



**Ripple Effect: The Economic
Impact of Microlending**

*A case study of Opportunity Fund's
Microfinance Program from 1995 to 2010*

June 2011

Introduction: The Ripple Effect of Microfinance

Microfinance programs help entrepreneurs expand their businesses and increase their household incomes by providing business advising and small amounts of capital to entrepreneurs who cannot access traditional bank loans. From 1995 to 2010, Opportunity Fund provided more than \$13.5 million in loans to Bay Area entrepreneurs. However, this direct investment amount does not reflect the broader impact these loans have had on the local economy. Opportunity Fund provides capital to local businesses; these businesses, in turn, use loan funds to purchase equipment, inventory, and supplies; rent retail and office space; and hire employees. Microenterprises typically purchase goods and services from local suppliers, who then re-invest the added revenue into the local economy. The purpose of this study is to aggregate these activities—the direct, indirect, and induced economic effects of microfinance—to calculate the “ripple effect” or macroeconomic impact of Opportunity Fund’s lending to the Bay Area economy.

Opportunity Fund commissioned TXP, Inc. to measure our impact using objective, verified research methods because we believe rigorous economic analysis is critical to the advancement of the microfinance field.

Executive Summary

This study calculates the “**ripple effect**” — the macroeconomic impact — of Opportunity Fund’s microlending on the Bay Area economy.

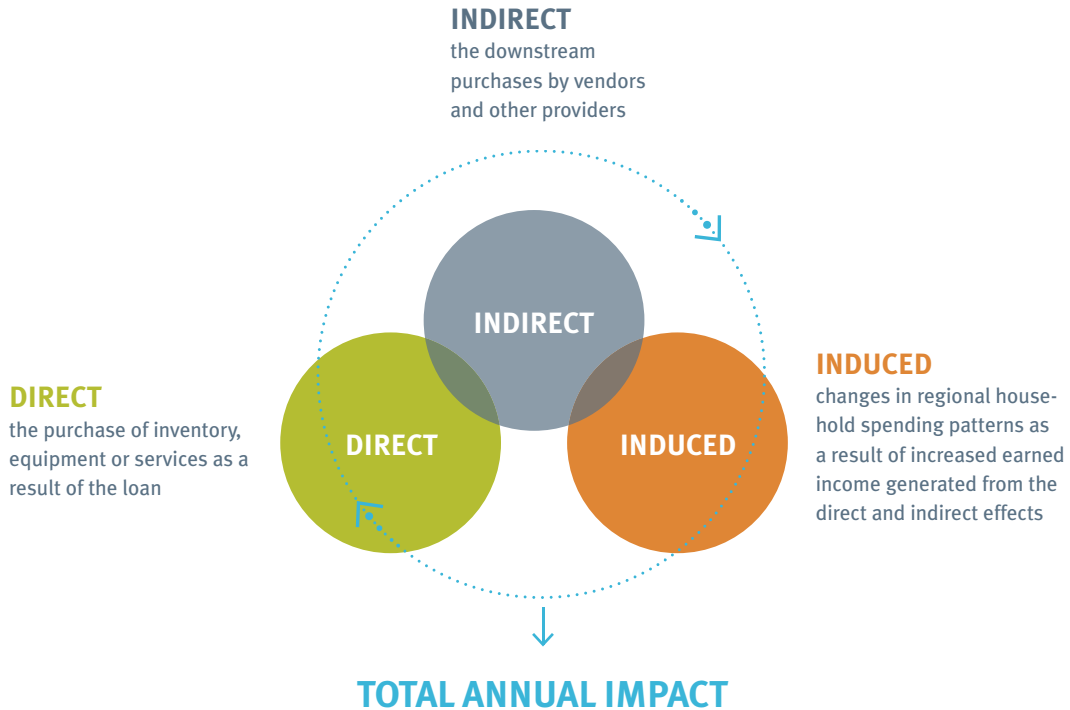
Every dollar Opportunity Fund lends to local businesses **spurs nearly two dollars** in additional economic activity.

Opportunity Fund’s loans **generate more than \$22 million** in annual economic activity in the Bay Area today.

By 2015, Opportunity Fund’s microlending is projected to **pump at least \$50 million** into the Bay Area economy each year.

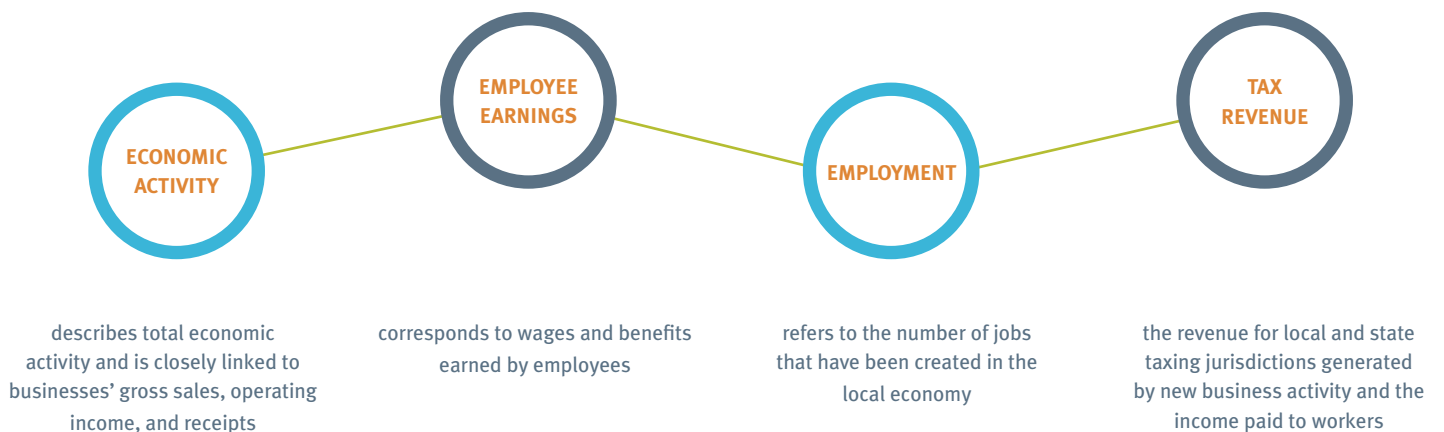
Methodology

TXP, an economic analysis and public policy consulting firm, created a customized econometric model using an input-output analysis to measure the impact of Opportunity Fund's lending on new economic activity in the Bay Area. The data set included 1,124 small business loans made by Opportunity Fund between April 1995 and December 2010 in four Bay Area counties. The analysis takes into consideration three types of expenditure effects:



To start, TXP used Opportunity Fund's \$13.5 million in loans from 1995 to 2010 as the measure of the initial annual injection into the local economy. TXP then measured the anticipated total economic impacts of these loans, using the industry and location of each business and a system of regional input-output multipliers developed by the U.S. Bureau of Economic Analysis called RIMS II.

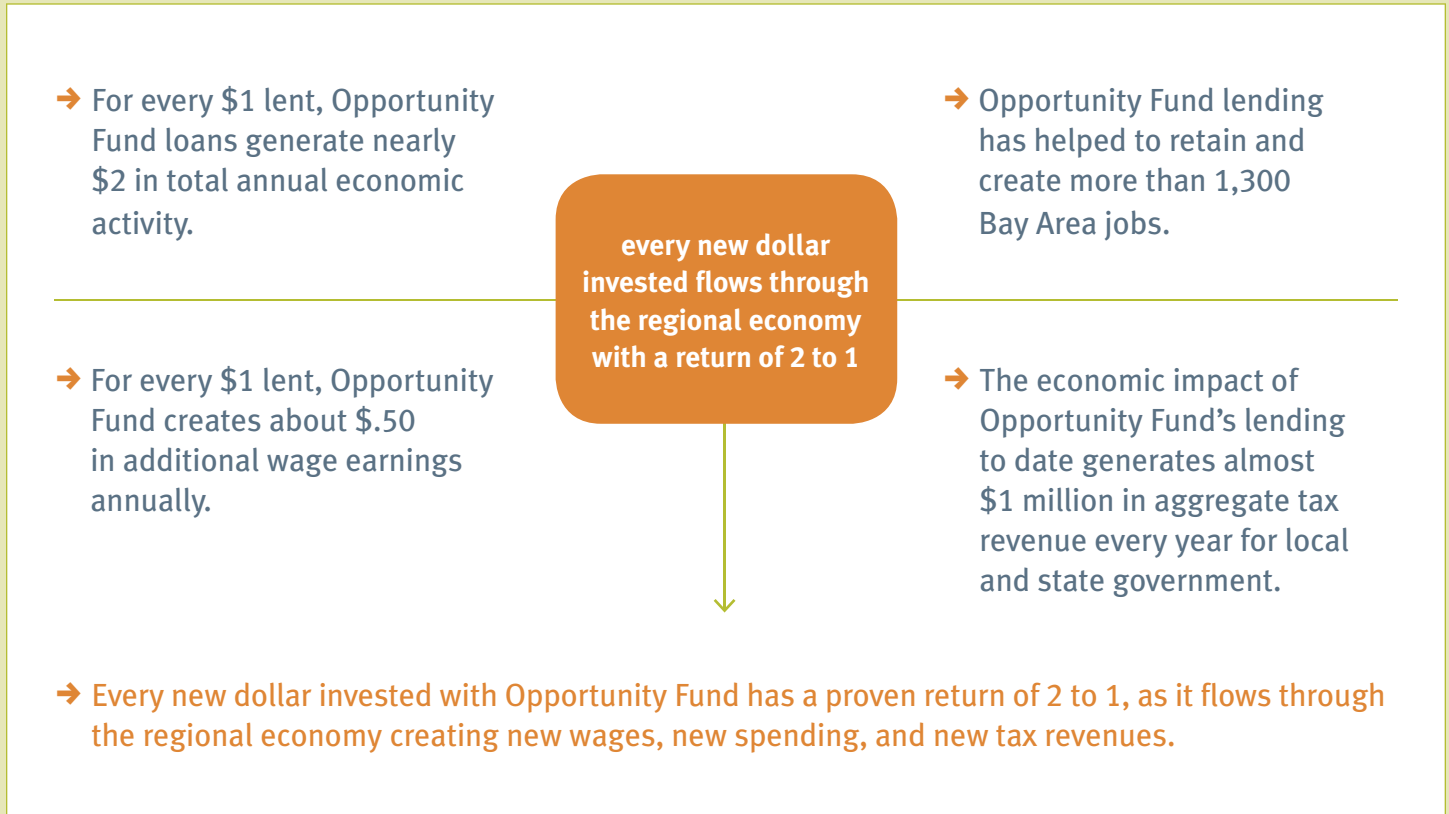
The study results are grouped by four of the variables typically used to measure and describe economic activity:



Key Findings

The economic impacts of Opportunity Fund’s loans extend far beyond the individual borrowers. The provision of capital to small businesses affects the economy in a number of ways. Many of these benefits, however, occur over a number of years after the loan, as businesses grow, add employees, and increase payrolls. Lending to small businesses can have an “evergreen” effect, as a sustainable business by definition provides services to its customers, wages to its employees, and returns to its owners on an ongoing basis.

Opportunity Fund provided over 1,100 loans and approximately \$13.5 million in total funds between 1995 and 2010. TXP’s economic model found these loans to have the following impacts:



Economic Impact of Opportunity Fund Loans 1995-2010

\$13,259,622

Opportunity Fund Loans,
1995-2010

\$22,186,927

Total Annual Economic Activity

\$6,111,615

New Annual Wage Earnings

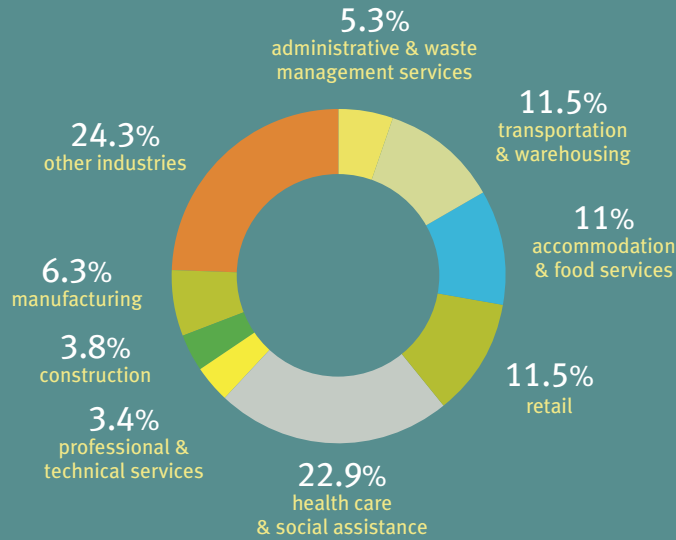
\$941,051

Annual State and
Local Tax Revenue

Impact by Industry

This economic impact analysis is predicated on the industry and location of each borrower, as different industries and regions produce different direct, indirect, and induced economic effects. As shown below, eight industries comprise three-quarters of Opportunity Fund’s lending activity in the study and generate two-thirds of the new annual economic activity.

Loan Volume by Industry



Opportunity Fund’s borrowers reflect the incredibly diverse business environment of the Bay Area. Approximately 90% of the borrowers in this study are low- to moderate-income individuals, many of whom are operating small enterprises in industries that don’t always require significant formal education or strong English-language skills for success. These industries—childcare, health and wellness, retail, food services, housecleaning, landscaping and trucking—represent the majority of the loans in the study. Other industries include sectors such as finance, wholesale trade, real estate, and educational services.

	health care & social assistance	retail	accommodation & food services	transportation & warehousing	administrative & waste management services
\$ LOAN VOLUME	\$ 3,030,696	\$ 1,521,528	\$ 1,457,398	\$ 1,530,866	\$ 701,938
NEW ANNUAL ECONOMIC ACTIVITY	\$ 3,610,154	\$ 2,122,435	\$ 1,798,776	\$ 1,882,690	\$ 1,143,244
	manufacturing	construction	professional & technical services	other industries	
\$ LOAN VOLUME	\$ 832,780	\$ 506,388	\$ 454,561	\$ 3,223,467	
NEW ANNUAL ECONOMIC ACTIVITY	\$ 1,889,546	\$ 619,956	\$ 1,210,328	\$ 7,909,798	

Impact by County



● Represents areas of Opportunity Fund lending.

From 1995 to 2005, Opportunity Fund served only Santa Clara and San Mateo counties. In 2006, services were expanded to include San Francisco and Alameda Counties. In the subsequent five years, lending volume increased dramatically across all four counties. In 2010, nearly half of Opportunity Fund's loans were to businesses in Alameda and San Francisco counties.

	total loans funded 1995-2010	historical % of total loans funded	annual economic activity	new annual wage earnings	annual local & state tax revenue
ALAMEDA	\$ 1,894,574	14%	\$ 3,770,370	\$ 1,112,585	\$ 171,313
SAN FRANCISCO	\$ 1,476,589	11%	\$ 2,938,543	\$ 867,124	\$ 133,517
SAN MATEO	\$ 1,746,533	13%	\$ 3,475,753	\$ 1,025,647	\$ 157,927
SANTA CLARA	\$ 8,141,926	62%	\$ 12,002,261	\$ 3,106,259	\$ 478,294
TOTAL:	\$ 13,259,622	100%	\$ 22,186,927	\$ 6,111,615	\$ 941,051

Opportunity Fund Borrowers



Onigilly: Buying Local

When Koji and Kan moved to the U.S. from Japan, they were struck by the absence of *onigiri*—a snack food very popular in Japan. Both men dreamed of owning their own business, and they saw an opportunity to fill a new niche in San Francisco’s food culture. With that, Onigilly was born.

Onigilly’s “Samurai Snacks,” made with brown rice and gourmet filling wrapped in seaweed, quickly gained popularity through small catering gigs. Koji and Kan knew their product would be a hit in the growing San Francisco food cart culture, but they could not secure financing for a mobile food cart. A microenterprise development organization they were working with suggested they contact Opportunity Fund.

With a \$10,000 Opportunity Fund loan, Koji and Kan purchased a food cart from a local restaurant supply company in nearby Hayward, CA. They also purchase their ingredients and supplies from local vendors. Now prominently parked each day in San Francisco’s Embarcadero Plaza, Onigilly has successfully established itself as a high-demand lunchtime destination, and a fixture of the Bay Area street food scene. Onigilly is hiring 1-2 more employees to meet its growing demand, and has plans for future expansion. What started as a snack craving has grown into a successful and thriving enterprise.



The Watershed Nursery: Creating Jobs

As co-owners of The Watershed Nursery, Diana and Laura are working to rehabilitate the local environment in the most literal sense. The Nursery focuses on native plants for California and primarily serves Bay Area city and county governments, as well as local nonprofits implementing much-needed restoration work.

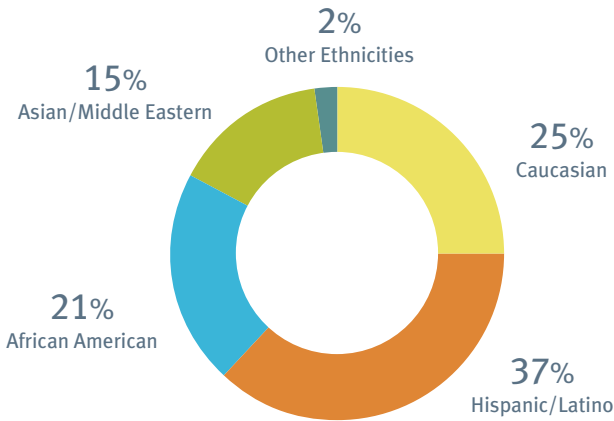
With help from a loan from Opportunity Fund, Diana and Laura moved The Watershed Nursery from the Berkeley hills to a low-income neighborhood just off the freeway. In this accessible site, sales increased greatly and they hired several new employees. The team now includes six production crew members and three field crew members who provide expertise for restoration projects. Watershed has begun to offer new services as well, such as monthly workshops to help attract new home gardening clients.

Diana and Laura’s passion for gardening and their commitment to native and local products is what makes The Watershed Nursery a successful business and an important part of the Bay Area’s economy.

Program Facts

All data is based on loans from program inception through 12/31/10.

Opportunity Fund Borrowers

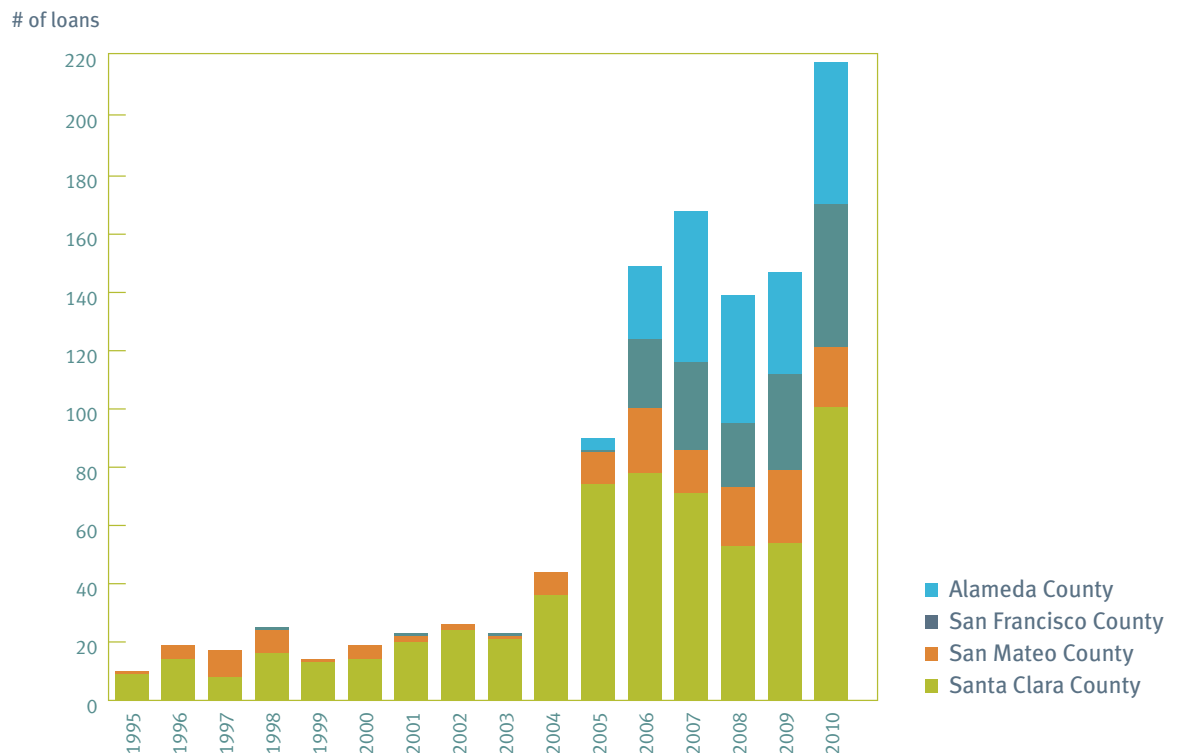


90% of borrowers are low- to moderate-income
 (defined as having an Adjusted Gross Income of 80% or less of Area Median Income)

Loans At-A-Glance

- loan size: \$500-\$100,000
- 1-7 year loan terms
- fair, fixed interest rates
- historical average loan size: \$11,700
- historical median loan size: \$7,000

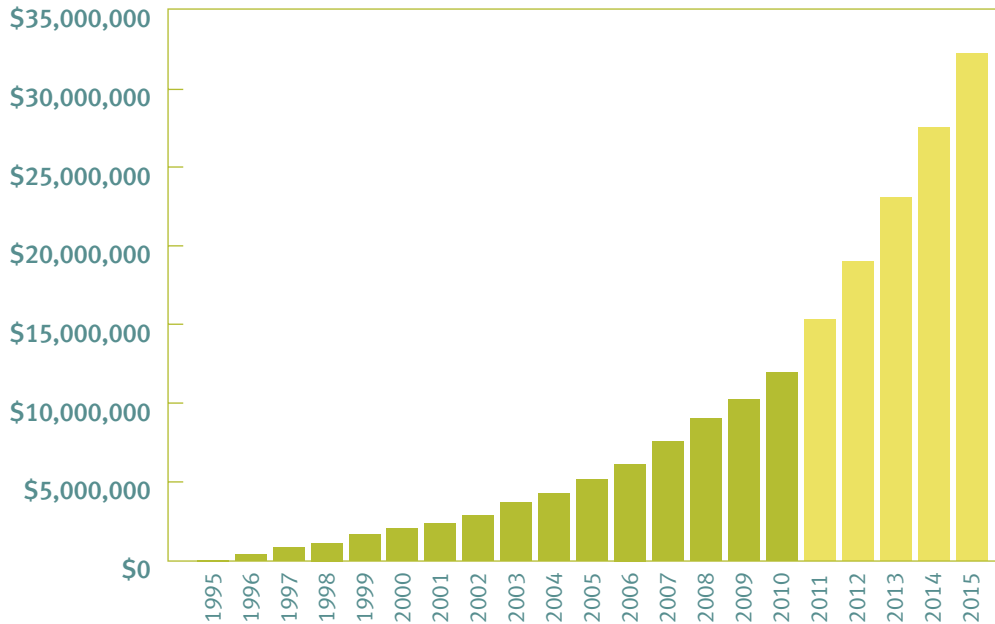
Annual Lending by County



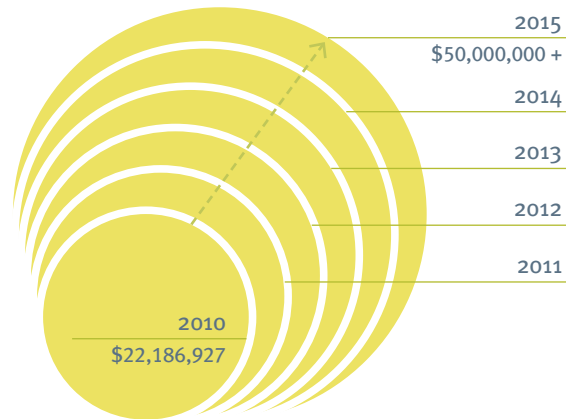
A Look Forward

Cumulative Dollars Lent

Actual through 2010, projected through 2015



Projected Economic Activity



Opportunity Fund loans promote economic stability, create jobs, strengthen small businesses, and generate local tax revenues. These economic impacts are replicable and scalable. The program's lending has increased dramatically in recent years, with two-thirds of lending taking place over the past 5 years. In the coming years, as the financial system stabilizes and small business owners position themselves for further growth, Opportunity Fund anticipates robust increases in lending, leading to an ever-greater regional economic impact.

Considering that Opportunity Fund's lending to date has resulted in a nearly 2:1 return in annual economic activity, ongoing benefit to the regional economy can be projected reliably into the future. If Opportunity Fund reaches \$32 million in cumulative dollars lent by 2015, Bay Area economic activity will increase by more than \$50 million per year.

Beyond the quantifiable economic impacts outlined in this report, Opportunity Fund programs help individuals build assets, develop skills, and gain greater economic security. Seen in this light, Opportunity Fund lending represents a huge social return on investment to microfinance investors and the individuals and communities who participate.



Opportunity Fund is a community development financial institution (CDFI) that advances the economic well-being of working people. Opportunity Fund achieves broad and deep impact in local and regional economies through an innovative model that incorporates small business lending, microsavings, and community real estate lending. These award-winning programs have helped over 12,000 people to earn, save and invest in their future and have directed \$195 million into low-income communities throughout the San Francisco Bay Area.



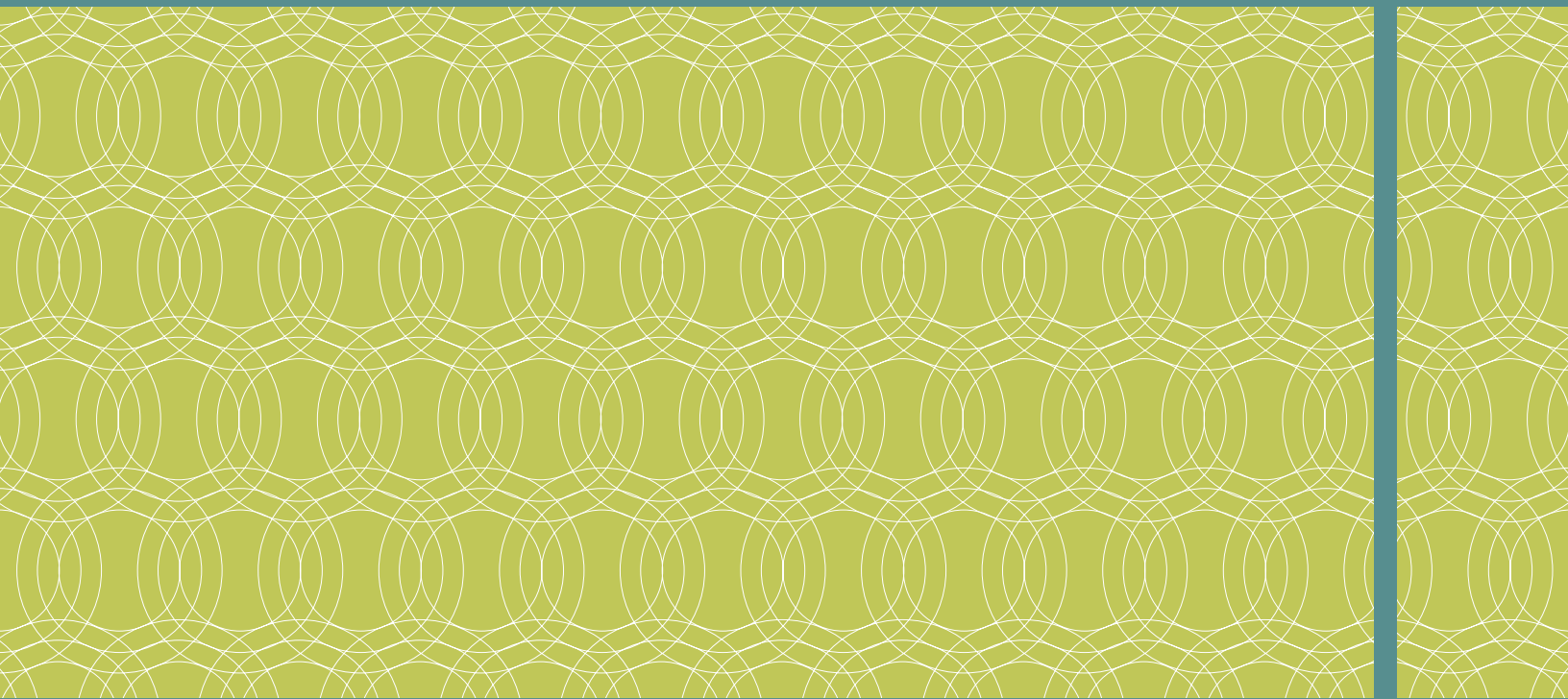
As Northern California's largest microlender, Opportunity Fund has invested over \$16 million in local small businesses to date. Through its IDA savings program, one of the largest in the country, Opportunity Fund has provided more than 3,400 working families with the financial education and matching funds they need to save, build assets, and enter the financial mainstream. These clients combined have saved and invested their own savings and matching funds of more than \$12 million toward an education, small business, homeownership, or fees to apply for U.S. citizenship. Opportunity Fund's real estate lending has provided more than \$100 million in financing to community facilities like childcare centers, health clinics, schools, and housing developments, with over 8,000 units of affordable housing financed to date.



TXP is an economic analysis and public policy consulting firm founded in 1987 in Austin, Texas. TXP's team of economic and public policy experts provides its clients with guidance and easy to comprehend answers to difficult economic questions. As part of that effort, TXP builds customized econometric models that simulate regional economies to measure standard economic impact results and an individual project's effect on the local tax base including sales, city and county ad valorem, and hotel/motel taxes.

In 2005, TXP developed a model to measure the macroeconomic effect of ACCION Texas' microlending program, with an update in 2008. The resulting report has allowed ACCION Texas to assess the total state-wide economic activity resulting from its lending over a 15-year period. Using a similar model, this report analyzes the economic impact of Opportunity Fund's historical lending in the San Francisco Bay Area.

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