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## How microlending helps communities

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Providing small loans to help the poor start or expand businesses is an effective strategy for helping communities ravaged by the recession as well as expanding the overall economy, according to speakers at a conference Thursday.

"In the midst of a depressing downward economic spiral, microfinances are a real ray of hope," said Eric Weaver, chief executive officer of the Opportunity Fund, a sponsor of the Microfinance California event held at Stanford University. "It's a wonderful system for generating wealth and organizing economic activity."

Microfinance lenders like Opportunity Fund provide small loans along with business coaching to low-income entrepreneurs. With a median loan size of \$5,000, the San Jose nonprofit claims to create or retain two jobs per business on average.

The survival rate in the United States for such companies is roughly comparable to those of traditional small businesses, according to a survey of studies by the Aspen Institute's Field program, a microenterprise research group in Washington.

It's likely to be a growing investment area, as the Obama administration has directed more than \$100 million in new funds toward programs that make loans to low-income individuals, including the Community Development Financial Institutions Fund. In addition, Kiva.org, a service promoted by former President Bill Clinton that will have facilitated \$100 million in loans to entrepreneurs in developing countries by 2010, is now turning its sights to the United States.

But only 7.5 to 17 percent of the demand for microlending was being funded as of a 2005 estimate by the Aspen Institute. More entrepreneurs are receiving these loans four years later, but the need has climbed dramatically with the economic downturn, as banks tighten their lending standards and more newly unemployed people look to entrepreneurship for a living, said Joyce Klein, senior consultant for the Field program.

There are around 2 million unfunded opportunities in California alone, said John Stumpf, CEO of Wells Fargo & Co. and the keynote speaker at the conference. It's critical to lend to these enterprises because they're a major source of regional job generation, he said.

"Think what that would do for our 11 percent-plus unemployment rate," he said. "It's not a handout but a hand up, where they can achieve dreams, work hard and participate in the American opportunity and the American dream."

The San Francisco bank has provided more than \$20 million in grants to microlenders, including

San Francisco organizations like Urban Solutions, Renaissance Entrepreneurship Center and TMC Development Working Solutions.

TMC, a nonprofit on Front Street, has lent \$750,000 since it began its microlending program with \$500,000 from Wells Fargo in 2005. It has invested in a wide array of local businesses, including chocolatier Kika's Treats in San Francisco, SAT preparation program My Tutoring Place in Millbrae and jewelry designer Kris Nations Jewels in Oakland.

Their clients are often unable to secure loans from banks because they don't have the business track record, established credit or collateral that traditional firms require, said Emily Gasner, executive director of TMC.

The counseling that comes with microlending also provides a route for getting poor people and minorities into the financial mainstream, said Emmett Carson, CEO of the Silicon Valley Community Foundation.

Nearly 1 million California households don't have checking or savings accounts, and nearly 900,000 of them are African American or Latino, he said. That often leaves the state's poorest residents dealing with the most expensive financial services, such as payday lenders and check cashing operations.

"Financial education holds the power to transform the cycle of poverty into a cycle of prosperity," he said.

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