to capital.¹⁸ Knowing about higher likelihood of rejection, or having personally experienced rejection in the past, may have discouraged potential applicants. Given the tight time frame, discouragement and delay could have prevented applications. In one place, officials expressed surprise at the very low number of Black applicants. In another, there were few applications from Latinx businesses; despite having talked with the Latinx Chamber of Commerce, officials perceived that trust in government programs was low.

Second, documentation was a challenge in part because it could be confusing and require expertise that many members of historically underserved groups did not have. For instance, most programs required applicants to prove that their business had lost income; many potential applicants didn’t immediately understand how to prove this, and didn’t find adequate support to have their questions answered.

Some local governments also required tax documents or a recovery plan to indicate that the business was

¹³ Fassinger, Ruth E. 2008. Workplace diversity and public policy: Challenges and opportunities for psychology. *American Psychologist* 63:252.

¹⁴ Glaser, Jack, Katherine Spencer, and Amanda Charbonneau. 2014. Racial bias and public policy. *Policy Insights from the Behavioral and Brain Sciences* 1:88-94.

¹⁵ U.S. Department of Commerce. Minority Business Development Agency. 2010. *Disparities in capital access between minority and non-minority-owned businesses: The troubling reality of capital limitations faced by MBEs*. <https://archive.mbd.gov/page/executive-summary-disparities-capital-access-between-minority-and-non-minority-businesses.html>.

¹⁶ Centers for Disease Control and Prevention. 2020. (July 24). *Health equity considerations and racial and ethnic minority groups*. <https://www.cdc.gov/coronavirus/2019-ncov/community/health-equity/race-ethnicity.html>.

¹⁷ Cavalluzzo, Ken, and John Wolken. 2005. Small business loan turndowns, personal wealth, and discrimination. *The Journal of Business* 78:2153-2178.

¹⁸ U.S. Small Business Administration Strategic Plan | Fiscal Years 2018 – 2022 https://www.sba.gov/sites/default/files/2018-06/SBA_FY_2018-2022_Strategic_Plan.pdf, p. 10.

likely to survive the pandemic. Minority business owners have lower average credit scores and less personal wealth than white business owners,¹⁹ and these differences may have made it more difficult to produce a recovery plan perceived as viable. Difficulty understanding and obtaining the required documentation was exacerbated by the tight time frame for applications. Some local governments realized that the documentation they required was overly burdensome for applicants and revised their requirements between rounds of funding. Time pressure was especially acute for first-come, first-served programs.

It is unclear how different documentation requirements impact equity in funding. Documentation may disproportionately discourage applicants from historically underrepresented backgrounds from applying (or may consume limited time for many who do apply but are not funded). When little documentation is required, the barriers to application are low, but there are generally more cases of fraudulent claims, and public knowledge of these claims can be particularly frustrating and disheartening for unsuccessful applicants from underrepresented backgrounds. Evidence to quantify these tradeoffs and how they impact the ability to meet access goals is lacking.

Digital equity issues overlapped with documentation challenges. One local area noted that connectivity was lower than 80% in a key vulnerable neighborhood, meaning that potentially 20% of the businesses they would like to support would find it difficult to apply through an online portal. This group made paper applications available in two languages to address this. In another local story, officials described helping an elderly applicant complete the paperwork. Lower levels of technical access became more problematic in places where applications were longer and required more extensive documentation.

¹⁹ Robb, Alicia. 2013. Access to capital among young firms, minority-owned firms, women-owned firms, and high-tech firms. Office of Advocacy, US Small Business Administration, Washington, DC. <https://www.sba.gov/sites/default/files/files/rs403tot%281%29.pdf>.

CHALLENGES RELATED TO GRANT & LOAN PROGRAMS

Program Design		Open Period		Eligibility Review	Selection Process	Distribution of Funds	
<ul style="list-style-type: none">▶ Decide eligibility criteria, application requirements and selection mode▶ Decide amount per grant/loan▶ Plan and execute outreach engagement		<ul style="list-style-type: none">▶ Coordinate with CDBG guidelines▶ Gather input on program design & application		<ul style="list-style-type: none">▶ Provide technical support	<ul style="list-style-type: none">▶ Categorize applicants based on geographic determinants▶ Manage stringent CDBG compliance	<ul style="list-style-type: none">▶ Verify and coordinate review of applications▶ Determine make-up of advisory/review committee▶ Rate business recovery plan objectively	<ul style="list-style-type: none">▶ Ensure number of applicants selected matches funding
<ul style="list-style-type: none">■ Rapidly evolving pandemic & urgency to distribute funds■ Crafting eligibility criteria around equity implications■ Structuring selection process around equity■ Reaching underrepresented small business owners■ Establishing partnerships with business administration or city council officials in promise zone		<ul style="list-style-type: none">■ Addressing discrimination against underserved groups■ Accounting for digital equity in outreach engagement■ Identifying which communities to reach/target■ Considering supplemental small business funds and tech assistance (to avoid relying on major financial institutions)		<ul style="list-style-type: none">■ Administrative capacity■ Technical infrastructure to handle application demand	<ul style="list-style-type: none">■ Balancing local-level interests with CDBG criteria	<ul style="list-style-type: none">■ Minimizing discretion of city officials in determining outcomes	
<ul style="list-style-type: none">▶ Learn about program		<ul style="list-style-type: none">▶ Access and complete application▶ Complete tax documentation▶ Prove loss of business from covid-19	<ul style="list-style-type: none">▶ Produce recovery plan to indicate business survival post-covid▶ Submit other required documentation				
<ul style="list-style-type: none">■ Exposure and awareness	<ul style="list-style-type: none">■ Digital access	<ul style="list-style-type: none">■ Lacks knowledge about gathering and completing required documentation	<ul style="list-style-type: none">■ Digital access■ Site crashes				
<div><div><div><div>+</div><div>HISTORICAL & ONGOING STRUCTURAL BARRIERS</div></div><div><div>■</div><div>General exclusion of underserved population</div></div><div><div>■</div><div>Historical barriers to starting or owning a business</div></div><div><div>■</div><div>Owners’ race/ethnicity & wealth shape loan access</div></div><div><div>■</div><div>History of discriminatory lending practices from banks and credit unions</div></div><div><div>■</div><div>Unequal time, attention knowledge, and resources</div></div></div></div>							

LOCAL OFFICIALS



APPLICANTS



What next?

This review of local approaches identified many barriers to accessing emergency small business funding. For local government officials, there were many design choices to be made in a short period of time; there were outreach decisions and efforts to conduct; there were technical capacity limitations; and there were challenges with being fair and objective. For applicants, there appears to have been unequal awareness of the program, and challenges in understanding and providing documentation, both exacerbated by pre-existing structural barriers.

These challenges in accessing capital fall disproportionately on members of historically underserved groups, such as Black and Latinx individuals. These are populations for whom historical structural barriers mean that they have less wealth to start a business and less access to credit to sustain those businesses. Therefore, they are inherently more vulnerable in this type of crisis. These vulnerabilities are likely to similarly affect responses to other disasters; pre-existing disparities are heightened by economic crises. The lessons learned about common challenges in disbursing assistance in this project are worth considering in other such situations.

Local officials were generally eager to support small businesses, but there was a lack of evidence to tell them how to reach and serve the groups most in need of funding. Local officials took a variety of approaches to designing and implementing funding programs. Nevertheless, concerns about access and equity persist for future efforts.

To prepare for future disaster relief, local governments should consider maintaining lists of small businesses with current contact information. In many cases, necessary information is already collected (e.g., on business license applications), but not aggregated in an easy-to-use format. Being able to contact all eligible businesses, or to conduct funding lotteries without requiring applications, could help make access more efficient and equitable.

There is overwhelming demand for evidence to inform program designs which address these challenges and increase access. The *Comparison of Program Models* shows how local governments had to trade off speed and operational capacity costs against perceived benefits for beneficiaries. Officials would be in a better position to make these tradeoffs quickly if there were stronger evidence about the size of these costs and benefits. There are two clear equity-related issues where evidence would be especially valuable: the impacts of program models and of documentation requirements. These are largely local decisions, that have potentially big effects on equity of access, and where evidence would help officials make informed decisions.

More can be done to systematically address the lack of evidence to prepare the way for future programming. Businesses owned by members of historically underserved groups face more challenges in the best of times, and have been disproportionately hit by the economic consequences of the pandemic. Local governments generally took a reactive approach to trying to support these businesses, trying to respond on the fly when they became aware of particular challenges. Without a better understanding of how to proactively support these businesses, it will be difficult for SBA to achieve its goals of ensuring access to capital and supporting and sustaining small businesses.