



Ripple Effect: The Macroeconomic Impact of Small Business Lending

*A case study of Opportunity Fund's Small Business
Microloan Program from 1995 to 2015*

*June 2016
Third Edition*

Introduction: The Ripple Effect of Microfinance

Opportunity Fund invests in entrepreneurs who cannot access traditional bank loans by providing advising and small amounts of capital, helping them build strong businesses and improve their financial stability. Since 1995, Opportunity Fund has provided more than \$131 million in loans to entrepreneurs throughout California. Beyond this direct investment, these loans produce a broader impact on local economies. 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 reinvest 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 microloans—to calculate the “ripple effect” or macroeconomic impact of Opportunity Fund’s lending on California’s economy. Opportunity Fund commissioned TXP, Inc. to measure this impact using objective, verified research methods because we believe rigorous economic analysis is critical to advancing our mission and fulfilling our responsibility to our investors to fully measure the return on investment from their support.

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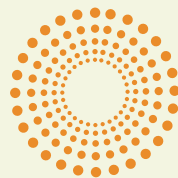
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Executive Summary

This study calculates the “ripple effect” — the macroeconomic impact — of Opportunity Fund’s small business lending on California’s economy.



Every dollar Opportunity Fund invests in a small business spurs **nearly two dollars in additional annual economic activity** — a 2:1 return.



Our loans create impact beyond the individual borrower as businesses purchase supplies, ship inventory, hire workers, pay taxes, and generate activity in downstream industries.

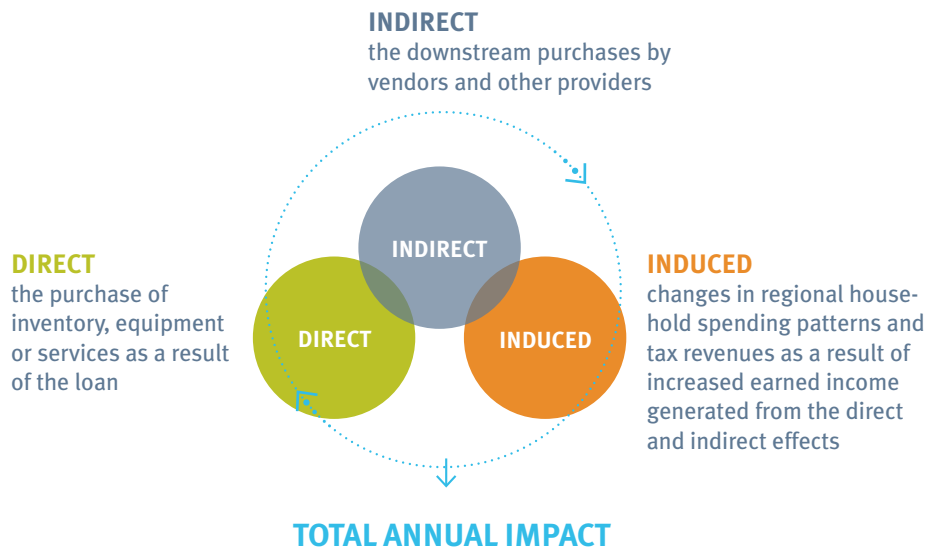


Opportunity Fund’s loans to date are **generating more than \$257 million** in annual economic activity in California.

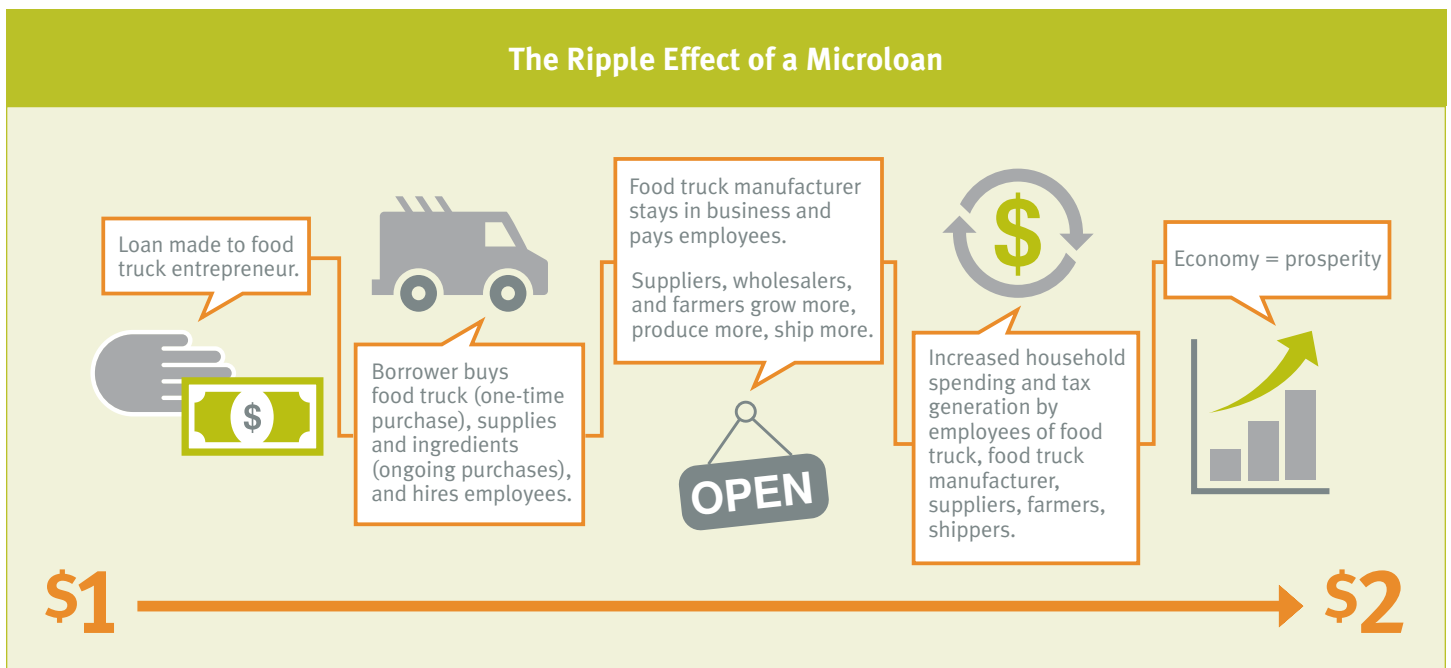
Methodology

TXP, an economic analysis and public policy consulting firm, created a customized econometric model using an input-output analysis to measure the macroeconomic impact of Opportunity Fund's lending in California. The data set included 7,551 small business loans made throughout the state by Opportunity Fund between April 1995 and December 2015.

To start, TXP used Opportunity Fund's \$131 million in loans as a measure of the initial annual injection into the 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 analysis takes into consideration three types of expenditure effects:



When Opportunity Fund makes a small business loan, the initial investment creates a ripple effect as it flows from the borrower into the economy through these direct, indirect, and induced activities.



Key Findings

The economic impacts of Opportunity Fund’s loans extend far beyond the individual borrower. 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, pay taxes, 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 7,551 loans and approximately \$131 million in total funds between 1995 and 2015. With more than 90% of our borrowers still in business at least 2 years after receiving a loan, TXP’s economic model found these loans to have the following impacts:



Economic Impact of Opportunity Fund Loans 1995-2015

Opportunity Fund Loans, 1995-2015:

\$131,597,024



Annual Economic Activity Output:

\$257,171,837



New Annual Wages Earned:

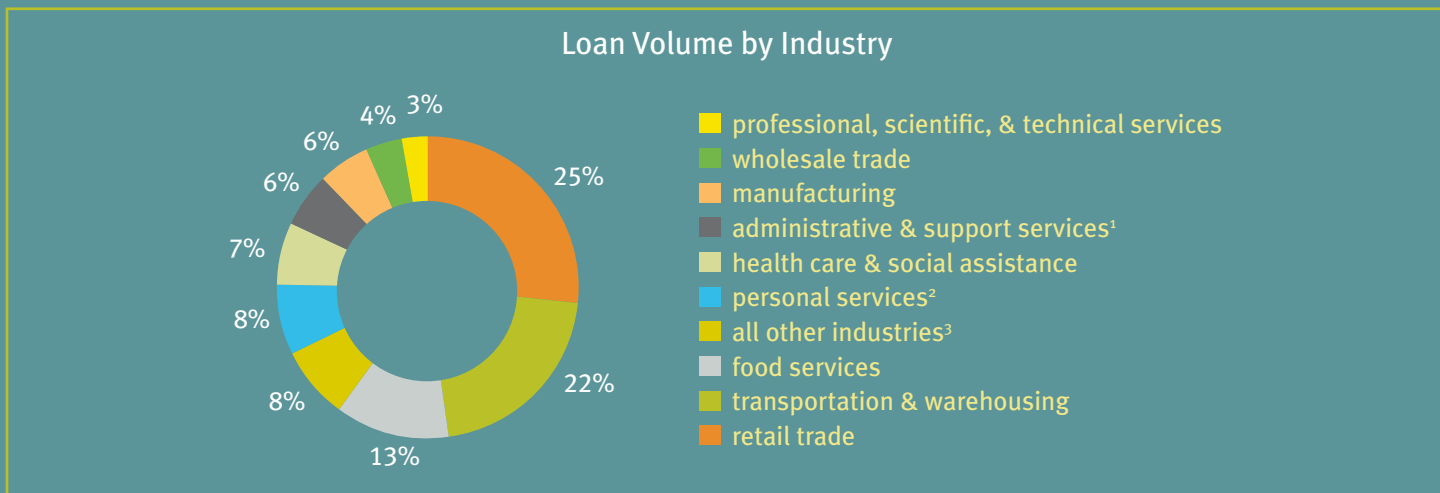
\$75,783,025

Annual State and Local Tax Revenue:

\$8,187,509

Impact by Industry

This economic analysis takes into account the industry and location of each borrower, as different industries and regions produce different direct, indirect, and induced economic effects. As shown below, nine industries comprise more than 90% of Opportunity Fund’s lending and account for 77% of the new economic activity generated by these loans.



Opportunity Fund’s borrowers reflect the incredible diversity of businesses in California. More than 80% of the borrowers in this study are low- to moderate-income individuals, and many lack significant formal education or English fluency. Yet each business contributes to the local and state economies, regardless of scope and size. In fact, Opportunity Fund’s lending in key industries—including trucking, mobile food, small-scale retail, and personal services—does more than provide direct injection of capital into the individual business. It also generates economic activity in downstream industries that are connected through transportation, purchasing, and other business related activities.

Industry	Loan Volume	Annual Economic Activity ⁴	Industry	Loan Volume	Annual Economic Activity ⁴
Transportation & Warehousing	\$55,875,059	\$68,100,711	Health Care & Social Assistance	\$5,723,762	\$13,232,038
Food Services	\$25,539,017	\$29,708,682	Administrative & Support Services ¹	\$4,339,922	\$9,662,010
Retail Trade	\$13,109,101	\$20,876,170	Wholesale Trade	\$3,535,954	\$10,302,231
Personal Services ²	\$8,172,213	\$12,738,939	Professional, Scientific, & Technical Services	\$2,666,428	\$10,516,502
Manufacturing	\$5,947,258	\$24,030,758	All Other Industries ³	\$6,688,311	\$58,003,796
Totals		Loan Volume: \$131,597,025			Annual Economic Activity⁴: \$257,171,837

¹ Includes office services, janitorial, house cleaning, waste management

² Includes beauty salons, barber shops, dry cleaners, automotive

³ Includes agriculture, construction, education, real estate, information, finance/insurance, arts/entertainment

⁴ Opportunity Fund’s investment in each sector produces economic impacts across several other sectors

Impact by Region



Region	Total Loans Funded 1995-2015	Historical % of Loans Funded	New Annual Wage Earnings	Annual Local & State Tax Revenue	Annual Economic Activity
San Francisco/Oakland	\$35,952,449	27%	\$19,385,731	\$2,208,822	\$69,349,407
San Jose/Silicon Valley	\$24,065,409	18%	\$9,370,272	\$1,149,832	\$34,885,494
Los Angeles/Orange County	\$34,909,475	27%	\$21,292,476	\$2,353,040	\$74,740,773
Inland Empire	\$10,392,401	8%	\$5,195,414	\$572,160	\$18,676,979
Rest of California	\$26,277,289	20%	\$18,104,165	\$1,777,287	\$59,519,183
Total	\$131,597,023	100%	\$73,348,058	\$8,061,141	\$257,171,836

Opportunity Fund Borrowers



Mo — Long-haul Trucker

Mo is a long-haul truck driver from Concord, California. After twenty years driving for a big company, Mo used a loan from Opportunity Fund to purchase his own truck to earn more as his own boss.

“I spend days away from my family. I love my wife and our daughter, Sarah. She is the reason I work so hard. She just graduated from college!” Mo says with a smile.

Four years ago, Mo had a heart attack, just minutes after making his last delivery. He needed a quintuple bypass. Six months later, he was back on the job, but he needed to make up for the time he lost while recovering. Mo got a new loan from Opportunity Fund to buy refrigerators for his trailers, enabling him to haul cold and frozen foods, rather than dry goods.

“I earn 40% more driving cold products. This loan made it possible for me to support my family, even after the heart attack,” said Mo.

Everywhere Mo drives, he produces a ripple effect in the economy: gas stations, mechanic shops, restaurants, and motels all get a boost from his business; in turn, those businesses pay their employees, who then buy groceries, shop locally, and pay taxes. Additionally, the movement of goods that Mo provides supports growers, wholesalers, and retailers who rely on the trucking industry to get their products to market.



Ana — Owner, Arantxa Fashion

Ana is the owner of Arantxa Fashion, a clothing shop located in the Garment District in downtown Los Angeles. She sells brightly colored t-shirts, jeans, and baseball caps to customers who stroll the labyrinth of alleyways in search of a deal.

“Right now, the trend is pastel and light colors. Before, it was neon. Before that, it was plaid. I have to keep up. And I have to keep changing my inventory,” says Ana.

Ana started out selling clothes on the sidewalk. As her enterprise grew, she moved into a retail space. Ana borrowed \$5,000 from a local *usurero*, or loan shark, to increase her inventory but she ended up paying \$250 a month just to make interest payments.

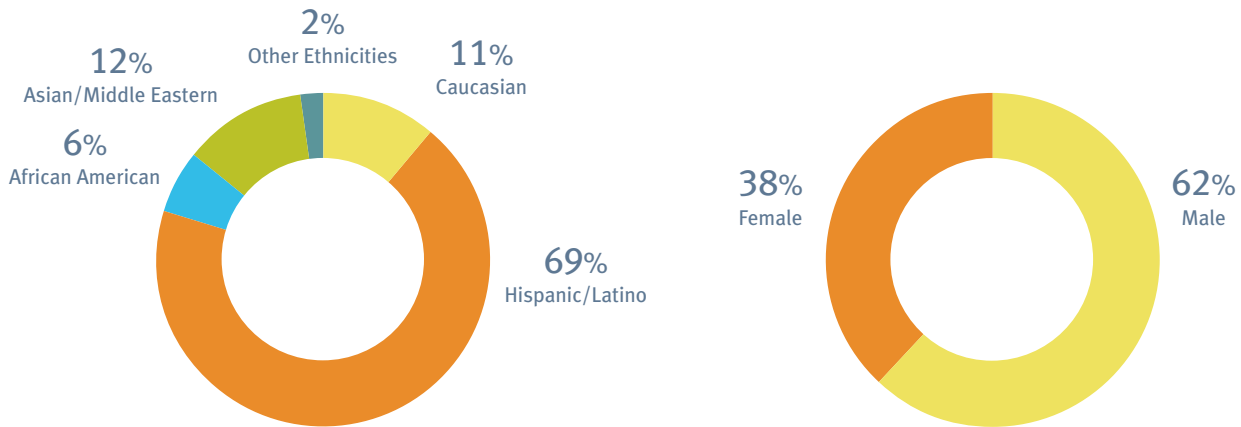
“I opened my business to realize a dream,” said Ana, “but I was quickly living a nightmare.”

Then, Ana got a loan from Opportunity Fund at 12% interest and she was able to pay off the *usurero*. Now, with a healthy cash flow, Ana’s ripple effect takes shape when she pays rent, buys supplies for her shop, and purchases new inventory from Garment District manufacturers, generating further employment and economic activity. Ana is also making a personal investment: she’s building an asset for her family. “My hope is that, one day, my kids will come work with me. I want them to have more opportunities than I had.”

Program Facts

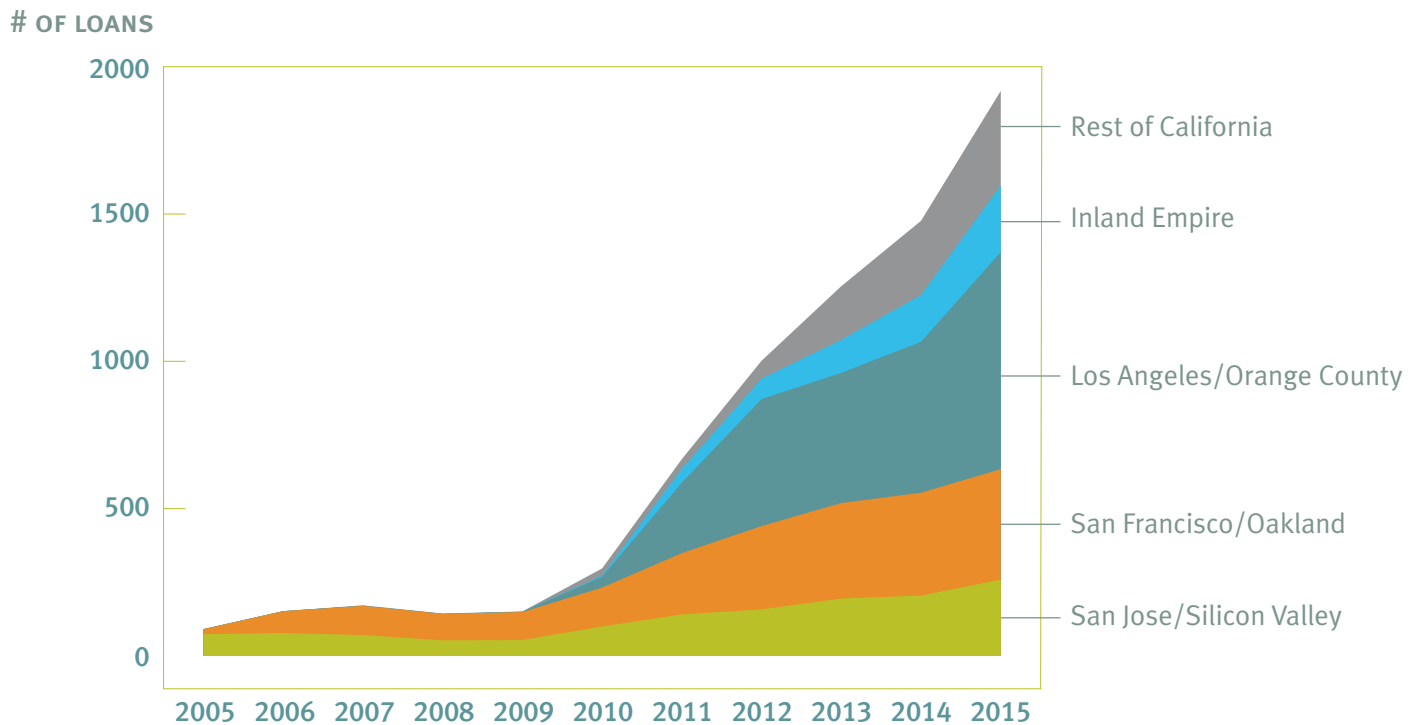
All data is based on loans from program inception through 12/31/2015 except where noted.

Opportunity Fund Borrowers



82% of borrowers are low- to moderate-income
 (defined as having an Adjusted Gross Income of 80% or less of Area Median Income)

Annual Lending by Metro Region



Loans At-A-Glance

- loan size: \$2,600-\$100,000
- 1-5 year loan terms
- fair, fixed interest rates
- average loan size (2015): \$24,000
- median loan size (2015): \$15,000

Small Loans. Big Impact.

Small businesses play a major role in the modern American economy. **California is home to 3.6 million small businesses, which drive economic opportunity across the state.** Individually, the businesses are small; collectively, the role of California's entrepreneurs in the economy cannot be understated: small businesses employ our workers, strengthen our neighborhoods, and reinvest in local communities.

Over 50% of the working population works in a small business*



Small businesses have generated over 65% of the net new jobs since 1995*

Only half of new firms survive at least 5 years*



52% of all small businesses are home-based*



90% of California's small businesses have fewer than 20 employees**



*: <http://onforb.es/1rzaFE5> **: California Labor Market Division



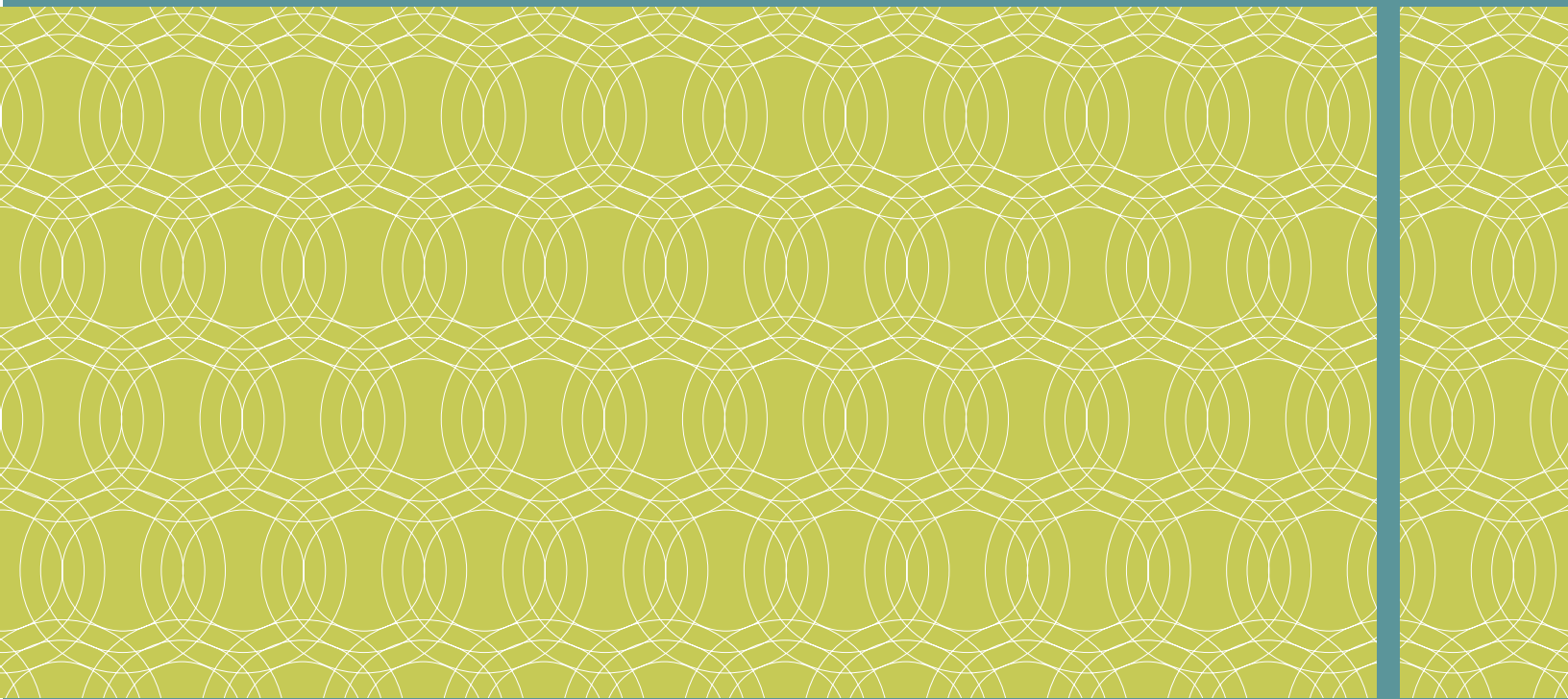
Opportunity Fund believes that small amounts of money and financial advice can help people make permanent and lasting change in their own lives, driving economic mobility and building stronger communities. We say “Yes!” to small business owners, low-income students, and families because entrepreneurship, education, and sound financial habits are proven pathways to greater economic opportunity.

Our strategy combines microloans for small business owners and microsavings accounts to help students pay for college. As California’s leading microfinance provider, our team has deployed nearly \$150 million and helped more than 12,000 people since 1994.



TXP is an economic analysis and public policy consulting firm based in Austin, Texas. For 25 years, TXP has helped clients understand and respond to their most pressing economic and public policy issues. By blending analysis and creativity, TXP crafts custom solutions that are thoughtful and straightforward. Our innovative ideas not only enable community and business leaders to anticipate and manage the economic forces affecting their region, but also show them how to define issues from the beginning.

Using customized econometric models that simulate regional economies, TXP measures client projects’ economic impacts, as well as effects on the local tax base. TXP has conducted analyses for several U.S. microlenders and nonprofits, including two earlier editions of this macroeconomic analysis for Opportunity Fund in 2010 and 2011.



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