



RAZA
DEVELOPMENT
FUND
SERVING AMERICA
A Support Corporation of UnidosUS

Open for Business Evaluation Report

MAY 2023

WELLS
FARGO



S T R U C T U R E

02.

About

05.

Introduction & Overview

07.

Scope of Evaluation

08.

Findings & Analysis

13.

Process & Outcome
Evaluation

16.

Conclusion

17.

Acknowledgements

TO D O B A

Raza Development Fund (RDF) is committed to supporting the small business community.

As a Community Development Financial Institution, we realized we had a responsibility to support small business owners to overcome the challenges of the pandemic and beyond, especially those in our core markets who lack equitable access to capital. Unfortunately, as reaffirmed by the SBA's Administrator Isabella Casillas Guzman *"it is important to work towards breaking down long lasting barriers to ensure underserved entrepreneurs can access the capital, networks, resources, and opportunities they need" to achieve their business goals and dreams.*

Thankfully, our partners at Wells Fargo agree on the importance of supporting the small business community. Through the Wells Fargo Open for Business Program, RDF expanded our investments in small businesses through an innovative loan program. Inspired by the ROI and overall impact of Hope Fund grants offered in 2021 to small businesses nationwide, we watched these entrepreneurs use these funds to help keep their businesses open, vibrant, growing, and innovating. Approximately 40% of small businesses planned to expand their operations by purchasing physical equipment and machinery. Additionally, 38% of the small businesses planned to increase their employees using RDF's investment. And in turn, they also shared their new fortune with their communities.

True to our mission as a partner and support corporation to UnidosUS (UUS), we developed a model to tap into the UUS Affiliate network already working in the small business space. We partnered with them to distribute the loans into the community. Affiliates are community-based organizations that directly serve the Latino population across the country and are engaged in implementing innovative solutions across the U.S. They know their constituencies' practical concerns and needs and have built solid relationships with them, allowing them to act quickly.

T U S B A

The report below summarizes and explores our experience deploying the funds received through Wells Fargo's Open for Business Program. Through the analysis, we share the methods we used to implement the program, the success stories, and the lessons we learned for improvement.

We invite you to explore descriptive statistics and qualitative data on our program outputs and a brief evaluation of our process and outcomes to share successes and lessons learned that can potentially help other CDFIs implementing similar programs with a similar target audience. The lessons learned by our team might be helpful to others who, similarly to our organization, are surveying how to serve best and support the small business industry.

Finally, but most importantly, discover a glimpse of the stories and life behind the numbers in the pages to follow. To ensure the confidentiality of clients, the data provided is anonymized. If you are interested in taking a closer look at the data set, please get in touch with Eugenia Vivanco, Sr. Director Impact and Funding, at evivanco@razafund.org.

ABOUT RAZA DEVELOPMENT FUND

Nearly 25 years ago, Raza Development Fund ("RDF") was established to begin addressing widespread capital flow disparities that, unfortunately, still disproportionately affect underserved, minority communities in areas of economic development, education, affordable housing and healthcare. RDF is a Latino-led and focused, CDFI, formed in 1999 by UnidosUS, (formerly National Council of La Raza), the 'country's largest and longest-serving Latino civil rights and advocacy organization. RDF was created to advance economic opportunity, social mobility and racial justice, especially for the Latino Community. Since inception RDF has directly invested over \$1.3 billion in 38 states, leveraging over \$6 billion more in the areas of education, affordable housing, healthcare, social services, and entrepreneurship.

ABOUT WELLS FARGO'S OPEN FOR BUSINESS PROGRAM

Wells Fargo created the Open for Business Fund to reach small businesses hardest hit by the pandemic. The Open for Business Fund is a roughly \$420 million national small business recovery effort that delivers access to capital and expertise through grants to more than 200 community organizations nationwide. Open for Business Fund grantees report reaching more than 188,000 small businesses and empowering them to preserve or create nearly 236,000 jobs through end of 2022. Of these businesses served, 79% were owned by racially or ethnically diverse individuals, 72% of owners identified as being low-to-moderate income, and 54% were women-owned small businesses.

RDF'S PROGRAM

Wells Fargo awarded Raza Development Fund (RDF) \$3.5 million from the Open for Business grant program to support our organization's pilot approach to small business lending beyond our grants, technical assistance, and PPP lending.

With this award, RDF recently completed a 12-month small business lending program. We connected with five non-profit community-based organizations in Texas, Arizona, Ohio, Florida and Oregon to deploy low-cost small business loans in their local markets. The financing product consisted of 3-7 year, fully – amortizing term loans up to \$100,000 to fund a wide range of business purposes, including equipment purchases and growth capital at a fixed-rate at 3.00% with no fees to businesses.

This program facilitated 'RDF's ability to conduct community outreach and development services to both small businesses and our partner organizations.



Small Business Owner: Carmen Galarza-Ramos from Custom Cakes by Carmen

WHY RDF'S OFB PROGRAM MATTERS

Latino businesses face both challenges and opportunities post-pandemic. The [2022 State of Latino Entrepreneurship report](#) explains how the formation of Latino-owned businesses is outpacing the growth rate of White-owned businesses and are recovering from the pandemic by expanding their customer base. Contrarily, although Latino-owned businesses are 50% more likely to request financing than White-owned businesses, and Latino-owned businesses seeking loans from national banks have stronger business metrics than White-owned businesses, they still have lower approval rates for loans over \$50,000, according to the report.

INTRODUCTION & OVERVIEW

CDFIs, including RDF, are filling in the gap in access to low-cost, flexible capital for minority entrepreneurs. In the case of RDF, our response is intentional and purposefully tries to redefine underwriting parameters and bets on Latino and other minority-owned businesses.

In response to the widespread need stemming from the COVID-19 pandemic, RDF began to evolve and expand its financial products to include affordable, flexible small business financing for minority entrepreneurs. Through a coordinated effort, we have developed a coalition of non-profit, community-based partners, all affiliated with UnidosUS, the largest Latino civil rights advocacy organization in the country. Together, we provided culturally competent direct lending services to small business credit.

RDF's response heavily relied on leveraging the following three components:



Providing products and services in culturally competent formats.



Leveraging grant funding to bring down the cost of capital.



Relying on a partnership model that places trusted community-based organizations at the center of our program's success.

"I impact the community by sharing the Haitian and Caribbean culture through my products with the Pacific Northwest and beyond. Many churches, Haitian families are really happy to have access to my products"

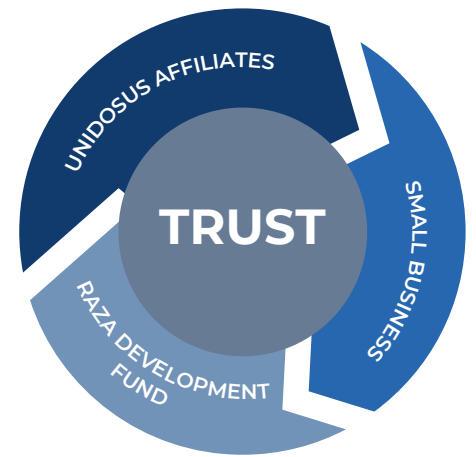
~ Mathilde's Kitchen

THEORETICAL BASIS FOR PROGRAM

RDF adopted a partnership model deeply rooted in the trust and cultural alignment that local leaders and community-based organizations demonstrate in support of local small business owners. Since the inception of the COVID-19 Hope Fund, through which RDF delivered grants and technical assistance, we partnered with trusted local leaders who had valued connections to the small business community and knew which businesses needed the most help to stay afloat. These leaders then helped connect the small business owners to RDF so we could hear their stories and provide financial support.

RDF's OFB approach, similarly, was designed to maximize trust as a factor of success for service and product delivery needed by business owners. RDF leveraged its unique relationship with UnidosUS and their affiliate base in order to avoid a parachute effect in communities across the country where RDF does not have a physical presence.

RDF formally incorporated a select group of five, non-profit community-based organizations to deploy funds in their local markets - Arizona Hispanic Chamber of Commerce (Phoenix, AZ), Hacienda CDC (Portland, OR), Enterprising Latinas (Tampa, FL), Maestro Entrepreneurship Center (San Antonio, TX), and Northeast Ohio Hispanic Center for Economic Development (Cleveland, OH).



SCOPE OF EVALUATION



All Nations Environmental, Inc.

We approached our program evaluation by using mixed methods with both qualitative and quantitative data. We compiled the information available in a way that allowed us to conduct a limited yet valuable descriptive and qualitative analysis of our program outputs and outcomes. The analysis below is divided into the following three sections:

1. Descriptive statistics and qualitative analysis of outputs.
2. Areas for improvement and successful processes used in the deployment phase of this program.
3. Areas for improvement and successful practices identified that affected our program outcomes.

This evaluation scope highlights areas of success and areas for improvement. These findings will allow us to share recommendations for implementation of similar programs both at RDF and at other CDFIs.

FINDINGS & ANALYSIS

DESCRIPTIVE STATISTICS

According to the Latino Donor Collaborative (LDC), if U.S. Latinos were their own country, their GDP would be the third fastest growing among the world's 10 largest GDPs, representing a growth of 2.6 times that of non-Latino GDP from 2010-2020. Latino-owned businesses outpace the growth rates of White-owned businesses in terms of the number of businesses and revenue growth. The number of Latino-owned businesses grew by 34%, while the number of White-owned businesses dropped by 7% from 2007 to 2019.

As shown below, 81% of RDF's client base is located and provides goods and services in low/moderate income areas, and 50% of all the businesses are in majority-minority areas. 37% of the businesses served were launched in 2020 - 2022.



FINDINGS & ANALYSIS

DESCRIPTIVE STATISTICS



Mariangela Zavala, former Executive Director of Maestro Entrepreneur Center, describes the impact of the open for business fund in San Antonio, TX.

"Rishaank has already made major strides toward assisting the local community. They serve as a partner on the AZHCC DreamBuilder's Initiative and provides direct IT services, including laptop set-up and installation of specialty software to 100+ laptops"

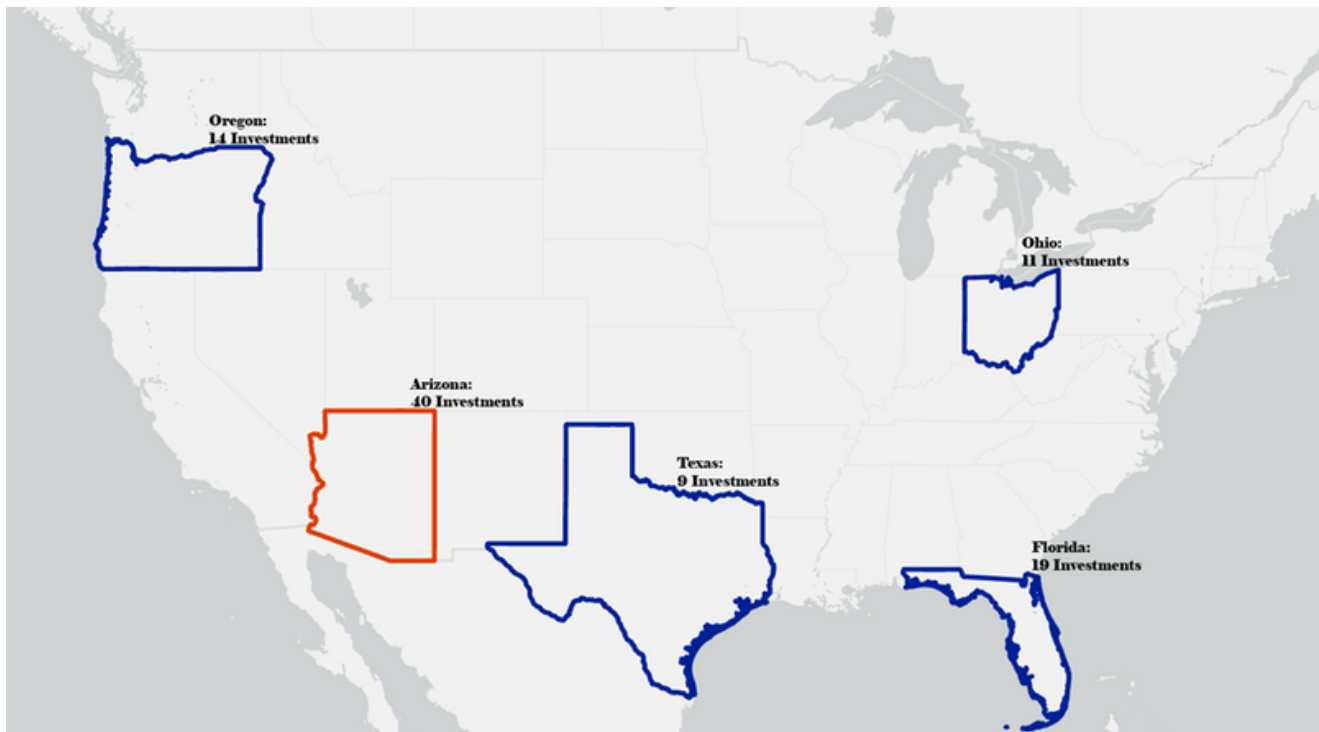
~ Rishaank, LLC

FINDINGS & ANALYSIS

DESCRIPTIVE STATISTICS

Most of these small business loans were deployed in Arizona, representing 43% of the total investments made. The small business climate in Arizona is composed of 28% minority-owned businesses. Arizona is a hot spot for minority growth in businesses and spending, especially within the Latino community. There are approximately 1.8M Latinos in the Phoenix area, and they make up \$25.7B in consumer spending power. The leading consumer spending markets for Latinos in Phoenix include restaurants, food for home, new vehicles, and clothing.

GEOGRAPHIC REPRESENTATION OF RDF OFB PORTFOLIO



As of 3.31.2023



Armando Hernandez and Nadia Holguin, owners of Cocina Chiwas, opened their business in Arizona at the height of the pandemic.

FINDINGS & ANALYSIS

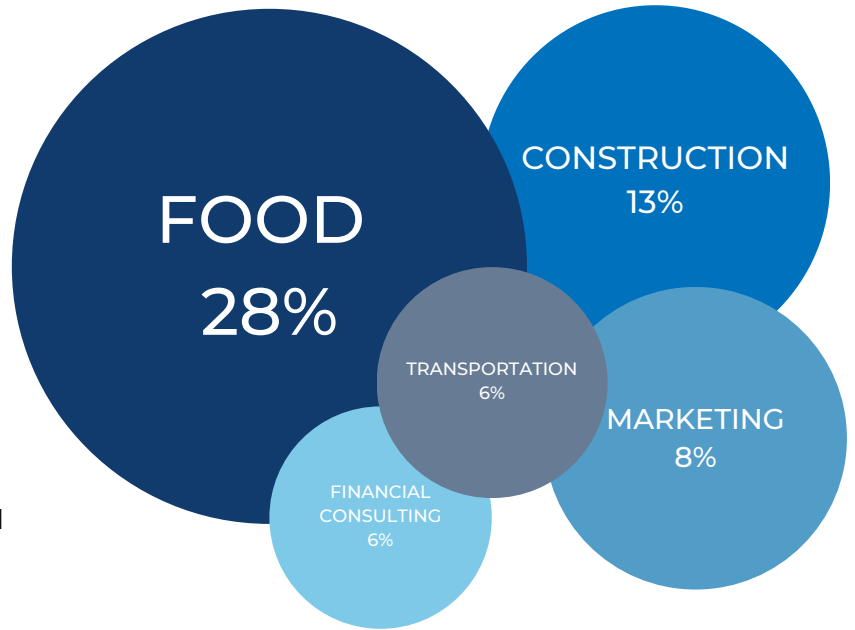
QUALITATIVE ANALYSIS

The Latino Donor Collaborative (LDC) concluded that Latinos are fueling the economy as their purchasing power grew 87% from 2010 to 2020, outpacing the 51% increase in non-Latino purchasing power over the same time frame.

In 2021, U.S. Bureau of Labor Statistics highlighted the sectors with the highest concentration of Latino workers, which were: farming (43%), grounds maintenance (37%), construction (35%), and restaurant (27%) work.

The small businesses that RDF supported through OFB, were in several of these popular markets, including 28% in food and 13% in construction.

TOP INDUSTRIES IN RDF OFB PORTFOLIO



*All Nations Environmental, Inc. Team:
Elaine Stewart, Project Manager
Subrina Gaddy, Project Admin
Cina Gaddy, Contract Supervisor
Stephanie Powell, Project Assistant*

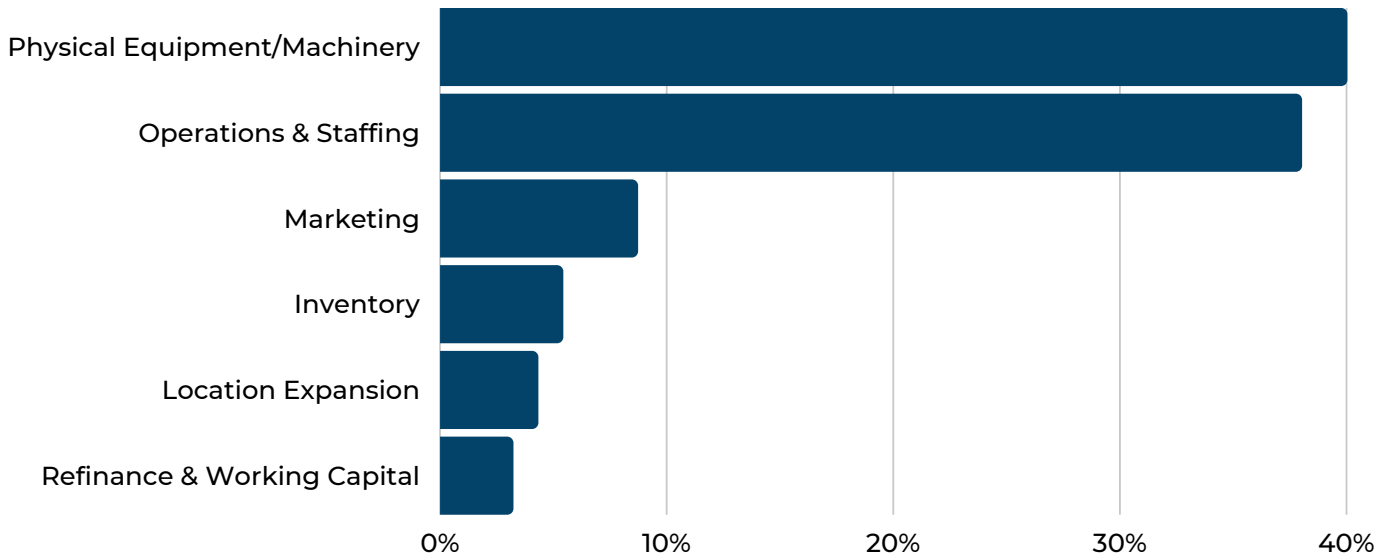


FINDINGS & ANALYSIS

QUALITATIVE ANALYSIS

Approximately 40% of small businesses plan to expand their operations by purchasing physical equipment and machinery. Additionally, 38% of the small businesses plan to increase their number of employees using RDF's investment.

USE OF OPEN FOR BUSINESS FUNDS



Christina Gonzales, owner of Gonzales Wine Co., in Portland, Oregon.

FINDINGS & ANALYSIS



Eugenio Morales, Co-Owner of JM Custom iron work, shares the impact of the OFB funds for his family-owned business in Arizona.

QUALITATIVE ANALYSIS

Social capital is a set of shared values or resources that allows people to work together for a common purpose. This concept in community development is tied to resilience and growth, especially in majority-minority areas. In a survey of 650 minority-owned small businesses in Arizona, 13% and 12% sought advice/input and did networking in their local communities to overcome unique challenges. In addition to small businesses in Arizona seeking advice from their local communities, RDF has witnessed their Arizonan small business clients turn to their own communities first for hiring. All Nations Environmental, Inc mentioned,

"...[the] project will help our community with hiring locals in the area who need work...work shortages are present in the Navajo Nation..."

In addition to providing skills and employment in their local communities, approximately 69% of 'RDF's RDF-funded small businesses are part of a local business group, association, or chamber to provide stronger guidance in their regions. These small businesses are experts in the needs of their communities, and leaning into that expertise will pave the way for other small businesses and organizations to collaborate towards a united goal.

" Refinery Barbershop will be rehabbing a location in Lake County and creating space for six new contractors. Barnaby (the owner) is always willing to make himself available to support the community in any way he can. Free back-to-school haircuts for kids is one of Barnaby's ways of giving back to his community. Barnaby is also the owner who is always coaching and mentoring contractors to think and position themselves for growth."

~ Refinery Barbershop

PROCESS & OUTCOME EVALUATION

The implementation of the Open for Business program at RDF was centered around the collaboration between RDF's small business team and our partnership with community-based nonprofits. This was a first-time pilot program that allowed us to continue on our journey to learn and define what RDF's role is as a CDFI and a lender providing financial products and services for diverse business owners. Below, we list findings collected from both our processes and outcomes that indicate areas for improvement and areas that went well.



Carmen Galarza-Ramos, owner of Custom Cakes by Carmen, can expand her small business in Florida

IMPROVE

Partnerships and Collaboration:

In order to conduct more effective partnerships and collaborations for these small businesses' lending and TA model, it is important to provide our community-based partners the necessary capacity and information on financial and lending concepts that are necessary throughout loan deployment. Not only this but codesigning the process for loan deployment and criteria utilized to create the pipeline would facilitate the intake and processing of potential borrowers. Finally, it is essential to coordinate and organize around language barriers beyond English and Spanish to be ready to serve business owners who identify an additional language as their preference.

BEST PRACTICES

Quality Control for Material/Collateral:

Our current model implemented a very simple application process. Document requirements that allowed for minimal documentation kept to only the necessary documents, decreasing our turnaround time for completing a loan request.

Financial Product:

The flexibility Wells Fargo's capital offered allowed us to provide low-cost capital to small businesses. Additionally, our team would underwrite each lead on a case-by-case study to allow for additional credit scores, such as the business owner's story and consideration of their character and use all these factors to make the approval decision. Our model allowed RDF staff to be client advocates to support the most low-income serving or owned minority entrepreneurs as possible.

IMPROVE

Internal Operations:

The evaluation of this program also resulted in a handful of areas for improvement in our internal processes to improve quality control and points of verification that will allow us to provide finance and TA more efficiently in future iterations of our small business lending program. These included but were not limited to spending more time developing a marketing strategy for potential clients and qualifications for the program and including additional departments at our organization at the front end to ensure team alignment.

BEST PRACTICES

Internal Operations:

Our evaluation of the program highlighted areas that added to the success of delivering funds and services. Overall, the best practices highlighted in our program included our ability to accelerate the approval process, utilizing technology to facilitate communication and underwriting. RDF's cross-team collaboration and high-touch approach allowed RDF staff to connect with partners and clients, contributing to successful underwriting.



Stephanie Vasquez, the owner of Fair Trade Cafe in Arizona, knows the value of a loan to a small business.

CONCLUSIONS

Based on the available data, analysis, and information, the following findings summarize the evaluation in this report and intend to provide information to our funder. The report and this conclusion serve a second purpose of sharing insights based on our experience implementing this program with similar community economic development programs. RDF's main findings include the following:

- Partner Model to foster trust: Based on evidence and research conducted on social capital and trust building for community economic development through small business financing, this model proves to be successful and recommended. Partnering with community-based organizations focused on business development to vet leads and ensure trust with the entrepreneurs proved to be a critical success factor.
- Growth of Latino small business owners: Latino-owned businesses are outpacing the growth of White-owned businesses. This calls for the replication and growth of programs that provide capital and technical assistance to support entrepreneurs with the right products and services to ensure successful and healthy growth in their businesses.
- Funds used for employment: The second most significant use of funds of RDF's OFB clients was "operations/employment," meaning that small businesses were using the funds to retain and/or create new jobs in their communities.
- Support for startup businesses: 37% of RDF's OFB clients started their business between 2020 - 2022, therefore considered startup businesses. Although not a majority, 37% is a large portion of our total clients showing demand for capital to support their growth.

RDF's intention behind utilizing evaluation as an active practice in our operations is to improve the effectiveness and efficiency of our funding and programs. We must continue refining our tools and processes to assess outcome changes over time. To do so, RDF plans to:

- Design survey questions for longitudinal data collection to follow up with OFB clients.
- Enhance reporting and communication practices of evaluation results.
- Fine-tune data collection processes both internally and externally.

ACKNOWLEDGEMENTS

WELLS
FARGO

This project would not have been possible without the support of Wells Fargo. We thank you for your continued support in our efforts to advance equity for diverse small businesses.

CONTACT

RDF is currently working on designing follow up programs to continue providing capital and technical assistance for diverse small business owners. If you are interested in supporting our work or learning more about our future efforts in this space please contact David Clower, RDF's Executive Vice President for Strategic Investments, at dclower@razafund.org.

For any impact measurement, evaluation, and data inquiries please reach out to Eugenia Vivanco, RDF's Sr. Director of Community Impact and Funding, at evivanco@razafund.org

RazaFund.org
(602) 417-1400

