

Take-Up of Aid and Firms' Performance: Experimental Evidence from 8 Developing Countries

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Extended Abstract

Using a large-scale survey in eight Latin American countries during the COVID-19 pandemic, we show that many small businesses were not aware of government assistant programs. We then run an RCT providing targeted information on what programs were available, eligibility requirements, and how to apply. We show that it is possible to quickly run large-scale RCTs on firms, even when it is difficult to run an RCT directly on the policy of interest.

Overall, treatment significantly improved business outcomes and outlook in the immediate short run (July 2020). These effects were driven by firms with more than five employees, for which the majority of programs were designed. We separate these into three key set of results: (i) providing information directly improved business outcomes; (ii) treatment had a significant impact on firm owners' expectations about the future; and (iii) treatment increased firm owners' approval of the government's actions. The latter was driven by increases in approval of specific policies, such as policies for SMEs and policies for workers, rather than approval of the government's overall response. We find strong evidence that these effects operate through the information frictions channel.

Four months later, in the November follow-up, all the treatment effects on business outcomes or firm owners' expectations were gone. However, we do find evidence that treatment continued to decrease information frictions, though in November these effects were driven by firms with fewer than five employees. At the same time, by November treatment led to decreased approval of government programs among the same cohort of firms. The smallest firms' stark disapproval of government actions several months after treatment may have been related to the quality and design of the programs themselves, rather than impediments to awareness. In other words, treatment increased awareness of programs among these firm owners, moving them to understand the inability of government programs to provide meaningful and timely aid.

In the final part of the paper, we develop a new methodology for testing for and addressing the combination of nonresponse bias and selection bias that may arise in RCTs in such an environment. Using repeated attempts to treat the treatment group and repeated attempts to survey participants, we estimate the latent resistance to treatment and survey take-up, as well as the impacts of successful treatment on the probability of follow-up nonresponse. From this, we estimate bias-adjusted local average treatment effects and bias-adjusted treatment on the treated.

Keywords: *COVID-19, small business, information frictions, response bias, selection bias*