Economic impact of African Development Center of Minnesota in the Twin Cities

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Summary

"Economic development: What benefits one, benefits all," Ronnie Bryant, President and CEO of the Charlotte Regional Partnership, promoting the 16-county Charlotte region.

For every dollar invested in the African Development Center's financial literacy training and loan programming in 2010, the overall return in the first year averaged $1.68. ADC-served businesses, on average, realized $5.90 in return; while ADC and other stakeholders, on average, got back 30 cents of their dollar invested after one year.

Considering the 32 ADC-served businesses in 2010, these returns represent a total one-year net benefit of $604,369.

- ADC-served businesses in 2010 realized a net benefit of $1.15 million, a per business net benefit of nearly $36,000.
- ADC and other stakeholders underwrote a total net cost of $547,029 or about $15,388 per business.

Study purposes and methodology

As part of a broader program effectiveness and impact analysis evaluation of community development organizations, African Development Center (ADC) contracted with Wilder Research in October 2011 to design and conduct a return on investment study of providing financial literacy training (FLT) and an economic impact analysis of ADC's business development and homeownership financing and support to businesses and populations in underserved markets and communities facing barriers to accessing credit and capital.

The costs of FLT programming and ADC investments in businesses development and homeownership activities were supplied by ADC staff from agency records. The FLT outcome data and the data and information for conducting economic impact analysis of ADC programming on local communities and neighborhoods in the Twin Cities were supplied by ADC staff from agency records and gathered through a survey with 32 businesses and 163 homeowners assisted by ADC.

Other key findings

Leverage and benefits of ADC financial literacy training and loans

- ADC loaned a total of $544,600 to ADC-served businesses in 2010, ranging from $3,000 to $60,000. Half of the loans were for $20,000 or $25,000. These loans represented 25 percent of the total investment in these businesses that year, meaning ADC leveraged $1.07 million in equity investments and nearly $600,000 in other loans.

- On average, a one percent increase in an ADC loan increases gross receipts by 12 percent. In 2010, ADC-served businesses generated total gross receipts of $6.4 million, with $771,434 attributable to the ADC loans, averaging $25,714 per business in increased gross receipts.

- About 76 percent of the loans provided by ADC, amounting to $416,500, were invested in the local Twin Cities area.

- Assuming that businesses will spend their increased gross receipts locally at that same rate, $586,290 is returned to the local area for wages and goods and services bought locally.

- ADC-served businesses generated a total increase of $80,995 in gross wages and salaries, a per business amount of $3,240.

- ADC-served businesses generated increased sales, payroll, and other taxes totaling $77,280 in 2010.

Value generated by ADC-served homeowners

In 2010 alone, 163 ADC-assisted clients bought homes with a per-home average value of $150,000 and an estimated total market value of $24.5 million.

- Based on a Minnesota property tax rate of 1.05 percent, ADC-served homeowners, on average, generated an estimated property tax of about $1,575, totaling $256,725 in 2010.

- About 80 percent received closing cost assistance averaging $5,000 per homeowner, totaling $652,000.

- About 80 percent of the ADC-served families received financial assistance averaging $8,000 per family, providing them with instant home equity, totaling about $1 million.

Introduction

Background

The African Development Center (ADC) is a not-for-profit organization incorporated in 2002 with a mission of working with African communities in Minnesota to start and sustain successful businesses, build assets, and promote community reinvestment. Much of what ADC is known for, and what sets it apart, is that it is a culturally-based economic development organization located in the heart of the African immigrant community.

ADC provides loans, leveraging innovative and non-traditional financial resources, and offers financial literacy training (FLT), business development, and homeownership financing and support. ADC assists businesses that largely employ low- or moderate-income individuals and revitalize economically distressed areas. Thus, ADC investment is of paramount importance because it targets underserved markets and communities facing barriers to access credit and capital.

ADC has made significant milestones in a short amount of time in helping African communities in Minnesota. By 2010, ADC has financially leveraged a total of $10 million in business investment by clients, banks, public agencies, and other community developers. ADC also served hundreds of clients, who received training to start and expand businesses as well as for their own self-development.

Traditional ways of tracking and reporting impact, especially by development organizations, have been shown to fall short of truly addressing whether their efforts make a difference (Zielenbach, 2004). The number of people trained, number and amount of loans extended, number of business opened or expanded by ADC, for example, fail to capture the real social and economic benefits of its programming because they do not mention or quantify ways in which the quality of life for the clients and possibly the community in general are affected.

Studies show investment in economic development organizations is a long-term asset, especially if it is well planned, managed, and funded (Nacker, 2002). There are several program effectiveness and impact analysis techniques for evaluating community development organizations as investments. In this regard, the present study is an attempt to capture the value of ADC in the communities it serves and show return on investment (ROI) and economic impact.

Study purposes and methodology

As part of a broader program effectiveness and impact analysis evaluation of community development organizations, African Development Center (ADC) contracted with Wilder Research in October 2011 to design and conduct a return on investment study of providing financial literacy training (FLT), loans to businesses, and homeownership financing and support to populations in underserved markets and communities facing barriers to access credit and capital.

The guiding questions of the study are:

- What are the net benefits of providing financial literacy training at ADC to African communities in Minnesota?
- Are the benefits accruing to society associated with ADC financial literacy training worth the costs to society?
- Is ADC getting any bang for its financial literacy training buck?
- Given that ADC engages in business development and homeownership activities, what are some economic impacts on local communities and neighborhoods it serves?
- What is the return on investment (ROI) measurement or benchmark for ADC financial literacy training and business loans?

Wilder Research itemized the data needed to calculate the costs and economic benefits of ADC's programming and investments. ADC provided most of the information. The rest was collected via a brief survey with 32 ADC-served businesses.

The analysis and discussion follows an ROI framework (Figure 1) that distributes the benefits (+), costs (-), neither benefits nor costs (0), and uncertainties (+/-) across perspectives. Recognizing that it is not possible to consider all the stakeholders in the society who underwrite the resources/costs used in programming and to whom the benefits accrue, this analysis limits perspectives to ADC-served businesses and the taxpayers, unless otherwise stated.

1. ADC Benefit-cost framework

	Participants	+	Rest of Society (ADC, Taxpayers)	=	Society
			Perspectives		
Costs to ADC-served businesses	-		0		-
Cost to other stakeholders	0		-		-
Benefits to ADC-served businesses	+		0		+
Benefits to other stakeholders	0		+		+
Total benefits	+/-		+/-	+/-	+/-
Benefit-cost ratio	+/-		+/-	+/-	+/-
Net benefits	+/-		+/-	+/-	+/-
Average net benefits	+/-		+/-	+/-	+/-

+ implies benefits; - implies costs, +/- implies uncertainty until final numbers are plugged in.

Assumptions

The calculations of costs and benefits in this study are for 2010 based on these assumptions:

- Without ADC, the businesses in this analysis would not have received financial literacy training or loans.
- FLT skills gained by clients last for at least one financial year.
- FLT is a precondition for ADC loan access. Thus, we assume that outcomes realized (such as increased receipts, increased tax contributions, increased loan and interest payments) are not only attributable to loan injection, but also due to increased financial management and knowledge of financial systems acquired from FLT.
- Estimates of financial outcomes/indicators are available and based on actual data provided by ADC.
- FLT costs provided by ADC represent only resources dedicated to FLT programming.
- According to ADC, about 76 percent of the loans leveraged by ADC were invested in the area, an indication of expansion of economic opportunities of small businesses.
- We assume that ADC-served businesses will spend their increased gross receipts locally at the same rate at which the provided loan is invested in the local area.
- We assume that gross wages and salaries grow with increases in gross receipts.

- Since ADC loans leverage other loans, we assume that estimated repayment to ADC alone grows with increases in gross receipts due to ADC loan provision.
- Where an indicator or outcome is unavailable, we assume or use a proxy outcome, reliably guided by research literature.
- Knowledge acquired at ADC helps homeowners hold on to their homes for a minimum of a year.

Limitations of the study

There are limitations inherent in measuring/capturing net benefits or economic impact of FLT and ADC programming. Undeniably, and as the results show, ADC programming impacts the area served; however, these effects cannot wholly be attributed to ADC. With conservative assumptions, we attempted to net out impact attributable to ADC. In addition, true measuring of economic impact requires complete and extensive data collection. In this study, this was not possible. As a result, some impacts (direct or otherwise) were not included in the framework analysis even though they were anecdotally mentioned or discussed to reinforce the larger narrative of the impact. In particular, indicators and outcomes related to homeownerships were anecdotally analyzed and presented in a separate section. Thus, the reported ROI of ADC programming and business impact ought to be considered and interpreted conservatively.

Leveraging power of ADC loans to ADC-served businesses

Profile of ADC-served businesses

ADC provided a number of indicators of the 32 ADC-served businesses, as listed in Figure 2. These indicators are not exhaustive but serve as a starting point for characterizing these businesses and describing their economic impact. For example, among these ADC-served businesses, ADC loans made up a quarter of the $2.21 million invested in these businesses in 2010, with nearly half of the investment coming from equity raised by the businesses. Moreover, 56 percent of them borrowed conventionally, while 44 percent of the businesses borrowed based on expected profits. Finally, three-quarters of them invested in the local area.

2. Profile of 32 ADC-served businesses

Total invested in ADC-served businesses in 2010	**$2.21 million**
Source of ADC-served businesses' investment	**Percent**
Equity raised by businesses as percent of total investment	48%
Other loans received as percent of total investment	27%
ADC loan as percent of total investment	25%
Location of business	
CDFI investment area	76%
CDFI ED HOT Zone	23%
Primary reason for borrowing	**(N=32)**
Inventory	28%
Equipment related	47%
Improvements	13%
Working capital	3%
Security deposits	3%

2. Profile of 32 ADC-served businesses (continued)

Sector	(N=32)
Retail	44%
Service	44%
Wholesale	3%
Transportation	6%
Manufacturing	3%
Other indicators	**(N=32)**
Conventional/Regular loan	56%
Profit-based loan	44%
Employ full-time employee	84%
Owner full time	84%
Borrowing 1st time in 2010	66%

ADC loans provided to businesses

ADC-served businesses received loans from ADC ranging from $3,000 to $60,000 in 2010. These loans totaled $544,600, a per business average of $17,000. Half of the loans were for $20,000 or $25,000.

These loans represented 25 percent of the investment in these businesses in that year. About 76 percent of the loans provided by ADC, amounting to $416,500, were invested in the local area, a substantial expansion of economic opportunities for small businesses. In addition, these loans by ADC leveraged the other investment needed by ADC-served businesses in the form of equity and other loans.

Equity raised by ADC-served small businesses

ADC-served businesses in 2010 raised equity of over $1.07 million, representing 48 percent of the investment in that year, a significant indication of the value of these small businesses beyond what is owed on them. This financing is expected to directly impact not only the balance sheet ratios of these businesses (a critical asset to securing debt financing), but also ensure that these businesses are less risky for potential lenders. In fact, this is way above the conventional minimum equity investment of between 20 and 33 percent considered for most forms of financing of startup businesses.

All of the equity raised by these businesses is assumed to be invested in the local area.

Other loans

In addition to equity, ADC loans leveraged other investments channeled to ADC-served businesses by other corporations or stakeholders. These loans were extended by the Corporation for Enterprise Development (CFED) and the Neighborhood Development Center (NDC). These other loans amounted to $599,000, representing 27 percent of the investment in 2010. About 88 percent of these loans extended to ADC-assisted businesses were invested in the local area.

Uses of loans by ADC-served businesses

ADC-served businesses were offered the flexibility to borrow money for various purposes. The use of these loans, as indicated by the primary reason for borrowing, is a way to demonstrate the leveraging and spending impact of ADC loans. Figure 3 shows the amount of the loans going for various types of business investments in 2010. Nearly half (47 percent) of businesses received a total of $312,500 for investing in equipment. About 31 percent of ADC-served businesses received a total of $109,000 for inventory related investments in 2010, and 13 percent received a total of $85,000 for business improvements. Three (9 percent) of the businesses received a total of $38,100 for working capital and security deposits. In addition, based on a statistical analysis, the creation of jobs by ADC-served businesses tends to increase with the size of the loans.

3. Loan purpose of ADC-served business investment source

Primary loan reason	Number of Businesses	Percent	Amount ($)
Equipment	15	47%	312,500
Inventory	10	31%	109,000
Improvements	4	13%	85,000
Working capital	2	6%	23,100
Security deposit	1	3%	15,000

Benefits and costs of ADC financial literacy training and ADC loans

Financial literacy training

Financial Literacy Training (FLT) is a key component of ADC programming aimed at promoting financial literacy and creating opportunities to build a financial future. FLT programming provides workshops for men and women and all age groups and delivers them to community groups and employers. It also offers "train-the-trainer" sessions for groups or agencies. ADC offers financial education in three ways:

- *Financial Education Workshops* – Money management, consumer protection and identity theft, finding money to start saving and investing, living on reduced income during transitions, and building good credit to improve your score
- *Financial Literacy Classes* – Budgeting to create savings, debt reduction and asset building, improving credit rating, and consumer protection and financial institutions
- *Train-the-Trainer* – A special training for front-line workers to build the technical financial expertise and comfort to facilitate financial coaching and classes with their clients

FLT is a precondition for ADC loan access. Thus, we assume that outcomes realized (such as increased receipts, increased tax contributions, increased loan and interest payments) are not only attributable to ADC loan and loans leveraged, but also due to increased financial management and knowledge of financial systems acquired from FLT. In what follows, we assess the benefits and costs of FLT and ADC loan provision based on data provided by ADC on 32 ADC-served businesses.

Benefits of FLT and ADC loans

Increased loan access

Extending loans to small businesses is one of the ways in which development organizations foster economic opportunity, neighborhood vitality, and community partnerships. These loans not only leverage other loans, but also can impact profitability and business tax contributions.

To repeat, based on ADC data on 32 ADC-served businesses that received loans from ADC in 2010, the loans averaged about $17,000, amounting to $544,600. Businesses used these loans to meet their expense obligations, creating economic impact locally.

The first-year cost of borrowing, averaging 3 percent of the loan, is paid by ADC. Considered as a benefit to the ADC-served businesses in this analysis, the per business benefit is $511, totaling $16,338.

Increased gross receipts

Because ADC-served businesses generally have a longer learning curve in pulling together data needed for a thorough economic analysis, data on business profitability are not currently tracked by ADC. However, as a proxy for profit, ADC has collected data on gross receipts. The 32 ADC-served businesses generated total gross receipts of $6.4 million in 2010. The gross receipts ranged from $1,000 to about $2.4 million, averaging $217,012 per business.

Based on a statistical model that predicts the amount of gross receipts expected based on the size of their loan, the amount of loans leveraged by ADC increases a business's gross receipts. In particular, a one percent increase in an ADC loan results in 1.12 percent increase or, on average, 12 percent more in gross receipts. ADC-served businesses realized, then, $771,434 more in gross receipts than expected, averaging $25,714 per business in increased gross receipts.

In addition to being a proxy for profits, increased gross receipts also indicate the potential capacity to spend. We learned in the prior section that 76 percent of the loans provided by ADC were invested in the local area, an indication of the expansion of economic opportunities for small businesses. Assuming that businesses will spend their increased gross receipts locally at this rate, then $586,290 is returned to the local area for wages and goods and services bought locally.

Increased tax contributions

In 2010, these businesses, on average, paid sales tax of $18,600 in Minnesota. They also paid an estimated $4,691 and $4,230 per business in Minnesota and federal payroll taxes and other mandatory taxes.

As a result of FLT and ADC loan provision, these businesses, on average, generated an increased MN sales tax contribution of $2,299 per business, increased estimated Minnesota and federal payroll tax of $587 per business, as well as an increased other tax contribution of $528 per business. This translates to an annual estimated total of $50,572 in increased Minnesota sales tax contributions, $13,511 in increased Minnesota and federal taxes, and $13,197 in increased other paid taxes. These increases are over and above what businesses paid in 2010.

Increased wages and salaries

According to data provided by ADC, businesses served in 2010 paid a total of $674,957 in wages and salaries, averaging $28,123 per business. Presumably, much of this money goes into the local economy as employees spend their wages and salaries locally. We assume that gross wages and salaries grow with increases in gross receipts. Accordingly, these businesses generated $80,995 in increased gross wages and salaries, a per business amount of $3,240 as benefits to employees and hence the local economy.

Loan repayment and interest paid

According to data provided by ADC, businesses served in 2010 repaid an average principal loan of $4,493, an average return on investment of $553 and an average interest of $865.

Assuming that these repayments are paid primarily out of increased gross receipts, these businesses are estimated to repay ADC alone about $539 in loan principal, $66 out of profits, and $104 in interest.

Summary of benefits of LFT and ADC loans

As shown in Figure 4, the average benefits that accrued to the ADC-served businesses in 2010 is $43,244, totaling $1.33 million. The benefits that accrued to ADC and other stakeholders averaged $7,363 per business, totaling nearly $181,000.

4. Summary of average and total benefits of FLT and ADC loans in 2010

Benefits category	Average per business	Total
Benefits to ADC-served businesses	**$**	**$**
Increased access to loan provided	17,019	544,600
Cost of borrowing ADC loan (paid by ADC)	511	16,338
Increased gross receipts	25,714	771,434
Subtotal	43,244	1,332,372
Benefits to ADC & other stakeholders		
Increased other tax paid	528	13,197
Increased MN sales tax	2,299	50,572
Increased estimated MN & federal payroll tax	587	13,511
Increased gross wages & salaries	3,240	80,995
Principal loan repaid	539	17,253
Return on investment paid	66	2,124
Loan interest repaid	104	3,322
Subtotal	**7,363**	**180,974**
Grand total	**50,607**	**1,513,346**

Note: *Totals are based on the number of the 32 businesses with reported data.*

Costs of ADC financial literacy training and loan leveraging

Based on data provided by ADC, the increased direct costs and computed indirect total annual cost to society of serving the 32 businesses is an estimated $908,977. The annual per business cost is nearly $30,000. The breakdown of the societal cost of FLT and ADC loan provision is shown in Figure 5.

5. Average and total costs summary of FLT and ADC loans in 2010

Cost category	Average $ per business	Total $
ADC costs		
Planning, development and needs assessment	297	9,500
Non-staff consultants, coaches, or tutors	125	4,000
ADC administrative support	482	15,433
ADC personnel/trainer time (FLT portion, salaries only)	1,544	49,400
Administrative overhead	1,429	45,732
Telecommunication expenses	109	3,500
Facilities (conference room)	156	5,000
Travel expenses	250	8,000
Supplies/Equipment/Instructional & related	391	12,500
Orientation for participants	47	1,500
ADC staff development (training for trainers)	313	10,000
Evaluation	78	2,500
Amount of loan provided	17,019	544,600
Cost of borrowing ADC loan	511	16,338
Subtotal	**22,751**	**728,003**
Costs to ADC-served businesses		
Increased other tax paid	528	13,197
Increased MN sales tax	2,299	50,572
Gross wages & salaries	3,240	80,995
Increased estimated MN & Federal payroll tax	587	13,511
Principal loan repaid	539	17,253
Return on investment paid	66	2,124
Loan interest repaid	104	3,322
Subtotal	**7,363**	**180,974**
Total costs	**30,114**	**908,977**

Note: *Totals are based on the number of the 32 businesses with reported data.*

Cost to ADC

For ADC, the annual costs are estimated at $728,003. This accounts for 80 percent of the overall societal cost of ADC's FLT and loans. About 75 percent of these costs to ADC are the loans to businesses. In the short term (at least in the first year), we consider the loans as costs, but some or all of these loans may be repaid in the mid- or longer-term.

ADC staff and administrative overhead costs are the percent of time dedicated to ADC programming (FLT and business loans) and only capture the salary portion. The non-staff component is mainly due to consulting services and workshops conducted and provided by the University of Minnesota and Bremer Bank (Greater Minnesota).

Costs to ADC-served businesses

On their part, ADC-served businesses shoulder 20 percent of the societal cost of FLT and business loans, estimated to be $180,974. Much of these costs are in form of increased taxes and gross wages and salaries.

Societal net benefits and benefit-cost ratio of FLT and ADC loan programming

Net benefits and benefit-cost ratios are two efficiency measures which express the bottom line of a benefit-cost analysis. The difference between measured benefits and costs is the net benefits. As shown in Figure 6, the average annual societal net benefit is $20,493. Putting this in perspective, the surveyed ADC-served businesses realize an average annual net benefit of $35,881; while other stakeholders in the society including ADC and taxpayers shoulder an average annual net cost of $15,388.

Considering the 32 ADC-served businesses in 2010, these averages can be translated into total societal costs. Accordingly, society realized a total annual net benefit of $604,369. ADC-served businesses in 2010 realized total annual net benefits of $1.15 million; while ADC, taxpayers, and other stakeholders shouldered a total net cost of $547,029.

The benefit-cost ratio is the ratio of benefits to costs. For every dollar invested in ADC financial literacy training and loan programming, ADC-served businesses, on average, realize $5.90 in return; while ADC and taxpayers, on average, realize $0.32 in return. Overall, society, on average, realizes a return of $1.68 for every $1 invested.

6. Average annual benefits, costs, and benefit-cost ratio

	ADC-served businesses	+	Other stakeholders (ADC, taxpayers, business employees, etc.)	=	Society
Average annual benefits	$43,224		$7,363		$50,607
Average annual costs	$7,363		$22,751		$30,114
Average annual net benefit	$35,881		($15,388) †		$20,493
Average annual benefit-cost ratio	5.90		0.32		1.68

† Parentheses indicate net cost.

7. Total annual benefits and costs ($)

	ADC-served businesses	+	Other stakeholders (ADC, taxpayers, business employees, etc.)	=	Society
Total annual benefits	1,332,372		180,974		1,513,346
Total annual costs	180,974		728,003		908,977
Total annual net benefit	1,151,398		(547,029)		604,369

† Parentheses indicate net cost.

Homeownership impacts

Community development advocates and practitioners contend that homeownership contributes to greater residential stability and enhanced social capital. Increased residential density attracts retailers, restaurants, and other stores to an area. Such development, coupled with increased security and resident involvement, can contribute to desirable outcomes such as reduction in crime.

In fact, homeownership is considered*, "a commitment to strengthening families and good citizenship, a commitment to community, helps stabilize neighborhoods and strengthen communities, creates important local and individual incentives for maintaining and improving private property and public spaces" (*Retsinas & Belsky, 2002).

ADC has partnered with other stakeholders in homeownership and revitalization of neighborhoods. Around the Twin Cities, African immigrants have bought homes and businesses, which helps to rehabilitate residential areas and increase surrounding property values, leading to additional private investment in neighboring homes and increased tax contributions to various levels of government. Indicators such as tax revenues, loan down payment assistance, and closing-cost assistance may already be in ADC's financial counseling services and workshops that aim to create opportunity to build a financial future. Accordingly, ADC activities may be broadly viewed as part of what the literature calls *place-based public/private* investment. Thus, extending loans to small businesses is one of the ways in which development organizations foster economic opportunity, neighborhood vitality, and community partnerships.

Based on the 2010 data provided by ADC, we identified the following indicators that roughly measure the local economic impact of ADC activities on the communities and neighborhoods it serves. The indicators are averages and aggregates and not individual homeownership figures. Therefore, these indicators are not by themselves exhaustive and an end in capturing the actual impact of homeownership by ADC-assisted clients. However, the indicators serve as a starting point for capturing a reasonable impact nonetheless because the implications of homeownership education, leveraging assistance in terms of down payment, closing costs, and home repairs go beyond these indicators into creating value in the community.

Property value and property tax revenues

In 2010 alone, 163 ADC-assisted clients bought homes with a per-home average purchase value of $150,000, with an estimated total market value of $24.5 million. Property taxes in Minnesota are 1.05 percent of the estimated market value of a property. Thus, these homeowners pay an average of about $1,575 in property taxes per year, amounting to $256,725 in 2010. These are significant contributions to general revenue for cities and counties to provide public services.

Home equity

About 80 percent of the ADC-served families who bought homes did so with an average financial assistance of $8,000 in 2010, according to data provided by ADC. This has provided them with instant equity since that assistance became their instant ownership in the property. This translates to total home equity of $1,043,200 in 2010.

Closing transactions costs

A variety of closing costs are often associated with the mortgage transaction, above and beyond the price of the property itself, to be incurred by either the buyer or the seller depending on the nature of the contract. For low-income households and those with limited home buying knowledge, raising money or finding financial assistance for these transactions can be daunting. In 2010, according to ADC, it provided an average of $5,000 per ADC-assisted home buyer in closing cost assistance, totaling $652,000, a significant contribution towards helping potential homeowners realize their dreams.

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