



**Carolina
Small Business**
DEVELOPMENT FUND



RESEARCH & POLICY ANALYSIS PROGRAM ON
ECONOMIC AND COMMUNITY DEVELOPMENT

Latino Program (Programa Empresarial Latino): Process Evaluation of Lending Outcomes

PROGRAM EVALUATION REPORT

About this Report

This product has been created as part of Carolina Small Business Development Fund's commitment to provide transparent and accountable evaluations of its programs and operations. CSBDF's organizational structure gives research staff independence in all work related to program evaluation and data analysis. The findings presented in this report have not been edited or changed in any way by CSBDF's management, regardless of any negative or positive implications. The program evaluated by this report was given the opportunity to respond to the enclosed findings. That response, if any, is included as an attachment.

To learn more, visit carolinasmallbusiness.org/impact/program-evaluation/.

Data Availability

All data used to conduct this program evaluation are available to the public upon request for non-commercial use. To ensure the confidentiality of clients, data provided are anonymized. Requests can be made to the email address below.

For More Information

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Introduction and Overview

This process evaluation of the Latino Program (LP) is to ascertain the extent to which it is meeting one of its primary output goals. Specifically, whether the LP is helping beneficiaries receive and utilize financial capital in a responsible manner. That goal is measured **by whether loans issued under the auspices of the LP program are or more or less likely to be in good standing than the remainder of CSBDF's portfolio.**

Need for the Latino Program

Like many other underserved communities, Hispanic entrepreneurs face systemic barriers to starting and growing a small business. Research outlines two primary barriers to success for this population. First, limited access to credit. Hispanic business are often dissuaded from applying for business credit all together, and if they do apply, they are denied at disproportionately high rates.¹ Second, the Hispanic community traditionally has lacked access to training resources around technical assistance and business strategy.² Much of this lack of access is due to cultural and language barriers.³ Many community economic development institutions do not have the cultural or language proficiency needed to make significant inroads into the Hispanic community. Thus rates of entrepreneurship across the Latino population remain stubbornly low.⁴

Launched in October 2016, CSBDF's Latino Program ([Programa Empresarial Latino](#)) (LP) helps address both of these barriers for Hispanic entrepreneurs across North Carolina. The program's mission is to provide "lending services, technical assistance, and business management tools" for Latino entrepreneurs and current small firm owners. Program operations are conducted by bilingual and culturally aware staff. Over the course of its existence, the program has helped deploy dozens of low-cost loans for almost \$2M in capital. Reflective of CSBDF's holistic business services, in-depth technical assistance is a core facet of programming. Latino Program outputs as of April 2020 include 378 technical assistance sessions that total 1,831 hours.

Evidence for Theory of Change

Is there evidence that suggests the LP's interventions *should* lead to better outcomes for program beneficiaries? **Based on our review of the peer-reviewed literature, there is significant data for the theoretical mechanism of actions used by CSBDF's Latino Program.** There is a high degree of congruence between programmatic activities and research showing how interactions between community institutions and Hispanic entrepreneurs are related to positive socioeconomic outcomes.

The LP engages in extensive pre- and post-loan technical assistance. The nature of the assistance is relationship based and is heavily reliant on the connections that staff build with LP beneficiaries. Additionally, the LP offers a variety of training and networking events which bring together North Carolina's Hispanic small business owners.



These efforts are key because small firm social capital is critical for community and economic development. Social capital refers to networks within entrepreneurial communities that facilitate trust and promote coordinated action. Scholars like Robert Putnam were among the first to note a strong correlation between economic growth and communities with large densities of civil and social networks.⁵ Network interactions build trust, which leads to reciprocal positive socioeconomic outcomes.⁶ Small business owners who engage in social capital generating activities are both more innovative and likely to be more economically successful than those who do not engage in such activities.⁷

For both current and potential small business owners, the community embeddedness which comes from high levels of social capital interaction is key to long-term success. For nascent Hispanic entrepreneurs, access to social capital networks has been shown to be a strong predictor of whether they will start a small business.⁸ Existing Hispanic businesses with strong community relationships have better access to suppliers and higher levels of trade credit.⁹ And like other historically marginalized business owners, small Hispanic firms tend to rely on local relationships for labor inputs.¹⁰

Scope of Evaluation

Community economic development organizations have two main ways to evaluate their performance: outputs and outcomes (both intermediate and long-term).¹¹ Outputs are completed program activities, in this case the number and characteristics of loans deployed by the LP. Intermediate outcomes are local community changes that occur due to the LP's outputs. For example, a Hispanic small business hiring a new employee due to receiving a LP loan. Finally, end outcomes represent the goal of the LP's activities. End outcomes for the LP include an array of socioeconomic measures like increases in social capital and client firm stability.

This analysis is a process evaluation and *not* an outcome evaluation. This is important because process evaluations are primarily concerned with understanding whether program delivery is done in a way that meets intended goals.¹ The scope of inquiry uses output data to determine whether the LP is meeting basic benchmarks of success. If the process evaluation supports the program's operations, then there is a need to conduct more detailed outcome-oriented evaluations at a later period.

Findings and Analysis

We compare loans issued under the LP to all other loans in CSBDF's lending portfolio. This includes all loans which are still in repayment, all loans paid off, and any loans that were later charged off or sold. This is a total of 765 loans issued by CSBDF

¹ In contrast, outcome evaluations seek to determine whether a program is having desired results on the targeted beneficiaries. This category of analysis relies mostly on intermediate and long-term outcome data.



through February 2020. A loan is classified as a LP loan when it was closed on or after October 2016 and has a primary borrower that is Hispanic. The table below highlights all characteristics examined for this analysis.

TABLE I. LOAN CHARACTERISTICS

Metric	Portfolio Characteristics		Difference ²
	Latino Program (n = 35)	All Others (n = 730)	
Loan Characteristics			
Mean Loan Size	\$47,313	\$84,147	\$36,834
Term in Months ³	24.3	39.3	15.0***
Located in Rural County ⁴	3%	22%	18%
Socioeconomic Demographics			
Low/Moderate Income ⁵	71%	36%	35%***
Women-Owned Firm	31%	40%	9%
Veteran-Owned Firm	6%	19%	13%**
Startup Business ⁶	34%	39%	5%
Employment (Full-Time Equivalents)⁷			
Current Employment	3.5	5.3	1.8
Projected Jobs Created	0.9	2.9	2.0***
Projected Jobs Retained	2.9	2.0	0.9***

Statistical significance at * $p < 0.10$, ** $p < 0.05$, and, *** $p < 0.01$.

To evaluate the lending outcomes of the LP versus all other CSBDF loans, a simple dichotomous variable was created. A loan with a positive (coded as 1) outcome means it was paid in full or is currently in repayment and in good standing. A loan with a negative (coded as 0) outcome means it is currently delinquent by more than 30 days or has been charged off as bad debt. **Overall, 86% of Latino Program loans have a positive status,**

² Statistically significant differences are noted based on a difference of means independent samples T-test. Where a difference met Levene’s test for equality of variances at $p < 0.05$, statistical significance for equal variances is assumed.

³ For loans in repayment, the amount of time in months between loan disbursement and April 2020. For loans paid in full or charged off, the amount of time in months between loan closure and the month the loan was repaid or charged off.

⁴ A county is urban if it is in an [OMB designated](#) metropolitan or micropolitan area. Otherwise, it is rural.

⁵ If the primary borrower’s household size-adjusted income is less than 120% of the county’s [area median income](#). Income is based on the primary borrowers adjusted gross income for their most recently filed federal tax returns.

⁶ The business is a startup if it has been in operations for less than 2 years at time of loan closure.

⁷ Please see CSBDF’s [jobs data transparency page](#) for explanations of job terms.



compared to 73% of non-Latino Program loans. A difference of means T-Test shows that this difference is marginally significant ($p = 0.095$, equal variances assumed).

The difference of means suggests loans worked on by the LP are associated with better lending repayment status outcomes. However, a variety of other variables could be causing this pattern. We thus constructed a binomial logistic regression model where the positive (= 1) or negative (= 0) repayment outcome status is the dependent variable. Although all variables in Table I were considered for the model, the following variables were removed from the analysis:

- Loan term in months was not included because it caused high levels of autocorrelation with other variables.¹²
- Due to missing data points, the inclusion of jobs data in the regression significantly reduced the number of cases. Because there are clear patterns in jobs data gaps – CSBDF’s older loans are more likely to be missing this data – these variables were excluded.

The tables below show the results of the analysis. In general, there is a great deal of unexplained variance in lending repayment outcomes. Though the model is statistically significant, only 3.1% of variation is explained by the included variables. However, only two variables tested show an independent and statistically significant association with positive outcomes. **The odds of a loan having a positive repayment outcome is 2.783 times higher ($p < 0.05$) when it is a Latino Program Loan.** And – perhaps unsurprisingly given the types of businesses that utilize smaller loan amounts – larger loans in general tend to be more likely to have a positive outcome than smaller loans.¹³

TABLE II. OMNIBUS TESTS OF COEFFICIENTS

	Chi-square	df	Sig.
Step 1	16.178	7	.024
Block	16.178	7	.024
Model	16.178	7	.024

TABLE III. REGRESSION MODEL SUMMARY

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	866.406	.021	.031



TABLE III. MODEL VARIABLES

Metric	B	S.E.	Wald	Sig.	Exp(B)
Loan Characteristics					
Latino Program**	1.024	.498	4.225	.040	2.783
Loan Amount*	.000	.000	2.750	.097	1.000
Urban/Rural	-.355	.219	2.631	.105	.701
Socioeconomic Demographics					
Income Status	-.238	.171	1.929	.165	.788
Woman-Owned	.273	.174	2.455	.117	1.313
Veteran-Owned	.058	.219	.071	.790	1.060
Startup	-.204	.171	1.428	.232	.815
Constant***	1.197	.242	24.539	.000	3.309

Statistical significance at * $p < 0.10$, ** $p < 0.05$, and, *** $p < 0.01$.

Conclusions

Based on the extant literature related to Hispanic entrepreneurship, a review of the LP's standard operating procedures, and CSBDF's lending data, we find sufficient evidence that:

1. The community economic development literature demonstrates a clear need for programs that support the unique needs of the Hispanic entrepreneurial community. **The LP program fulfills a need in North Carolina that is not, to our knowledge, served by other community organizations.**
2. There is congruence between programmatic activities and the scholarly consensus on how to best assist Hispanic entrepreneurs. **The approach of LP staff, which is grounded in relationship building with clients both before and after loan issuance, is backed by a large body of scholarship on the importance of social capital**
3. **CSBDF's lending data show that loans issued under the Latino Program are associated with better lending outcomes (in good standing or paid in full).** This effect holds even when controlling for a variety of other characteristics across CSBDF's entire loan portfolio.

Though the evaluation was limited in scope, there is a high degree of confidence that the program model is operating as intended by CSBDF.



References

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- ² Soyeon Shim, Mary Ann Eastlick, and Sherry Lotz, "Examination of US Hispanic-Owned, Small Retail and Service Businesses: An Organizational Life Cycle Approach," *Journal of Retailing and Consumer Services* 7, no. 1 (January 1, 2000): 19–32, [https://doi.org/10.1016/S0969-6989\(99\)00015-6](https://doi.org/10.1016/S0969-6989(99)00015-6); Rachel S. Shinnar and Cheri A. Young, "Hispanic Immigrant Entrepreneurs in the Las Vegas Metropolitan Area: Motivations for Entry into and Outcomes of Self-Employment," *Journal of Small Business Management* 46, no. 2 (April 1, 2008): 242–62, <https://doi.org/10.1111/j.1540-627X.2008.00242.x>.
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April 23, 2020

RE: CSBDF's Process Evaluation of the Latino Program

Dear Ms. Swepson-Twitty,

This letter serves as the Latino Program's (Program Empresarial Latino, or LP) response to the Process Evaluation of Lending Outcomes report. Like many other underserved communities, Hispanic/Latino entrepreneurs face systemic barriers to starting and growing a small business. We have long believed our services are critical to this community, and we are pleased that the results demonstrate our impact thus far. We welcome input on strategies to bolster our program and provide additional pathways to help to the Hispanic entrepreneur community.

Major Findings:

In reviewing the report, we note that it made the following major findings about our programmatic operations:

- The report's review of existing data and peer-reviewed literature shows support for our program's theory of change. It finds staff are conducting operations in a way that is supported by best practices.
- About 86% of LP loans are in good standing or paid in full, compared to 73% of all other CSBDF loans. This effect appears to be due the LP and not other characteristics of a loan like date of issuance, amount, etc.
- What effects loan repayment is complex. The LP has an independent positive effect, but further work is needed to explain additional casual factors.

- The LP has provided sufficient documentation to suggest a strong relationship between its activities and desired program outputs.

Latino Program Response:

We concur with the findings that the LP's model is operating as intended by Carolina Small Business Development Fund (CSBDF). As a holistic assistance initiative, we seek to provide a "one stop" solution to North Carolina's Latino community. One of our primary goals is to use technical assistance as a mechanism to reduce loan defaults and improve repayment. We believe this is important for two reasons: (1) helping lower default and delinquencies helps CSBDF's sustainability and (2) those outputs promote better economic development.

As this report shows, the Latino Program is fulfilling an important need in North Carolina. To our knowledge, no other organization in the state offers our combination of affordable access to capital and one-on-one assistance. We will continue to work on our outcomes and outputs to help foster CSBDF's organizational goals of sustainable development throughout the state.

Sincerely,

Zurilma Anuel
Director, Latino Program