

Building An Enclave: The Experience of Micro-Lending
in Lawrence, Massachusetts

by

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ABSTRACT

Traditional business development strategies in low-wealth communities have focused primarily on providing capital and entrepreneurial training to "atomistic" individual small firms. Literature on enclave economies argue that the business development strategies observed in certain "successful" communities rely upon the mobilization of community resources. This perspective focuses upon the role that linkages and interaction of businesses play in generating economic opportunities not only for the individual business but for the entire community.

Micro-enterprise assistance programs developed throughout the past decade to provide credit and training to very small businesses overlooked by traditional business development programs. Many of these programs have adopted a peer-group lending strategy that disburse credit based upon approval of borrower groups comprised of other business owners. Proponents believe the peer-lending process generates networks of businesses providing advice, referrals, support and encouragement for the entrepreneur, and creates "conditions of commerce" in low-income communities.

Through an in-depth analysis of the Lawrence Minority Business Council-Working Capital program, I examine linkages and interactions occurring among participating businesses and explore the role of the program in fostering these networks. This thesis outlines a typology of businesses participating in the Lawrence Working Capital program and a framework for interpreting the types of interactions presently occurring between business. Lastly, the thesis outlines the impact that peer-lending has had upon program participants.

Thesis Supervisor: Karl Seidman
Title: Professor of Urban Studies and Planning

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"Economic development rather than being linear is like putting together a jigsaw puzzle. The fitting in of individual pieces would represent the taking of discrete development steps. Each piece is made easier by the contacts to adjacent pieces" (Hirschmann, 1958)

Chapter I Setting The Stage

While still a relatively new area of community economic development, micro-enterprise programs have received considerable attention in recent years. More than 100 programs across the United States target training and credit to the start-up or expansion of these micro-businesses (0-4 employees). As government and private sector funders shift attention to these programs, many question the impact that this small scale assistance can have on the broader community.

Critics of micro-enterprise programs emphasize the high administrative costs resulting from the modest loan size and high factor input needs such as entrepreneurial training and education, and the limited impacts on the local economy. Proponents argue that successful programs generate increased income, business ownership and employment opportunities in distressed rural and urban communities. Through the unique lending style known as peer-lending, many programs disburse credit based upon approval of borrower groups comprised of other business owners. Proponents argue the peer-lending process generates networks of businesses providing advice, referrals, support and encouragement for the entrepreneur.

In this thesis I explore whether micro-lending programs can generate community economic benefits that extend beyond the individual loan. By focusing on the networking component of micro-lending efforts, I examine the role that networking and business interaction play in strengthening the competitiveness of firms and communities.

The thesis focuses on one program, the Lawrence Minority Business Council - Working Capital microloan program implemented in 1992. This program tapped a tremendous need primarily in the Hispanic community, reaching 170 micro-businesses in just over two years of operations. By reviewing the relationships between small firms observed in successful, immigrant communities I draw out certain models of interaction occurring between these small firms that enhances productivity and competitiveness. I use these models as a lens through which to examine the level of interaction occurring among businesses in the Lawrence program. I then attempt to gauge the impact the Working Capital program has had both on businesses and networks of businesses.

BACKGROUND

Community development is the effort by neighborhood residents, local businesses, municipal government and community based organizations to improve the overall quality of life in low-income neighborhoods (Bendick and Egan, 1989). Community development strategies range from the physical improvements in housing and infrastructure to enhancing the labor market competitiveness of residents through education and skill training, to creating economic opportunities by increasing employment and building wealth.

Through their studies of four cities, Bendick and Egan (1989) found that joint community and business development "produce greater results than either pursued in isolation." Ideally, business development provides community benefits through increased employment; improved public services to residents; and social benefits including the fostering of role models and leadership. In turn, both physical (the rehabilitation of blighted areas) and social (skills training, leadership building and advocacy for services) community development strategies can provide and expand business opportunities in a community by

offering better quality business sites, a more highly-skilled work force and greater access to public services.

Strategies to Create Economic Opportunity

Business-oriented development strategies may take several different forms: enterprise and empowerment zones, public-private partnerships, community-owned enterprises, business incubators and productive assistance through managerial training and credit provision. These strategies primarily fall into two overall categories; 1) attraction of primary market employment through providing incentives to corporations to locate branch plants and 2) the stimulation of local small business start-up and expansion. Business attraction strategies may include tax incentives, subsidized employee training, and infrastructural improvements among others. Local business development strategies try to foster economic growth through business ownership that can increase both the money coming into, and the rate at which the money is re-spent within, the community.

Attraction of industry and business development in distressed cities and communities have been practiced for the past thirty years with varying degrees of success. Despite repeated studies and endless evaluations of individual programs, little seems to have been learned about the effectiveness of one strategy over another.¹ Ultimately, the strategy chosen may depend upon an individual or group's underlying beliefs as to the most effective manner of bringing about economic opportunities.

While this paper will not enter into a discussion of the business attraction strategy, there is a significant body of literature regarding benefits and costs to

¹For a review of business attraction strategies see Osborne, 1988; Bartik, 1991; Ledebur and Woodward, 1990; Lind and Elder, 1986; Rasmussen, Bendick and Ledebur, 1984; Kieschnick, 1981. For a comprehensive bibliography of business development strategies see Bates, 1984.

business incentives as an engine for growth. Much of this literature questions the role incentives play in firm location decisions (Bartik, 1991; Kieschnick, 1981). The primary obstacles to firms locating in the inner-city are the high costs of doing business deriving from high rent, crime and insurance rates, combined with low factor inputs including un-skilled labor and inadequate investment in public services (Vietorisz and Harrison, 1970). Even if incentives were to play a role in firm location decisions, the level of subsidy required to attract the firm to an inner-city location may not be cost-effective. Those industries that do locate as a result of subsidies may not generate sufficient benefits to the community to justify the costs and will ultimately have little commitment to remain in the community when subsidies dry-up or economic downturns befall the parent companies. More recent work has revisited this theme in an attempt to emphasize the comparative advantages of the inner-city for businesses (Porter, 1993).

Small Business Development

The local business development strategy focuses on building ownership within a community through efforts to assist the start-up, survival and growth of individual enterprises. The goal of small business development is to foster job creation and thus increase participation in the mainstream economy while generating assets among the poor. David Osborne (1988) writes, "the primary goal of community development should not be to redistribute income or to improve housing but to redistribute economic activity: ownership, investment, and employment." By creating ownership and helping to build up assets, poor households are better able to protect themselves in periods of economic problems.

Fostering business ownership is one means to achieve economic autonomy for poor communities. Entrepreneurial programs focus on assisting individual business owners to obtain credit, to improve management of their

businesses through managerial training and (less frequently) to reduce costs through leasing real estate and business space at low costs.

Micro-enterprise Programs

Micro-enterprise assistance programs represent an extension of this strategy by attempting to reach deeper into the community to much smaller, less established often part-time and/or home-based businesses. The term micro-enterprise is used to distinguish programs assisting the self-employed and very small businesses (generally less than 5 employees) from small business efforts that target assistance to businesses with up to 100 employees. Loan sizes tend to range anywhere from \$500 to \$20,000.

Constraints to self-employment are similar to that of small business 1)lack of access to credit 2)lack of skills and training to manage and grow a business, and 3)isolation from other businesses. Some micro-enterprise programs seek not only provide credit and training to entrepreneurs but to address the isolation by generating networks of participating businesses.

Many of these programs have borrowed from international programs structured around group or peer-lending. These models provide an innovative alternative to reliance upon collateral, credit histories and business plans as prerequisites for determining loan eligibility. A group comprised entirely of business owners reviews and approves the loan application for each member and therefore is responsible for insuring loan repayment. The loan group provides an opportunity for entrepreneurs to meet each other and benefit from support, referrals and advice of their peers. The group-based structure of lending combines the role of banks and chambers of commerce.

There are currently more than 100 of these programs across the country with some of the biggest located in urban centers. They differ from existing

business development programs by targeting and reaching those businesses previously passed over due to their small size and the often invisible nature of their activities.

Questions about Small and Micro-Business Viability

Given limited resources available to small-business programs, lenders must maximize the benefits and invest in those businesses that create the greatest ripple throughout the community. Dynamic, growth-oriented firms provide the greatest potential for generating benefits throughout the communities. Yet, small businesses in distressed areas often seem far from thriving. They generally operate with low profit margins and little prospects for dynamic growth and expansion.

The viability of 'ghetto' firms is considered to depend upon their ability to both generate sufficient internal markets and to mainstream into the broader economy. Yet, these firms tend to suffer from isolation from the economic mainstream. In the next section, I will discuss theories attempting to explain the barriers that firms face in reaching external, mainstream markets. The reliance on internal markets can increase the multiplier effect of spending but it does not bring additional income into the community. In addition, community members may seek lower prices and better-quality products from outside the community, thereby reducing the firms already constrained customer base. A well-known study of Cleveland's Hough neighborhood showed 80% of black expenditures going to noncommunity businesses (Browne, 1971).

Thus, programs providing skill and management training and access to capital for these small businesses may find that these factor inputs are not the only and perhaps not the most significant of barriers. Analyses of ghetto economies emphasize that the marginal role of these businesses results not only from limited factor inputs, particularly low levels of capital and limited

entrepreneurial skills, but also from constrained markets. It is hardly surprising that minority businesses found to actually thrive are those located outside minority communities and frequently outside urban areas entirely. Within minority communities neither minority nor non-minority businesses are seen to flourish (Bates, 1989). Businesses remaining in these areas barely eke out a living for business owners and do not necessarily represent engines of growth for the neighborhood economy.

Small business programs have generally responded by selecting fewer businesses for assistance and by reaching some larger small businesses that have shown some growth potential. Public and quasi-public agencies targeting small businesses rarely loan below \$20,000. Considerable credit gaps result making business start-up and growth difficult for smaller businesses. This credit gap is what micro-lenders seek to address. Yet, this strategy continues to raise concerns about the ability to reach viable businesses and of producing broad, discernible community impacts.

Theoretical Underpinnings of Business Development Strategies

The dichotomy between growth-oriented businesses accessing the mainstream economy and the survivalist firm that offers little but a marginal income for the business owner is reminiscent the dual economy theory depicting the existence of two separate economies: the center and periphery.

The center is inhabited by dynamic, growth-oriented firms increasingly gravitating toward vertical and horizontal integration. Vertical integration represents the gaining of control of sources and supplies among different categories of industries. Horizontal integration is the achievement of integrated levels of production and pricing strategies within an industry or sector. Traditionally, center firms increased horizontal and vertical integration through

growth and expansion. Center firms grow to command greater and greater market share, ultimately dominating whole industries.

The periphery on the other hand was characterized by “small, atomistic firms” operating in isolation with relatively few forward or backward linkages. These atomistic firms often operated as distributors for center firms products. Opportunities for small businesses existed only to the extent that they could grow to reach a position within the center.

Firms located in distressed communities have largely been considered peripheral. A high percentage of these firms, record low sales and marginal profitability. The bare survival of entrepreneurs discourages further business development as entrepreneurs are believed to get little back for the time and money invested in the business. Because many of these survivalist businesses do not generate sufficient sales to employ community members (outside of unpaid family labor), opportunities to learn the business are curbed. Therefore marginal businesses unable to employ community members offer little additional benefits. Firms tend to be cut-off. Unable to attract new markets and build up customer bases, these firms remain isolated from the rest of the economic system. The failure of black capitalist business development is considered to be largely due to a focus on individual atomistic minority firms (Martin and Wilson, 1982).

Labor markets demonstrated a similar split between high-pay, high-skill positions available in primary labor markets versus low paying, dead-end jobs in a secondary market. The spatial concentration of minority communities in neighborhoods that remained isolated from parts of the mainstream economy have limited residents to the secondary labor markets. Central city jobs, thus, appeared cut off from the rest of the economic system (Wilson and Portes, 1980). Accordingly business attraction strategies were primarily targeted towards

developing primary labor market opportunities in low-income distressed communities.

Given this analysis, an emphasis on stimulating local business development in inner-city communities offering at best secondary labor market opportunities seems far less desirable than attracting primary labor market opportunities through the attraction of center firms. In applying this model to actual communities, centrist firms would appear to offer more benefits and opportunities for growth than local businesses appearing to survive in a peripheral economy generating low returns to owners and little benefits to the community. Jobs in these businesses will remain few, low-paying and with little opportunity for mobility. Based upon this framework, small business development efforts seem doomed to failure.

Resurgence of Small Business

The 1970's and 80's have been a period of resurgence of small businesses in both the number of establishments and in the share of overall employment to the economy. Despite predictions of social scientists throughout the 1950's and 60's that business was becoming increasingly concentrated, in the period 1969-76, small firms with 20 or fewer employees created two-thirds, and firms with 100 or fewer created 80% of all new jobs created (Birch, 1987).

The nation's micro-businesses (0-4 employees) created 2.6 million new jobs between 1989 and 1991, far greater than all other categories of small businesses (which actually registered losses) and significantly more than the 122,000 jobs created by the largest firms.² Self-employment increased from less than 6.9% of the labor force in 1969 to 8.2% in 1992 while in New England self-employment leapt to 16% of the work force. Currently in Massachusetts, micro-businesses (<

²U.S. Small Business Administration.

5 employees) make up 55% of all employers, with at least 90,000 currently active establishments.³

This resurgence of small businesses is evident throughout industrialized countries. Piore and Sabel (1984) attribute this increase and the concurrent downsizing of larger firms to the crisis of mass production. Shortages of factor inputs such as oil in the 1970's and a saturation in markets of mass produced goods, have caused smaller, more flexible firms to thrive. The flexibility of production allows these small firms to constantly generate new products for a constantly changing demand. Reliance on inter-linkages with other smaller firms and practices of out-sourcing different components of production have generated pockets of tremendous activity in certain regional economies. The region of Northern Italy provides the context for Piore and Sabel's analysis where firms have clustered to produce ceramic tiles, garments, shoes, agricultural implements, etc. The growth of high-tech firms concentrated along Rte. 128 and in the Silicon Valley offer a similar example of dynamic small firms that generate economic growth within a region.

The experiences of certain immigrant communities indicate that thriving locally-owned businesses can develop in inner-city communities and eventually offer broader benefits in terms of physical improvements, skills pooling and training and employment. Unlike either the centrist or peripheral firms, these firms are often extremely small, operating as a single or family enterprise but interacting within an entire network of similar or related firms in a cooperative manner. The experiences of these communities contradict this rigid notion of the thriving "mainstream" firm vs. the languishing "ghetto" firm.

The Enclave Economy

³Working Capital internal document, January, 1995.

An alternative to the center-peripheral dichotomy is the enclave economy. Unlike other clusters of small firms like those that grew in the high-tech industry, these enclave economies may involve only a few different types of businesses. Frequently, ethnic enclave economies initially build around retail businesses (the low profit margin sector typical of peripheral firms). Many enclaves have grown from inner-city, minority, often immigrant communities. Successful enclaves grow despite (or perhaps as a result of) extreme isolation from mainstream economies through lack of a common language. Yet despite what seems a recipe for failure in a peripheral economy, the enclave grows and builds and offers higher rates of business ownership than the overall economy and high rates of "coethnic" employment (employment of community members).

The location and rapid growth in the number of businesses in the Korean neighborhood of Los Angeles represent a case in point. In the 1970's as Korean immigrants settled in this area located north of South Central and west of Pico-Union, two of Los Angeles' poorest neighborhoods, the area had a dearth of business activity. In the subsequent two decades, Korean entrepreneurship and businesses filled the area. In 1980 an estimated 22.5% of Koreans in Los Angeles were self-employed and 62% of all Koreans found employment in the Korean ethnic community (Light and Bonacich, 1988).

Unlike peripheral firms, enclave firms interact within a network of mentorship, training, credit provision and suppliers. This interrelationship of firms acts to replicate the horizontal and vertical integration utilized in oligopolistic, centrist firms. In their study of the Cuban community in Miami, Portes and Wilson (1980) found the underlying structure of the enclave economy to be similar to that of the mainstream economy.

Thus, whereas center firms are generally understood to move towards increasing amounts of integration both vertical and horizontal, successful

enclave economies host clusters of small firms that collectively interact to reproduce comparable degrees of integration. In their comparison of the Cuban and Black communities in Miami, Wilson and Martin (1982) found:

Enclave economies that are vertically and horizontally integrated yield higher initial profits per unit of demand, create higher levels of production in related industries (caused by the initial demand for the first industry's product) pay higher wages, and create more jobs (again because of the initial demand) than enclave economies that are not vertically and horizontally integrated.

Immigrants in the enclave economy in Miami received returns to investment in human capital comparable to those received by immigrants working in the primary labor market. Investments in human capital for immigrants working in the secondary labor market did not show any increasing returns to labor. Thus, training and other human development have less impact on those working in peripheral firms. These firms will generally have consistently low returns to labor while enclave firms can generate greater benefits from increased human capital investments. The enclave economy helps to describe the surprising growth of certain minority business communities in terms of share of consumer and interindustry markets (Wilson and Martin, 1982). In the case of Miami, businesses in the community became involved in industries targeting a local market and export market. Locally, entrepreneurs focused on construction generating growth simultaneously in construction input industries and drawing upon "coethnic" linkages for both supplies and target markets. In addition, the proximity of Miami to Latin American nations promoted a growth in import-export related businesses.

In Los Angeles, the above mentioned high rates of business activity in the Korean community had strong physical repercussions upon the neighborhood. In addition to stimulating employment and earnings for Korean workers, business activity helped to restore the neighborhood and thereby increase

property values, and renewed efforts to combat street crime and strengthened efforts to improve the schools (Light and Bonacich, 1980).

How Enclave Economies Work

Historically, rates of business ownership in immigrant communities have exceeded those of the native born population. Cummings (1980) hypothesized that the experience of these immigrant communities contradicted traditional notions of individualism as the driving force for economic mobility in the U.S. Linkages among business and patterns of capital accumulation adopted by communities reflect collective, socialistic and communitarian approaches to building up a community's wealth.

Lovell-Troy (1980) studied family connections in the Greek community in Connecticut that led to high concentrations of Greek-owned pizzerias. An anthropological study of several businesses found that entrance into these businesses was facilitated by family and friend connections. These connections often resulted in family members working in the business in order to save enough money to either buy in as partner or start another pizzeria with their accumulated knowledge and savings. In addition, close communal ties to Greek American bankers facilitated access to credit despite little or no credit histories.

Light's (1988) study of the Korean community in Los Angeles showed that broader community-wide connections through Korean language newspapers, informal credit associations known as "kyes" and mentorships among more established businesses made entrance into a wider selection of retail businesses possible. These businesses rely upon "coethnic" (not limited to family members) employees that are frequently forced to work long hours for little pay. As in the Greek community in Connecticut, employees often agree to these conditions in order to learn enough to start their own business. This mentorship or training is

generally seen as cooperative and does not pose a competitive threat to the business.

Reviewing the experiences of the community role played in some of these communities offers insights into possible limitations of previous small business programs. Portes and Wilson (1980) argue that problems with small business assistance programs stemming back to the Black Capitalist initiatives of the early 1970's were the targeting of individual businesses. This treatment of businesses as operating in a vacuum failed to build vital links within a community.

Immigrant and ethnic communities that have proven successful in building up a business or economic base in the U.S. draw upon a combination of "class and ethnic resources" (Light and Bonacich, 1988). Class resources are capital and labor inputs into a business. These inputs refer to financial investment available through personal savings or wealth of the entrepreneur and immediate family. The principal labor inputs are education and skill levels of the entrepreneur and both workers.

Ethnic Resources are the community or social features that entrepreneurs may draw upon to benefit their business. These resources may include: shared knowledge of industry, helping one another with business skills and information. This sharing of knowledge and skills occurs in mutually beneficial arrangements such as "coethnic" hiring practices and the prevalence of apprenticeship positions that have apparently exploitative dimensions such as long hours, low pay and difficult working conditions but simultaneously may serve as a mechanism for "coethnics" to learn the business. Often, apprentices use this knowledge to develop their own businesses once they have built up sufficient savings.

Other ethnic resources that an entrepreneur may depend upon are the restraint of trade with outside firms among community members or mutual aid endeavors that assist businesses with access to community-based credit lines and the use of rotating credit associations. These measures taken often informally as part of a way of doing business provide entrepreneurs with vital resources and access to exclusive markets that not available to individual, atomistic businesses.

Light (1988) states the high business generation rates of Korean enclaves in Los Angeles and New York were due to a combination of class and ethnic resources. Both Cuban and Asian communities are endowed with significant levels of class resources. Most Cubans in Miami arrived throughout the 1960's and 70's. Many of the earlier arrivals were members of an elite ousted following the Revolution of 1959. This early community brought money and education. In addition, outside inputs of resources were available to this community due to the U.S. government providing Cubans access to resources, assistance, skills and markets for products both formally and informally (Didion, 1987).

Korean immigrants tend to be endowed with substantial class resources particularly labor inputs due to high levels of education. Korean immigrants are believed to arrive with more personal savings than other immigrants and therefore higher personal capitalization of businesses is possible.

Ethnic resources such as knowledge and skill training developed as a result of the communities' isolation from the mainstream and the need to reinvent modes of support common in their home countries, such as the kye in South Korea. These modes of support become a vehicle for business development and community advancement. The Korean community in New York utilized ethnic resources such as low-wage employment, skill development and credit as a means to establish green-grocer businesses that served broader, external markets by locating throughout the city. In Los Angeles, on the other

hand these same resources were utilized to serve a combination of both internal and external markets in several industries the bulk of which are retail.

Ethnic-owned businesses are models not only for business development strategies but for generating community-wide benefits. Peggy Leavitt (1993) in her study of Latino businesses in Boston found that the social role that business owners play in the community was extremely important. Storefront businesses often offer a social gathering spot, a central place for posting of community information and a social support role by providing food and other goods to residents facing hard times. Some of the more successful businesses have become credit providers for the community most often by allowing customers to purchase goods on credit but also occasionally as informal money-lender. Ironically, Leavitt indicated that many of these business owners are concerned not to appear too successful for fear that their customers will stop patronizing their shops.

FRAMEWORK FOR THE THESIS

This chapter has reviewed the limitations of certain business development strategies and discussed certain organic conditions for maximizing the benefits of business development, as in the case of the enclave economy. Through analysis of enclave economies, researchers have shown that the infusion of such "class resources" as capital and business training, may not be the only remedy for the lack of a business climate in poor communities. Integration among existing businesses in the community and linkages to external markets may be instrumental elements for economic growth. In the enclave, business integration is achieved through the mobilization of such "ethnic" resources as the restraint of trade, coordinated purchasing of inputs and supplies, cooperative production and marketing arrangements, informal training through apprenticeships and other "coethnic" labor arrangements.

The Working Capital loan program attempts to use the provision of credit as a means of fomenting a mobilization of business linkages and cooperation similar to those found in ethnic enclave communities. Jeffrey Ashe, Executive Director of Working Capital, emphasizes the role Working Capital should play in both providing credit and in stimulating what he calls “the conditions of commerce” in underserved, low-income neighborhoods. Conditions of commerce presumably refers to an environment of support for the entrepreneur which in turn allows the benefits of business development to “spill-over” throughout the community. These conditions allow each business to benefit from the experiences of others while building vital ties that strengthen internal markets and generate greater opportunities for new businesses to form.

According to Ashe, the program seeks to replicate the support that centrists firms rely upon through access to credit, training and networking. Working Capital sees its role as a catalyst in communities that have not previously rallied ethnic or community resources in their business development strategies (Ashe, 1995).

The peer group lending model may provide an opportunity to replicate some of the characteristics seen in enclave economies. Adapted from the developing countries context, peer group programs rely upon community-based strategies to reach businesses and ensure repayment of loans. Reliance upon community strategies makes the development of linkages and solidarity between businesses the keystone of the programs. Thus, the success of other businesses as a whole becomes central to the well-being of each business. While the peer model fundamentally provides the mechanism to evaluate a loan application for a micro-business previously unable to access credit, proponents believe another significant outcome is bringing together businesses and the establishment of a forum for entrepreneurs to learn from the experiences of others. These expected

networks can mobilize the types of ethnic resources observed in enclave economies.

Working Capital, based in New England, is one of the largest micro-lenders in the country. Since its inception in 1991, it has disbursed 1334 loans to more than 770 businesses working in partnership with community-based organizations. Working Capital acts as a financial intermediary developing partnerships with community based organizations. The community based affiliates employ an enterprise agent (often a business person from the community) to recruit businesses, orient businesses to the peer-lending model, form loan groups and oversee the approval of loans by groups. Once a peer-loan group approves the loan, the whole group takes responsibility for repayment. Responsibility placed in the groups contributes to the low default/write-off rates (between 3 - 6% depending upon method of calculation).

Modeled closely on the Central American Foundation for International Community Assistance, the Working Capital methodology relies on peer lending and stepping borrowers from small to successively larger loans. In the developing country context, peer-lending became a unique means of assisting the rural and urban poor striving to support themselves through self-employment. In countries with high unemployment and limited social safety nets, informal self-employment is often the norm rather than the exception. "Informal" refers to businesses or activities operating outside the legal and regulatory framework by either failure to obtain licenses/permits, avoidance of taxes or minimum wage standards. The informal sector was shown to represent 20-60% of urban, non-agricultural employment in the 1970's in developing countries. Micro-enterprise programs targeting these informal sector businesses seek to raise productivity and thus, incomes through the provision of technical assistance and credit. As mentioned above, peer-lending programs offer an alternative to conventional credit that generally relies upon collateral and credit

histories unattainable by lower-income borrowers.

Adapting the peer-lending model to the U.S. context presented serious dilemmas. The relatively small informal sector when compared to developing countries and the dispersed nature of micro-businesses made a reliance upon peer-pressure questionable. Yet, since its inception in the U.S. through programs such as Working Capital, these concerns have been contradicted by high repayment rates and strong borrower group responsibility both to each other and to the program. Practitioners believe the provision of credit through peer-loan groups has instead generated vital and productive networks as an additional outcome of the loan program.

Access to credit at Working Capital is believed to function as a mechanism to organize people in poor neighborhoods into new networks (and to bolster old networks) that ultimately strengthen the areas politically, socially, and economically (Servon, 1995). In her study of the Metro-Boston Working Capital program, Servon (1995) found the Working Capital program to be instrumental in building a network between borrowers. Business owners pointed to the importance of their loan groups in bringing them in touch with other businesses both to network and to provide mutual support. In addition, the Metro Boston region recently established a Borrowers Council that is city-wide and brings together business owners from the 13 affiliated programs operating throughout the city. Similar to a Chamber of Commerce, the Council's first goal is to establish venues for businesses to meet, network and improve marketing opportunities. Other Working Capital affiliated programs have also started developing such business promotion projects as business yellow pages and product expositions drawing upon the experiences of traditional Chambers.

Does peer lending stimulate networks of businesses? Once developed, do these networks generate the conditions of commerce found in successful enclave

economies? Through the study of one Working Capital loan program, I focus on whether the experience of group lending contributed to the establishment of linkages that could achieve the degree of integration associated with successful enclaves. I chose to study the Working Capital program in Lawrence, Massachusetts. Working Capital started a Lawrence pilot program in July, 1992 in partnership with the Lawrence Minority Business Council (LMBC). The LMBC was a young organization that incorporated micro-lending directly into its organizational mission of providing a mechanism through which Latino businesses could organize to gain a voice in local policy and institutions.

Why Lawrence?

I chose to focus on the Lawrence - Working Capital program for three reasons:

1) The Lawrence program reaches a very low-income community and therefore provides an opportunity to consider micro-enterprise development both in terms of economic development and poverty alleviation strategies.

Lawrence is one of the poorest cities in Massachusetts. This city whose growth and development has been based upon industrial and manufacturing industries has been particularly hard hit by the declining Massachusetts manufacturing base⁴ and subsequent reduced employment opportunities for lower-skilled workers in the region.

Currently, 21.6% of Lawrence borrowers received public assistance benefits at the time of their initial loan application and the median family income for borrowers ranged from \$11,000 to \$13,000 compared with 9% public assistance rates and \$21,000 median family income for the Working Capital program overall.

⁴Throughout the past decade, Massachusetts has lost 23% of its manufacturing jobs to other states and overseas.

2) Considered a very large and "successful" Working Capital program, Lawrence provides a context to look at a high impact situation where the benefits and networking component is likely to be strongest.

The Lawrence program has the highest number of participating borrowers of all the affiliated organizations. In its first two years of operation, the Lawrence Minority Business Council recruited 200 business owners ranging in size from full-time, storefronts to part-time, home based businesses. The members organized into 27 loan groups with 170 borrowers. Since its inception, the groups have approved and disbursed 325 loans accounting for 26.2% of all Working Capital loans to date.

3) Many of the Working Capital borrowers are Dominican business owners and this may mirror ethnic enclave economies and provide a structure to look at the interaction of enclave economies and micro-enterprise development programs.

Program participants are overwhelmingly Dominican business owners. The Latino population in Lawrence grew dramatically during the 1980's and now constitutes 41.6% (35,000 people). The Census data do not disaggregate data for individuals from the Dominican Republic, South and Central American countries. The "other" (of which Dominicans are a large majority) category accounted for 47% of the Latino population.

The concentrated lending in the Lawrence program demonstrates a significant difference from other Working Capital affiliated programs that tend to work in broader geographic areas bringing together borrowers from many different communities. The founders of the Minority Business Council were determined to target minority and specifically Hispanic businesses but there was no special emphasis on reaching Dominican businesses. In fact, the Program's Director Nelson Quintero is Puerto Rican and the two initial Enterprise Agents are Peruvian. Yet the dramatic take-off of the program among the Dominican

community hints at either inordinately high business development and/or significant interaction among these businesses prior to the program start-up.

Business networks in this example may have been mobilized through the sharing of information regarding credit availability. By exploring this information sharing process it is possible to better understand how these networks can be or have been mobilized for other cooperative arrangements mentioned above in reference to the enclave economy. These characteristics include: high concentration of businesses in certain industries, horizontal integration of businesses that serve to reduce production and transaction costs and informal mechanisms of credit extended both to consumers and other businesses.

The fundamental questions to this research are: whether these types of arrangements and characteristics exist in the Dominican business community in Lawrence and what role did the Working Capital peer-lending play in building those networks. By addressing these questions, it is possible to draw some conclusions as to the role that peer-lending can play within a given community structure.

The first section of this thesis has outlined certain conditions that are believed to contribute to the growth and health of dynamic communities. In so doing, I have tried to frame the primary questions or areas of investigation. I have outlined conditions present in enclave economies in which business development has generated employment, income and ownership for entrepreneurs and improvements in the overall quality of life of the inhabitants.

Chapter II contains a descriptive background on how the Lawrence-Working Capital program started and how it has evolved in the past two years. The partnership between Lawrence Minority Business Council and Working

Capital to provide loans to Hispanic businesses grew out of a political as well as an economic need in Lawrence. This chapter explains conditions in the Lawrence Hispanic community that influenced the adoption of a micro-enterprise development program and the fit this program had with the overall goals of the newly formed Minority Business Council.

In Chapter III, I outline the type and size of businesses participating in Working Capital. I present a typology of three categories of businesses: the income supplement, growth-oriented and established businesses and observe where the businesses fall within these categories. I then explore the nature of existing interactions, networks and cooperative arrangements among participating businesses.

Chapter IV contains an examination of how the loan program interacts with these networks specifically the extent to which networks are developed and strengthened through the loan groups. In particular I explore whether the introduction of the Working Capital program generated interaction between businesses, helped to solidify steady and consistent access to credit where none was available, provided training and assistance in business management, and strengthened bridges to external markets.

Finally in Chapter V, I draw conclusions as to whether the interactions observed between these businesses provide the foundations of an enclave economy similar to those portrayed in the literature and how the program may continue to build upon these networks.

METHODOLOGY

An in-depth analysis of program impacts on businesses depends upon determining what kinds of business changes occurred that may not have

occurred in the absence of the program. A comparison of Working Capital assisted businesses to comparable non-assisted businesses would require a level of research, such as control or comparison groups, beyond the scope of this paper. However, it has been possible to obtain information on the changes in businesses over time as they progress to higher and higher loan levels and to gauge impressions of business owners as to how participation in Working Capital has affected their business. This provides a way to test the relationship of increased experience in the program and higher loan levels to business results and qualitative information on program impacts.

The thesis is the product of research conducted on the Lawrence-Working Capital program primarily from January - March, 1995. The methodology used to pursue this line of questioning was based upon a combination of quantitative and qualitative measures. The loan applications served as the basis for a quantitative analysis of businesses and changes in performance through participation in the program. Since there are other factors influencing business performance, the conclusions reached should be understood in this context.

I chose a sample of 48 businesses among the 170 active borrowers. This sample was not chosen at random but rather represents the businesses that applied for loans between August - December 1994. These businesses were chosen for two reasons: 1) they provided most recent data available; and 2) Working Capital introduced a standardized application in August that was used for each of the loan levels therefore providing more systematic and consistent data. In order to get a better feel for the performance of these businesses over time, Working Capital provided me with access to their databases to obtain information from prior loan applications of the 26 businesses that had previously applied and received loans.

The qualitative research was based upon in-depth interviews with borrowers and program staff conducted primarily in February and March 1995. There were 15 interviews in all, 14 of which were with business owners. Because some of the enterprise agents are also borrowers, I addressed the questions in those interviews to both general topics relating to the running of the program and to more specific questions regarding the operation of their businesses. These 14 were selected from the sample of 48 and were chosen to include a balance between different types of businesses both full and part-time, and both home-based and storefront and to include retail, production and service businesses.

Although I did not get an opportunity to attend any meetings of the borrower loan groups, I was able to take advantage of chance meetings with more than one borrower on several occasions. I therefore was able to engage several business owners at once in a conversation regarding their experiences with the loan program. These informal discussions gave me insight into how the business owners feel and react to the program. They offered, in some cases, greater candidness about the general program operations and the program changes they advocated than one on one interviews. This candidness resulted from the animated nature of the discussions and the interaction among borrowers that generated an articulation of program benefits and problems. On the other hand, these meetings generally afforded little chance to obtain specifics about the individual businesses.

I wish to point out two main limitations to a full analysis because this program merits continued research. The first limitation was the relative youth of the program. As mentioned above, two years is too short a period to determine definitive benefits generated as a result of the program. The second limitation was the difficulty in obtaining macro-statistical information on the Lawrence economy during the program period (1992-1995). This lack of overall data

prevents analysis of broader impacts to the city's economy or how the city or region-wide economic factors may have influenced program outcomes.

The information presented here will hopefully help to stimulate further discussion of micro-enterprise and other community based lending programs that step outside of just relying upon numbers but rather look at qualitative changes occurring within the community. The manner in which programs and initiatives such as these may weave themselves into the fabric of the community will ultimately determine their success. I also hope that this paper helps to inform future decisions about how the program operates and the types of communities in which this assistance provides the broadest impacts.

Chapter II

Lawrence Working Capital and Program Development

The Lawrence Minority Business Council-Working Capital program reached over 200 businesses in the first two years of operations with 170 of these business owners forming 27 loan groups. The Lawrence program quickly became the largest of the Working Capital affiliated programs. This has translated into more than 350 loans ranging from \$500 - \$3,000 in the period from July, 1992 to December, 1994. In addition, the Lawrence program has been the most successful of the programs in reaching very low-income populations. Of the 93 business owners to respond to an income survey, 34 reported a family income of less than \$10,000 and more than half (56%) had family incomes less than \$20,000 with a median family income of \$11,200.

To understand the program's effectiveness in reaching these small and often invisible businesses, I have presented a brief background on the formation of the Lawrence Minority Business Council and the manner in which the participating businesses established the micro-lending program.

ESTABLISHING THE NEED

The Lawrence Minority Business Council was formed in 1989 through an initiative of local minority business owners and social service providers. In response to local civil disturbances in the Hispanic community, the municipal government together with a local social service organization, the Lawrence Gateways Advisory Committee, developed a series of community forums to determine the needs and priorities of the Hispanic community. These forums established Latino business development as a primary concern in the community.

Throughout the 1980's the Hispanic population had grown from 16.3% to 41.6% of the City's population, yet by the end of the decade the community lacked both political and economic power. Latino businesses targeting their products and services to meet the growing demand of this community went largely unrecognized by the predominantly Anglo Chamber of Commerce and City government. Through the community forums, these merchants voiced concerns that they felt isolated, lacked support and access to credit. Merchants complained that the Chamber had not tailored any of its services or focus towards Latino businesses. In addition, Latino business owners stated that they needed representation of their interests on a political/economic level in addition to services in their own language.

In 1991, a study prepared for the EDA by the Lawrence Community Development Department documented the economic opportunities presented by the growing contribution of Hispanic consumers to the Lawrence economy. Stevenson (1991) estimated the buying power of the Hispanic community was between \$138.2 million and \$224.5 million. These estimates were based upon initial estimates on the per capita income and total population of the Hispanic community in Lawrence. Two other studies prepared by consultants reported a large market potential for Hispanic businesses due to the growing population of the community and the preference stated by consumers for Hispanic goods and the growth of Hispanic businesses was hampered by limited access to credit and isolation of businesses.

The growing Hispanic population, the documented purchasing power of this community and the political pressure from merchants encouraged local politicians and civic leaders to identify Hispanic business development as a priority. Through the forums and on-going dialogue with Hispanic community members, the committee identified business development as a priority for the

City. The Mayor's office and Gateways assisted Hispanic business owners to form the Lawrence Minority Business Council.

The Council selected a Board of Directors comprised of area business owners. The board identified the primary goal of the Council to be assisting minority businesses to mainstream into the broader business community both within and outside Lawrence. A significant emphasis was placed on facilitating businesses access to credit to expand and grow and access to new markets. Hispanic businesses have a primarily Hispanic clientele and therefore the board believed they are limited in their growth potential. Board members decided that facilitating access to credit would fill a tremendous need in the community and help to attract businesses into the newly formed association.

Through the efforts of two Board members, Leonor Sanchez and Cesar Camargo, the LMBC decided to implement the Working Capital micro-lending program. Cesar and Leonor learned of the Working Capital program while attending a meeting in New Hampshire and advocated for its implementation in Lawrence.

WORKING CAPITAL PROGRAM DESCRIPTION

Working Capital develops partnerships with community based organizations throughout New England to disburse credit to businesses generally overlooked by traditional banks and public lenders. The community based organization hires part-time enterprise agents, often business persons in the community, to recruit business owners and help form loan groups of 5 to 10 people per group. Enterprise agents serve as the key to loan group development and ultimately to the success of the program. Enterprise agents market the program in the community by setting up orientation meetings and recruiting interested entrepreneurs to join the program. The groups establish by-laws that

govern loan disbursement and repayment, delegation of officer responsibilities and selection of members to officer posts. Enterprise agents find the process of establishing the group can serve as a screen to ensure those that continue are committed to the group. It also provides a period of time by which group members can assess each other prior to starting the loan process.

Sanchez and Camargo liked the program structure that facilitated loans through the group model and the emphasis on character-based loans as opposed to collateral and credit histories. They believed that this could be ideal for Lawrence businesses, many of which operated on a cash-basis with little records. By participating in a character-based lending program businesses would be provided the opportunity to gradually build up both their business and credit histories. Sanchez and Camargo became Enterprise Agents for the program responsible for recruiting business owners, assisting in the process of loan group development and serving as liaison with the Working Capital loan department.

They decided to form the first loan group among existing, mostly full-time storefront businesses. This was a strategic choice to ensure greater likelihood for success for the new program. According to the current Director of the Minority Business Council, the Board believed the outcome of these first loans would reverberate throughout the community and send a signal to other businesses. They were also interested in getting these businesses to buy into not just the program but the burgeoning Council from the outset. Cesar Camargo, owner of an Auto Dealer in Lawrence, led the group that included a restaurant equipment exporter, a baker, a property manager and a mechanic.

The Lawrence Savings Bank sponsored the loan fund by extending a \$25,000 line of credit. In addition, the Bank helped to publicize the program by sponsoring a celebration for this first group receiving its first round of checks. This celebration attracted considerable attention in both the English and Spanish

press. The Mayor's office assisted in generating publicity and interest in the local press.

LMBC Director, Nelson Quintero gives mixed reviews on this first loan group. Despite the 100% repayment and the success of several businesses in securing subsequent bank loans, the peer group aspect was not well developed. Members participated in a group but obtained individual loans. After receiving the loans, members tended to drop out of the group and therefore had little interaction with other participating businesses. Following loan repayments, these businesses did not continue with the program. Several of these businesses have now successfully approached and received loans from local banks. The LMBC loan had served to build relationships with the banks and help these businesses develop credit histories. Because these businesses were bigger, the banks have loan products that fit their needs. Previous problems, therefore, in accessing this credit was primarily a result of little or no credit histories. Currently one business is awaiting approval for a \$40,000 loan to expand into new markets outside of Lawrence. This business is a distributor groceries and miscellaneous dairy and bread products.

Following this experiment, the LMBC decided to expand its focus to include the many informal, home-based businesses existing throughout Lawrence. With the credibility built up through the positive publicity, Enterprise Agents began organizing groups of micro-business owners through the local churches, public meetings, flea markets and through utilizing the informal networks of kinship to reach the many invisible businesses operating throughout the City.

The program grew rapidly. Within the first two years, twenty seven loan groups were formed with 170 borrowers and a waiting list of 40 businesses. When this is compared to other Working Capital affiliates, many of whom have

organized only a handful of loan groups during similar periods of time, the sheer numbers of businesses reached in Lawrence is truly impressive.

Two possible explanations for the dramatic difference between the Lawrence program and other affiliates are the extensive commitment to peer-lending by the LMBC staff and the propensity for entrepreneurs to recruit others into the program. Once the LMBC gained the trust of entrepreneurs, the most active recruiters came from the business owners themselves.

Program Fit and Commitment of Staff

In its 1993 evaluation of the Working Capital program, Mt. Auburn Associates found one of the elements contributing to rapid growth of the Lawrence program was the "fit" between the Lawrence Minority Business Council and the Working Capital program.

LMBC's primary mission is to support and strengthen the minority business community in Lawrence. Working Capital has provided it with a tool to offer financial and technical support to local minority businesses, particularly those that are very small and young. LMBC has also effectively used Working Capital as an organizing tool and, thus, contribute to its goal of increasing the political influence of the minority business community (Mt. Auburn Associates, 1993).

The match between the organizational goals with the program allowed the LMBC to implement the program in a focused and calculated manner. In many ways, the legitimacy of the Minority Business Council was linked to its ability to recruit and organize businesses in the community. Working Capital provided the mechanism with which they could reach businesses. Mt. Auburn Associates (1993) reported that "organizations with inconsistent missions such as social service provisions or housing development are less likely to have the skill, administrative capacity and long-term commitment required to successfully implement the program." In Lawrence, the Hispanic community lacked political

power and clout commensurate with their numbers. One way to get at this was the development of businesses to build and play larger role in political, social and cultural life of the City (Kwass, 1995).

Almost all interviewed attribute the rapid growth of the program to the energy and determination that Leonor Sanchez and Cesar Camargo brought to the task of building the Working Capital program. As business owners themselves, they had both felt the frustration from obstacles faced by entrepreneurs wanting to build a business. By bringing people together to express their concerns, Leonor Sanchez believes they have much greater opportunities for overcoming these barriers.

In their study of Working Capital affiliates, Mt. Auburn (1993) found "those enterprise agents who have been most effective are those who are motivated by the goals of the program and genuinely enjoy working with small business owners." This seems to describe perfectly Leonor Sanchez. Business owners repeatedly told stories of how they came to learn about Working Capital through interactions with Leonor Sanchez. Stories include meetings at flea markets when she would stop and talk to them at their booths, to her patronizing their stores and discussing the program informally inviting them to the next orientation meeting. Many who knew Leonor before Working Capital had great respect for her as an honest and dedicated business woman. Others met her through her outreach efforts finding her enthusiasm and commitment to support for small business people a draw for the program.

Entrepreneurs as Recruiters

The second possible explanation for the large growth in program participation has to do with the nature of the targeted community. Unlike any other Working Capital affiliate, the Lawrence program has relied upon a high level of recruitment by the entrepreneurs themselves. Frequently, one business

owner may attend an orientation meeting to find out about how to access credit. Upon learning of the group-based models, entrepreneurs go out and seek their own loan groups through networks of friends, co-workers and family. In this manner, the entrepreneurs themselves have spread information about the program throughout the community.

Nelson Quintero, Director of the Lawrence Minority Business Council explains:

Most people know each other ahead of time. So someone will come to the information meeting and learn about the program and then bring in other people to join with them. Only in about three out of every ten meetings have the groups formed from the meetings themselves (Quintero, 1995).

In the process of recruiting their loan groups, entrepreneurs may approach many businesses that may not join immediately but subsequently get involved. One entrepreneur explained that her co-worker approached her to join a loan group. At the time she did not feel she had enough information and therefore declined to join. Her co-worker found other interested business owners and formed a group. Her co-worker kept her informed about how the group proceeded. By the time her co-worker had reached the end of the repayment period on the first loan, she had decided to join the program. She attended an orientation meeting and set out to find her own loan group (Batista, 1995).

SUMMARY

The Lawrence Minority Business Council successfully targeted and reached a significant population of informal entrepreneurs. In a community that may be considered by many economic development standards as 'hard to reach' due to the low income levels and high poverty rates of inhabitants, LMBC was

able to draw an astounding number of businesses into the loan program within a two-year period.

This high participation results from a mixture of organizational, personal and community elements. Organizationally, the Working Capital program provided a useful and important tool for the LMBC to pursue its mission of organizing Latino businesses in order to obtain a voice for the Latino community within the City of Lawrence. Created with the mandate of generating business development among Latinos and assisting minority businesses to mainstream into the broader business community, the Working Capital program provided the opportunity to jump-start this process.

On the personal side, the development of this program cannot be discussed without emphasizing the crucial role played by the organization's staff and board members. The role the enterprise agents, mostly business owners themselves, played in selling the program was crucial to the large numbers of businesses that responded. Having faced constraints to capital as business owners, the organization's staff has been very committed to the success of the program. In this sense, the mix between the organization's mission and that of its staff has also provided a good 'fit' for building the program. There is a strong dimension of leadership demonstrated by those involved in the program that has offered inspiration and motivation to others.

Lastly, the extensive informational networks and interaction between businesses occurring throughout the program's development also helped to generate significant numbers of businesses through word-of-mouth recruiting among business owners themselves.

Chapter III

Businesses and Existing Networks

This chapter looks at the types and sizes of businesses that participate in Working Capital and explores how entrepreneurs interact to improve productivity, reduce costs and expand the markets for their products. Entrepreneurs have drawn upon collective resources in supplying inputs to transportation, access to suppliers and markets among others. These cooperative arrangements mirror certain "ethnic" resources found in successful enclave economies outlined in the first chapter. Ethnic communities that have successfully generated economic opportunities draw upon a combination of "class and ethnic resources" (Light and Bonacich, 1988).

The formation of business networks discussed in this chapter have occurred largely outside of program participation. This chapter draws upon a qualitative analysis of a sample of participating businesses to highlight how businesses operate and interact and examine how these interactions benefit entrepreneurs. I reserve discussion on the impact that Working Capital has had on all participating businesses for chapter IV.

Data contained in a standardized loan application that Working Capital implemented in August, 1994 offered an opportunity to compare information and responses across a sample of 48 businesses. Prior to August 1994, loan applications for differing loan levels contained a limited amount of information making comparison difficult. Therefore, this qualitative analysis relies heavily on this group of 48 enterprises.

To amplify and build upon this data, I conducted in-depth interviews with borrowers throughout February and March, 1995. The interviews focused primarily on business operations; how they started, how they currently operate,

etc. In addition, many entrepreneurs discussed personal and business changes as a result of participating in Working Capital and expounded upon the advantages and disadvantages of the program. The interviews provided a somewhat richer understanding of the intricacies of business inter-relations and offered insights into "multiplier" effects. Most importantly, the interviews provided me with an opportunity to learn why entrepreneurs start businesses, what goals and objectives they set, what expectations they hold for the peer-lending program and how they would improve upon it. I believe it is through an understanding of actual experiences of individual firms that we may learn the most. Pure numbers on paper will not give either the reader or the researcher any understanding of the challenges and obstacles overcome by businesses or the measures they themselves use for success.

WHO ARE THE BUSINESS OWNERS?

Business Size

There are many different measures for business size. In general, businesses are classified as small or large by the number of people employed in the firms. Small business is a term that may be used to describe businesses with up to 500 employees. Others may define a small business as one that employs up to 100 people. Lately, the term micro-business has become more popular as a means to distinguish those very-small businesses operating as self-employment ventures with at most only a handful of employees. Information on national trends in micro-business growth contained in the preceding chapter, specify those businesses as having up to 10 employees. Micro-enterprise assistance programs often define these enterprises as those employing less than 5 people. When judged in traditional terms of numbers of employees, the businesses studied here are far below these ceilings.

The majority of businesses studied here do not have full-time employees and many offer only part-time employment for their owners. To determine business size and how size changes through participation in the program, it is necessary to use measures other than employment for business size. This section outlines business size primarily by numbers of hours the owner works in the business.

Seven of the 48 businesses (14.5%) in the sample have paid employees, 30% of those employees are full-time. One-third of all respondents considered their business to be full-time employment. The median number of hours worked in the business by the owner was 25 hours per week. 18% of the entrepreneurs in the sample work less than 20 hours in their business while 50% worked between 20 - 35 hours and 32% worked more than 35 hours.⁵

The number of hours worked fluctuates frequently in many micro-businesses particularly among those that supplement other sources of household income. Therefore, a strict analysis of businesses based on hours worked inhibited a broader understanding of how these businesses may evolve over time. For this reason and based upon interviews with entrepreneurs, I developed a different classification of three types of business in the Lawrence-Working Capital program. I base this typology on how entrepreneurs consider the business, how it relates to other income generating activities in the household and future business goals. The goals and objectives for the business vary based upon the entrepreneur's opinion of the role the business plays within the household and other opportunities that come available. The role of the business may change for reasons that are both endogenous and exogenous to how the business performs. The categories are neither static nor permanent. The three

⁵ Chapter IV includes a comparison of this sample to the 170 businesses to show how representative this is of participants overall.

categories of businesses are: Income supplement, Growth-oriented and Established businesses.

Income-Supplement Business

These are businesses in which the entrepreneur considers the income generating activity as a buffer against an economic crisis that might befall the household. The crucial role the business plays is to limit household risk and uncertainty. Entrepreneurs generally work less than 20 hours in their business. Hours worked may be inversely related to outside employment opportunities. The household depends upon the business to both augment a low-wage income and to minimize household risk against future job loss.

These businesses could also be defined as "survivalist" because they serve more as a means of survival for very low-income households with limited alternatives than as examples of dynamic businesses driving economic growth for the community. Profits are drawn from the business directly into the household account. Frequently, entrepreneurs will not maintain separate accounts nor detailed records tracking business accounts. One entrepreneur indicated that she often consumed the profits by purchasing products for the household that she would not otherwise be able to afford or justify.⁶

The business is a supplement to household income whose primary sources are generally earned by paid wage labor. This may be temporary and/or seasonal work or permanent jobs in unstable industries. Similar to the

⁶This fluidity of money may in some cases spill-over into loan use. During the course of my interviews, several business owners complained that others used the loans for personal rather than business use. Interviewees voiced this complaint to demonstrate that loan sizes begin too low to be put to productive use for the businesses. When loans are invested into these businesses, they are used to purchase merchandise for re-sale rather than for capital expenditures to improve productivity. Entrepreneurs complaining of the small, initial loan sizes explain that \$500 cannot be used for substantial business improvements and is barely enough to cover merchandise purchases. Therefore, people may be inclined to use these earlier stage loans to purchase household goods.

diversified portfolio that investors seek, supplemental entrepreneurs diversify their income-generating activities so as not to depend entirely upon any one activity. Several entrepreneurs expressed a greater sense of security and well-being knowing that there were several un-related sources of income flowing into the household. This security derived from the sense that the household was better prepared to survive the loss or disappearance of any one source.

One clothing seller explained that this year her business had not been as strong as in previous years. However, the household was in better shape. Last year her husband had lost his job and she had only a part-time job and was unable to support the household on her earnings. Thus, her husband devoted much of his time to the business. This year, however, he had found a well paying full-time job and she had obtained a second part-time job. Although both spent less time in the business, the household was earning more. When asked, she said that she would continue the business because she was uncertain as to the changes the future might bring.

Another clothing vendor explained that she is operating her business while working a temporary job at a local textile mill. She explains:

They rarely let you know one week to the next whether they will ask you to return. They do this so they can suck the blood from you. While they have you, they make you work so hard to prove yourself. I need this job for now but if I am let go next week and they do not ask me to return then I still have my business. Other people do not have this, I do not know what they do. Someday, I will make my business full-time and then I won't have to keep working at the factory (Ulloa, 1995).

Growth-Oriented Business

The Growth-Oriented business holds an intermediate position between the income-supplement enterprise and the full-time venture. Like the income-supplement businesses, hours worked by the owner may vary based upon other

employment needs and options. Generally, these businesses may fall into the category of 20-35 hours worked per week. Although many entrepreneurs like Angela hope to build the business into a full-time operation, what distinguishes this group is the business strategy and planning that prepares for this eventuality.

In the initial phases, the business tends to contribute little to the household income. Earnings are re-invested back into the business through the purchase of supplies, equipment, etc. The entrepreneurs use loans similarly, purchasing additional equipment, materials providing for increased productivity and/or increased diversification of products. One growth-oriented entrepreneur who repairs TV's and other electronic equipment spends approximately 30 hours per week in his business in addition to full-time employment. He explains that despite the extensive time commitment involved, the business currently contributes hardly any income to the household. He invests money earned into training courses, tools, equipment and parts in the repairs of televisions and electronics. Each job is different and therefore serves as a constant learning process. Often new jobs require special tools that can be very expensive; therefore, delay the pace of work. He plans to build his business into a full-time venture within a couple of years. To do so, he needs the necessary equipment/instruments. Through the hands-on learning that he has obtained through his business, he has navigated his way through two electronics home learning courses and has become an expert of TV and electronic repair.

Established Entrepreneurs

Established Entrepreneurs operate full-time businesses that are often (though not always) storefront operations. The business is the primary source of income for the entrepreneur and household. These businesses are the most likely to provide quantifiable benefits to a community through employment creation and contribution to the local tax base. The employment generated remains slight

due to the full-time commitment of the entrepreneur and a frequent reliance upon family or other unpaid labor to keep the business running.

Because the business serves as a primary source of income, the owners put in long hours. Operating costs are significantly higher for these entrepreneurs than those in the former categories. Of these operating costs, rent is likely to account for the largest portion. Liquidity tends to be a primary problem in businesses that may be quite profitable. Therefore, the credit needs of these businesses differ significantly from those of the smaller income-supplement businesses.

Entrepreneurs interviewed described their aspirations for business growth as generating sufficient revenues to expand the business and employ more help. Thus, growth interests among this group of entrepreneurs also seem to offer more readily quantifiable measures such as job creation. In addition, several entrepreneurs expressed as long-term goals the start-up of other ventures or the provision of a service to community members.

For example, a clothing designer and craftsperson operating a fashion design business from a storefront describes her ultimate goal as starting a small school to teach young women in the community how to sew and design clothing. She explains the school would target young women on welfare, many of whom she believes do not have anything to do. "This is a good way to help many women, to make them feel better about themselves. It helps you with your mental health when you are working with your hands." She has taught people a variety of skills in the past including: dressmaking - both normal and party; curtains; spreads and other items. People frequently ask her for instruction on how to make these items. She points out:

It wouldn't be worth it to teach people individually. It is much better to buy enough equipment, such as industrial sewing machines and open up a place, then organize a meeting where I would train people all together how to do this for themselves. This could provide a much better training than what people get through those [job-training] programs. Often, people come out of the program and are not able to get a job. With this school, women would be able to work for themselves, if they could not find a job (Batista, 1995).

BUSINESS ACTIVITIES

The highest percentage of businesses are engaged in retail activities. 42% of sample businesses are retail, 8.3% production businesses and service businesses accounted for 25%. Almost one-quarter indicated their businesses were some combination of businesses, such as retail/production or retail/service. For example, the combination retail/production businesses accounted for almost half of these combination businesses.

The double listing of single businesses is due in part to the nature of certain businesses that can be classified in two different categories; such as a seamstress who sells clothing he/she makes or a caterer that both produces baked goods for sale and provides a service. On the other hand, some borrowers operate several unrelated businesses simultaneously. The operation of multiple businesses may demonstrate that no single business has the capacity to support the household, that households diversify business activities to minimize risks for reasons explained above or that entrepreneurs are evolving their businesses to more profitable activities. Where households fall in this framework can only be determined on a business by business basis. However, broad conclusions may be drawn by looking at additional factors such as change in both products and income levels over time.

In one household new activities have sprung from necessities generated from older activities. As Jane Jacobs (1972) describes, "when new work is added

to older work, the addition often cuts ruthlessly across categories of work, no matter how one may analyze the categories." This particular business owner learned of an opportunity to purchase clothing for re-sale. After making several trips to NY to purchase the merchandise, she and her husband decided to use their loan to purchase their own vehicle to save transportation costs and offer the service to other retailers. With the purchase of the vehicle, they could also provide transportation to other customers to such locations as the airport. Thus, they generated a separate business that supplemented income to the household. These businesses exemplify a growth of new activities and perhaps an evolution to more profitable, stable ventures.

Another entrepreneur added new activities to diversify and supplement business income and to minimize risk. This entrepreneur augments income from an existing dry-cleaning service business with sales of other products. Recently, she has begun including merchandise such as cosmetics, jewelry and accessories at the counter. She finds that many of her customers will purchase small items while dropping off or picking up clothes to save themselves extra trips. While she has no plans to expand this line, she finds it provides a means of earning extra income, particularly during slow months.

Business Activity

Retail

As mentioned above, retail accounted for the largest percentage (42%) of businesses in the sample. Of the retail businesses, almost 40% are clothing vendors. Other retail businesses include household goods such as sheets, covers, curtains and kitchen supplies; cosmetics; accessories; and shoes. Many businesses sell a combination of products depending upon customers' demand.

Businesses frequently draw earnings from the business directly into household accounts. Earnings plowed back into the business are frequently used

to purchase inventory. Loans are used to build up inventory and take advantage of discounts for items bought in bulk and to cover working capital needs of businesses. Entrepreneurs see an important feature of their business as credit to customers. Because most of the small, retail businesses operate on a cash-only basis with their suppliers, entrepreneurs use the loans to cover the working capital needs while awaiting payment from customers.

Many retail vendors are Dominican and operate their businesses within layers of relationships and interactions both within Lawrence and outside of it. Vendors purchase merchandise primarily from wholesalers, outlets and retail stores in New York. Often businesses purchase their goods in the Dominican neighborhoods of the Bronx, Manhattan and Brooklyn. Household goods are available at discount rates for bulk purchases. These bulk rates are common for linens, spreads, comforters, curtains, etc. By purchasing at discount rates, vendors may re-sell at or close to the original item price. Discounts often increase based upon the amount of purchases. Clothing is also purchased wholesale through distributors or from small, retail establishments offering low-cost products. Some clothing vendors have started to circulate list of addresses for outlet stores of major chain stores such as The Gap in response to customer demand for certain name brand items.

Several entrepreneurs have expanded their suppliers to include clothing outlet stores in Massachusetts, New Hampshire and Maine. The Maine and New Hampshire locales are generally outlet stores where merchandise can be found cheaper than in the Lawrence area. In general, vendors make approximately one trip to New York per month and trips to New Hampshire every two weeks. One business owner found that she could purchase enough in Maine and NH to re-sell in NY to some of the smaller boutique stores and use this profit to purchase more merchandise in NY. This triangle trade arrangement in which merchandise

purchased wholesale in New Hampshire and Maine and re-sold to retailers in New York offers a tremendous example of generating new, external markets.

Cosmetic sales are a primary and/or secondary source of income for many vendors. The cosmetics business is quite different from the clothing because the merchandise is purchased directly through the company generally through a catalogue. Cosmetic products are purchased through large companies such as Avon. The vendors serve as distributors for these large corporations to the local Latino market. These companies use a variety of marketing schemes to increase sales. These include multi-level marketing schemes whereby the company generates a pyramid-like structure of distributors. Each vendor is encouraged to bring in new vendors by receiving a small commission on the total sales of each recruit. In turn, these recruits are similarly encouraged to enlist new vendors. The total sales of the newest recruit then generate a commission not only for the vendor who recruited her but also a smaller percentage will go to the original vendor.

Some business owners have begun to by-pass the company's marketing system and buy products directly in bulk. By building up their own inventory, they can set the prices for re-sale. One business owner shares a booth at the flea markets with her husband where she sets up a cosmetic counter. Since she has purchased all the products out-right she is able to set her own price and all profit margins are captured for the business. Often she is able to provide cosmetics at lower costs to her consumers and captures a higher profit on sales than when she acted as a distributor for Avon. She has also diversified her products to include cosmetics from other companies.

Another cosmetics business has grown into a wholesaler providing supplies to other businesses in addition to individual sales to customers. This businesswoman uses the catalogues of large cosmetics companies to place

individual orders for her customers, but she also makes large purchases of items offered as specials or discounts. Recently, she has received requests for soaps, deodorants, cosmetics from other entrepreneurs who wish to re-sell the products in the Dominican Republic. Buying the products from her allows them to sample the products and eliminates the wait when ordering from a catalogue. In this fashion she has built up a customer base consisting not only of individuals but also other micro-business owners.

Overall retail vendors seem more likely to operate income supplement ventures. This may be due to the relative ease of entry into this sector. Nonetheless, certain entrepreneurs clearly embrace a growth-oriented approach to their businesses based upon increasing customer bases, diversifying products and suppliers and building up inventory.

Service

Service-oriented businesses comprise approximately 25% of business. These businesses include: child-care provision, auto repair and maintenance shops, transportation, food/catering, rental agencies, express mail, calling centers, etc. Service businesses on the whole seem to be larger and access a broader market than retail businesses.

Service-oriented businesses tend to fit in the category of growth-oriented or established businesses. Auto repair businesses may have started informally operating from homes but many currently own and operate a full shop. The success of an auto-repair business depends upon the quality of work, the time it takes to make the repairs and visibility. These businesses therefore require significant investment up-front in the proper equipment. These businesses have higher investment needs and capital expenditures and therefore must pursue growth-oriented strategies.

While the child-care businesses in the sample are home-based, they operate full-time. These businesses contribute significantly to the household income and reach broad markets. For example, several businesses have registered as child-care providers with the State. These businesses are eligible to sub-contract their services to the State's Department of Public Welfare to provide "transitional child-care" for women who obtain jobs and are moving off welfare. Home-based child care agencies are able to care for up to 6 children in their homes. The businesses are subject to spot inspections by the Welfare Department and must invest time and money in keeping their homes up to certain standards and codes. With the Department of Welfare as the primary client, these businesses have a stable customer base.

Despite initial concerns among child-care providers about changes in the welfare law recently enacted in the Massachusetts legislature, the new "reforms" will actually increase the demand for these centers. In fact a current bill under consideration would increase the capacity allowed by law in these home-based centers to 9 children. This change is being considered because the work requirements encompassed in the welfare legislation will generate dramatically greater demand for "transitional child-care services" in the short-run. Increasing the capacity of centers will likely be accompanied by stricter standards and codes for each center. Loans are used to purchase equipment, supplies and household improvements.

Transportation services have grown in response to the demands of other micro-entrepreneurs. As mentioned above, entrepreneurs have started offering transportation services to accommodate the travel needs of retail businesses purchasing merchandise in the NY and NE area. Transportation services have also sprung up to accommodate the transportation of children to and from the day-care centers. As with the day-care centers these businesses have a stable

demand. These services are contracted through the child-care center. In this sector, micro-business owners involved with the Working Capital actually subcontract to other micro-business owners.

Production

Small-scale manufacturing or production-oriented businesses alone account for only 8% of the total businesses in the sample. However, when you include the entrepreneurs who categorize their businesses as production/retail and production/retail/service these businesses account for 22.9% of all businesses. Thus, those engaged in production tend to be oriented towards producing for retail to individual customers not inputs to other businesses.

These businesses include clothing designers and manufacturers, baked goods producers and furniture makers, among others. While production businesses are more likely to be established businesses than the retail businesses, and yet seem less established than the service businesses. Many of these businesses, such as the baked good producers, operate their businesses from their homes and produce for special events. Business owners tend to sell their products to local markets.

There is less interaction among these types of businesses than among retailers. Because barriers to entry are higher for a producer of goods than for a vendor, fewer firms form. While retail vendors may start their business after going with a friend to purchase merchandise, production-based ventures require either a particular skill or equipment making start-up more difficult. Start-up production firms may therefore develop within a more individualist context rather than the collective or group context that depicts many retail start-ups.

Summary Of Business Activities

The preceding section demonstrates the heterogeneity of micro-enterprises even within an ethnically homogeneous community of businesses. Drawing upon the typology set out above and using business size as the determinant for categorizing each business, most businesses seem to fall within the income supplement and growth-oriented category of businesses. Whether the entrepreneur considers the activity as supplemental or growth-oriented must be determined on a business by business basis as this depends upon the individual's future plans. Other indicators that may measure this could be use of loan and levels of re-investment into the business.

The largest percentage of businesses are currently concentrated in the retail sector. This sector has a greater tendency towards income supplement than firms in other sectors. Other sectors such as service and production are more likely to be either growth-oriented or established. The time and resources required for these businesses may influence this orientation.

NETWORKS

As a result of the research and exploration done at the field level, I have gathered several impressions regarding the nature of the interactions between businesses participating in the program. Many businesses operate within an invisible network of linkages with a high level of sophistication. The arrangements drawn upon include cooperative arrangements to reduce business expenses, information exchange and consumer credit through purchasing pools. Other networking components are: supplier relationships and knowledge and skill sharing.

Cooperative Arrangements to Reduce Costs

Many businesses have participated in cooperative arrangements to reduce the costs of running their businesses. These arrangements allow for businesses to earn greater operating profits by reducing their expenditures in relation to their sales.

Trips to New York by retail vendors are frequently shared. Several business owners arrange joint travel to reduce expenses. As a result of these frequent trips to and from NY, an informal transportation service has sprung up to meet the demand. This transportation service charges approximately \$70 for round-trip passage. Some businesses have decided to cut out this middleman by either jointly renting a car or, in a few cases, purchasing their own vehicle that may be used for these trips. Those that own the vehicles now charge a small fee to other retail business owners for transport.

New business owners are generally shown the ropes initially by arranging travel and transportation together with other business owners who can show them the best and cheapest locations to purchase the merchandise of highest quality. However, other businesses prefer to travel on their own to save time. As one business owner put it:

It is much more fun (to travel together) and you get the advice and input of others. We all treat it as a cooperative rather than competitive thing. There are drawbacks, though. It's harder logistically to schedule times when everyone can go together. Also it takes much longer because if for example you just wanted to buy clothes but others wanted to buy accessories as well then you always have to wait and go with them to the different stores. It helps initially to go with someone experienced who can orient you as to where to buy clothes and how to satisfy different customers (Rodriguez, 1995).

In addition to the cooperative arrangements developed by clothing retailers, business owners have created more permanent arrangements designed to minimize expenses. One storefront space on downtown's Essex street is currently being shared by three businesses. Two of these entrepreneurs formerly operated home-based businesses. A Dominican businesswoman took over a dry-cleaning business located on one of Lawrence's main streets downtown. She had been operating the business a short time when she encountered increasing difficulty keeping the business afloat because of the high overhead costs. Her main cost was rent. She realized she would not be able to continue making payments yet she hesitated to move because of the good location. One day a customer approached her asking her to consider sharing the space with this woman's fashion design business. Since then, an express mail business has also joined them. All businesses remark upon the low burdens placed on the business from shared rent and the benefits of maintaining high visibility. In addition, they explain that customers are frequently drawn from one business to another while there. The fashion designer explains, "it's the same principle that a mall operates on only [the mall operates] on a much bigger scale."

Information Sharing

Related to these cooperative arrangements is information sharing that occurs informally among businesses. One of the most frequent manifestations of networking, the sharing of information can range from how to start-up a business, to new products, to pooling leads on suppliers and/or new markets for goods. The most prevalent form of information sharing among the businesses I interviewed was in the initial start-up phase. While some entrepreneurs had had previous experience owning a business or working in business to learn the trade, many entrepreneurs did not have this background. The example of the retail vendors outlined above provides a case in point. Many of these vendors started their business after being encouraged to do so by a friend or a neighbor who encouraged them to come along on trips to suppliers.

A child-care business owner explains that she learned of opportunities to open up a child-care business through her sister-in-law. She had never operated a child-care business but she had experience raising her own children. Her sister-in-law explained to her the procedure to get licensed through the State. Following this advice she obtained her license and opened a child-care center in her home. Her sister-in-law explained how she had registered with an agency that handles the sub-contracting of "transitional child-care" for the Department of Welfare. This agency provides a steady clientele for day-care providers that meet State requirements. She has since told several other women in the community about how to register and get started in the same business. She offers to help show them how to get started.

Another entrepreneur learned of the market for second-hand, repaired TV's and VCR's through a person he met at a flea market. While selling products from his native Peru, Bart met a seller of second-hand televisions who gave him several broken sets he could not fix for free. With these sets, he set out to teach himself this new trade. Through the help of a home-study electronics course he gradually learned a considerable amount about the workings of TV's, VCR's and other appliances. As he improved his skills with these appliances, he began to seek out suppliers of old, broken machines. Through the original gentleman that gave him the first TV's he was able to get a continual stream of supplies, primarily machines with minor problems that he repairs for re-sale.

Bart has tapped into a vast network of suppliers within this industry. Entrepreneurs pursue many routes for obtaining cheap or free supplies such as re-capturing TV's from trash that would otherwise end up in the landfill or making arrangements with local trash collectors to pass on the machines for a small fee. Once recovered machines may be re-sold individually or in bulk to repair-persons. Through the many, informal networks Bart obtains a constant

flow of machinery. Over the past three years of doing this, he not only has been able to build up a growing source of income but he has also built up a significant inventory of parts and supplies from machines unable to be repaired. Often he will have to cannibalize 2 or 3 TV's to make one that works.

Once repaired, Bart re-sells the equipment through placing advertisements in local papers or through direct sales at flea markets. He shares a year-round booth with his wife who sells cosmetic products. His wife has started to purchase merchandise in bulk for re-sale at flea markets. As mentioned above, the purchase of cosmetics in bulk has become popular among business owners who are able to obtain greater profits and provide better discounts for their customers. As a result of the success of sales at the flea markets, other entrepreneurs have begun to explore the possibility. This business owner has shared the details about obtaining a booth with members of her loan group.

Consumer Purchasing Pools

Many retail businesses are able to attract and keep customers by offering credit not otherwise available. By providing credit to customers micro-businesses can tie up tremendous resources in working capital because the businesses pay for merchandise in cash up-front. Several retail vendors have dealt with this problem by organizing consumer purchasing pools known as "Sans" in order to provide a means by which several customers may purchase on credit. Although the San developed independently, it is based upon principles similar to the Working Capital loan group. These groups depend upon the trust among individual members that all participants will continue to make payments. The san, however, is based upon providing households with the opportunity for consumer credit rather than business credit. In its structure the san probably most resembles kyes in the Korean community or shared savings pools observed in Vietnamese immigrant communities (Mahon, 1994). Shared savings pools like

kyes are informal credit associations that provide loans to individuals for a variety of reasons. Members may use the funds for both business and personal uses and often will organize groups around themes such as wedding band kyes. The shared savings pools in the Vietnamese communities may go for personal/consumer, business or housing purposes. Friends, neighbors and co-workers may form a pool in which everyone pledges a certain amount of savings. Members in need of loans will bid upon the pooled money. The bids are in the form of interest rates. Those who pledge the highest interest rate win the savings and are responsible for repayment at this rate.

Businesses have benefited from the practice of organizing sans transferred from the Dominican Republic. Entrepreneurs use these existing credit pools to be able to increase their sales without tying up inordinate amounts of cash awaiting repayment. A group of consumers come together to jointly purchase items on credit. The group consists generally of 5 members who make 5 equal payments toward the purchase of an item with each installment another group member receives the item purchased. For example, if a group of five join together to purchase an item priced at \$500, each member will put up \$100 for the first week and one group member will receive the item. Each member continues to put up the same amount each week until the 5 items have been bought and paid for. In addition to the profit margin afforded to the business owner, an organizer of a san is also generally the first in line for receiving the item.

SUMMARY AND CONCLUSIONS

The heterogeneity of micro-enterprises may not be captured by definitions of business size based upon number of persons employed. According to this conventional definition, all the businesses studied here fall into the micro-business category. Yet, there are differences among these businesses that need to be recognized. An alternative system of business categorization developed in this chapter classifies business size according to the time and attention the owner dedicates to the business in light of other income-generating opportunities. This presents clear distinctions between micro-businesses based upon the attitude of the owner toward the business and the role the business plays in supporting the household. This typology outlines: income supplement, growth-oriented and established business. The typology will continue to prove useful in outlining how businesses may change and evolve over time.

Many entrepreneurs in this community operate within an extensive network of collaboration that helps to minimize the cost of doing business and provides shared knowledge of the industry. This interaction has influenced the start-up of businesses, the movement of businesses into new products and services and the strengthening of supply lines to the business. However, the concentration of businesses primarily in retail and service industries that generate few linkage opportunities with other local businesses diminish the potential for strengthening internal markets. In addition, a strong reliance upon local markets for customers limit opportunities to exploit external markets. Piore and Sabel (1984) stress that a key element to the dynamic growth of small firms in Northern Italy is a culture of cooperation and trust that ties firm to firm. Businesses in Lawrence show similar cooperation and trust. The difference lies in the types of business activities and the capacity to maximize the benefits of these conditions.

Given the existing level of business interaction in the community, the challenge to peer-lending programs is to build upon these pre-conditions. Through the introduction of credit through loan groups, the program has the potential to strengthen and reinforce existing relationships, and to foster new relationships that will influence the diversification of activities and the expansion into new markets.

CHAPTER IV

Program Impacts

The key question is: what impacts has Working Capital had on businesses in Lawrence? In this chapter, I outline three types of impacts: 1) community impacts; 2) changes in business operations and networks; and 3) individual business performance. In analyzing the first two types I draw largely upon qualitative information obtained from interviews with program staff and participants. In looking at the third impact, I set-up a framework based upon what I learned through my interviews and then turn to a consideration of empirical evidence from loan applications to test whether the data support these impressions. General data were obtained from the 325 approved loan applications submitted by 170 different businesses participating in the program. Additional analysis is derived from an in-depth analysis of loan applications from a sample of 48 businesses.

COMMUNITY IMPACTS

The impact upon the community may be determined by measuring a variety of different outcomes. These may range from the physical revitalization of blighted storefronts, to the strengthening of skills and labor market competitiveness of participants, to the formation of role models for others in the community. For the purposes of this paper, I chose to focus on three main areas: 1) the institutional development and legitimacy of a representative community organization; 2) the promotion of positive images both within and outside the community; and 3) the provision of consumer goods and services.

Institutional Development and Legitimacy

The introduction of the Working Capital loan program in 1992 played an important role in fortifying the Minority Business Council. Offering credit to businesses previously unable to access sources of credit became a useful instrument for organizing business owners. High participation rates both demonstrated the high level of business activity occurring within the Latino community, and helped solidify the credibility of the Council as representing the interests of business owners in the community. This legitimacy has translated into recognition from such institutions as banks, City government and State agencies. Currently, LMBC is developing a program primarily with the Bank of Boston and the Executive Office of Economic Affairs to provide 2nd tier loans to businesses either graduating from the Working Capital program or whose credit needs are not met by the micro-loans. The 2nd tier loan program will offer individual loans from \$5,000 to \$20,000. The Minority Business Council has also been designated one of 8 organizations state-wide to serve as minority business development centers. The relationships that are being developed will bring continued access to credit and training to businesses of different types and sizes over time.

Positive Images

The success of this program in reaching large numbers of entrepreneurs has helped to reinforce, both internally and externally, more positive images of the Dominican and Puerto Rican communities. Kim Stevenson from the City of Lawrence Community Development Department pointed out that the existence of the Council and the wide net cast by Working Capital helps to reinforce the image of community members as business owners and entrepreneurs. She notes that walking along Essex street in downtown Lawrence you are struck by the many social service agencies ranging from the welfare office, to a teen pregnancy and parenting agency to a center for drug abuse. Psychologically, this promotes the constant impression that this is a community filled only with problems that

are treated by outside agencies. The location of the Minority Business Council on this same street with its steady stream of entrepreneurs coming and going counteracts those negative images and highlights a whole other element within the community (Stevenson, 1995). The Minority Business Council is managed by local business owners and presents the image of community members as entrepreneurial business owners.

Provision of Goods and Services

The support offered to businesses generates community benefits through the activities of the businesses themselves. Entrepreneurs provide consumers access to goods and services at greater convenience and lower cost. Several business owners explained they are able to attract and keep customers by extending credit, otherwise not available to many consumers.

Some businesses extend benefits to community members through the provision of valuable services that would otherwise be unavailable. For example, one borrower runs a music academy for young people. According to the owner, the academy provides young people in the community with a chance to channel their energies into music rather than towards other destructive means. The clothing designer whose goal to start a school for young women to learn clothing design and manufacturing was described in the previous chapter, provides another example of the type of community services businesses can play.

IMPACTS ON BUSINESS OPERATIONS AND NETWORKS

Working Capital offers entrepreneurs assistance in three main areas: access to credit, business training, and opportunities to network with other businesses. The group-lending process reinforces a reliance upon other entrepreneurs in order to access credit and to learn how to improve the business. While the main objective of the program is the provision of loans to

entrepreneurs lacking access, the process of forming loan groups is also meant to encourage business training through shared information and to develop linkages among businesses.

By providing consistent access to credit to entrepreneurs through loan groups Working Capital in Lawrence has served an important formalizing role for businesses in two ways: 1) by changing the attitudes of entrepreneurs through the process of evaluating loan applications of the group; and 2) by institutionalizing existing relationships among business owners through loan groups. In this section, I explore this formalizing influence and then attempt to judge what impact if any this has had upon markets for products.

Change in Attitudes of Individuals toward Business

One of the most dramatic impacts of program participation particularly with the income supplement business is the change in attitude of the entrepreneur toward the business. Several entrepreneurs claimed they had not really considered what they did to be a business. One business owner, Angela, remarked before starting the Working Capital program that she saw her clothing sales ventures as a means of earning some extra income. Now she and her husband consider it a business. While both work full-time in other jobs, they now hope to one day establish the business as a full-time venture.

The group interaction component has helped entrepreneurs move from supplemental to growth-oriented businesses. A cosmetics vendor pointed out that previously she had consumed much of her profits, using the bulk orders as a means of getting products for herself at discounts. As a result of participating in the program, she thinks more in terms of increasing sales to generate greater earnings that can then be re-invested. She uses her loans to purchase merchandise in bulk and therefore has been able to increase the level of her sales and the business income.

Business owners who take on the responsibilities of group officers feel this provides even greater opportunities for personal and business growth. Angela's husband participates in the loan group and has recently become treasurer. He takes this responsibility very seriously. He keeps a log of each group member and makes sure each member remains current on his/her repayments. This position, he explains, has improved his own record-keeping. As a result, their business has become more methodical in tracking payments and following up on those customers with outstanding credit.

Miguel, an established entrepreneur owner of a full-time music academy believes borrower groups help orient businesses to how credit works not only through the individual's loan but also through the role of loan officer assumed by each group member. Because each group member assumes responsibility for repayment, each evaluates the loan application of others to assess the risk involved. He explains,

We are responsible for deciding on loans. If we approve a loan we take responsibility for ensuring that it gets paid back. This helps you get to know the process deciding upon a loan. In this respect it [the loan group] has been an invaluable experience because it helps to de-mystify the process of how banks decide on loans. Therefore it gives you more confidence because you know what the process is. You have an idea of how banks think (Miguel, 1995).

Change in Nature and Type of Interaction between Entrepreneurs

In Lawrence, many entrepreneurs have connections with one another prior to forming a loan group. Chapter III outlined the many networks in place for micro-businesses in the Lawrence economy. The cooperative arrangements generated to reduce costs, increase access to supplies and provide information on new products and markets, strengthen business competitiveness. Thus, the

extensive integration of businesses in Lawrence was not created by the Working Capital program.

The program, however, has exerted a formalizing and institutionalizing influence upon these networks similar to individual businesses. By joining a group and becoming responsible for each member's loan repayment, entrepreneurs take interactions more seriously. In addition, the loan groups cut across types and sizes of businesses providing smaller ventures an opportunity to learn how to grow a business and to understand obstacles faced as a business becomes more established. Even if entrepreneurs know each other prior to starting with Working Capital, they may not share specific information about how their business operates. By participating in a loan group they submit loan applications with detailed information about their products, markets and use of loans. In addition, entrepreneurs submit cash-flow statements with projected monthly revenues and expenses for a six-month period. Of all the entrepreneurs with whom I spoke not one felt that sharing information about their business with the loan group concerned them or had any harmful impacts on their business. In general, the feeling was that the loan group acted to support and counsel the individual and ultimately helped the entrepreneur make more informed decisions about how to proceed.

According to Enterprise Agent Leonor Sanchez, the process of forming and establishing groups has strengthened existing relationships among entrepreneurs. The loan group provides a forum for business owners to talk about how their business is doing. When one entrepreneur does very well s/he shares her/his success with the group. Leonor mentions the cosmetics vendor who expanded beyond the multi-level marketing arrangement with one company to purchase large quantities in bulk from various suppliers for re-sale at flea markets. This entrepreneur shared her idea with other loan group members in cosmetics sales. Word has spread to other groups and many have

expressed interest in pursuing similar strategies. Leonor has discussed with her the possibility of attending other loan group meetings to further distribute the information.

Networks of solidarity and support seem to have grown and strengthened as a result of participation in the program. Many entrepreneurs find the group offers both personal growth and renewed interest in building the business.

Fostering new networks through Working Capital

While many business owners have operated within an existing network of businesses prior to joining the program, new relationships also form. The business networks outlined in the last chapter focused primarily upon interactions between like businesses and information sharing by sector. The loan groups provide an opportunity for businesses to meet with and learn about businesses outside their industry. Despite the large recruitment of group members by entrepreneurs⁷, groups do provide some opportunity to expand the circle of businesses. This seems to occur primarily within groups.

One woman explained how she produces decorative figurines that may be used to decorate cakes for catered parties but may be made larger as household knickknacks or as Christmas tree ornaments. She produces these goods for parties that she caters. Other entrepreneurs in her loan group became interested and asked her to give them a demonstration for the loan group.

Through his participation in the program, Bart met a Working Capital borrower from a group in New Hampshire who also operates an electronics repair business similar to his. As a result of this new contact, Bart has obtained access to a new network of suppliers for TV's and VCR's. The entrepreneur

⁷As described in Chapter II.

frequently shares work that he is unable to finish or repair himself. He has a steady stream of inputs from a variety of locations including repair shops in the area. They met at a Working Capital meeting in New Hampshire and realized they were in the same line of business. Now this other entrepreneur sends him extra machines when he can't fix them or has too many. The arrangement has been collaborative in spirit. Neither man sees the other in a competitive manner.

This example, however, seems less frequent. Few business owners reported much interaction and information sharing occurring systematically between groups in the program.

Reaching New Markets?

Thus far, the discussion has focused upon strengthening support among businesses and bolstering cooperative arrangements designed to cut costs and diversify products and suppliers. However, in order to establish long-term growth opportunities in the local economy, business networks must also be mobilized in one of two ways: 1) to build up internal markets for locally produced goods and services; or 2) to target cooperative arrangements toward specialized production or sales to tap external markets.

The former is prevalent in ethnic communities such as the Korean American communities or the Cuban community in Miami where consumers and businesses seek labor and suppliers from within the ethnic community due to either cultural isolation or convenience. Common ethnic bonds that cater to the particular needs or tastes of other businesses owners or consumers stimulate chains of supplies and consumption throughout the community. The more extensive the network the greater the utility of each new dollar entering the community.

On the other hand, small firms linked together through a system of collaborative arrangements producing for external markets generate economic benefits to the entire region. This has been exemplified in specialized production industries such as ceramic tiles, textiles, clothing, shoes of Northern Italy (Piore and Sabel, 1984), high-technology of Rte. 128 and Silicon Valley in the U.S. (Sabel, 1989) and shoe-manufacturing in Brazil (Schmitz and Nadvi, 1994). While these examples emphasize production-based economies, certain communities have capitalized on jointly tapping external markets in the retail and food service industries as in the growth of Chinatowns in many large urban centers of North America as a center for Chinese restaurants, food markets and other retail stores.

Building Internal Markets

Ideally, networking with other businesses offers potential benefits such as increased sales through customer referrals, sub-contracting of services from one micro-business to another and purchases of inputs among micro-businesses. This networking component seemed particularly important given that 69% of all borrowers indicate that word-of-mouth is the primary form of advertising. Thus, the greater the exposure to others, the greater the opportunity to really impact business revenue. Few entrepreneurs reported significant increases in sales resulting from referrals made through contacts established at Working Capital, however. Several borrowers indicate they have not met many other entrepreneurs outside of their loan groups.

The Minority Business Council has sought to address this by sponsoring events and activities that encourage business owners to socialize and meet with each other and members of the broader community. For Valentines Day, the Council sponsored a joint program with the Chamber of Commerce for micro-entrepreneurs to meet with more mainstream Anglo entrepreneurs in Lawrence.

In addition, the LMBC encourages loan groups to hold their meetings in the organization's offices to provide a common meeting site for business owners. The site is also made available for product demonstrations by entrepreneurs. Making the site available helps to establish credibility and professionalism for entrepreneurs. These meetings and demonstrations have provided some opportunities for Working Capital members to purchase and network with each other.

Cooperative Production for External Markets

Currently, there are few signs that cooperative arrangements have been established as a means of producing for an external market or of increasing sales to customers or businesses in the more "mainstream" economy. The concentration of businesses in the retail and service sectors limits opportunities to generate the type of clustering of firms characteristic of high growth areas such as Northern Italy where firm interaction is production-oriented to outside markets.

Several examples of businesses that have targeted external markets demonstrate either a tendency toward Latino communities outside Lawrence or a reliance upon family and friends in the Dominican Republic for exporting goods for re-sale. These relationships appear to remain very informal. Loans have helped finance initial purchases of merchandise or allowed for the purchase of larger items that draw higher profit margins maximizing each transaction. However, I did not learn of loan groups or groups of participating entrepreneurs joining together explicitly for export ventures.

Markets Currently reached By Program Participants

Businesses studied serve primarily local, Latino markets. Of the sample of 48 businesses asked on the loan application to specify their primary market(s) 61% of the responses indicated a local market. Included in the local market were

friends, family, co-workers and others residing in Lawrence. The majority of these businesses sell primarily to Latinos in the local market with very few reaching the local Anglo market. After the local market, the next highest market indicated was the local region with 15% of all responses. The local region is generally comprised of the Merrimack Valley region including Lawrence, Lowell, Methuen, Haverhill and parts of southern New Hampshire. 13% of the responses indicated a regional market that includes all of Massachusetts and some areas of New Hampshire, VT and Maine. Through the interviews it seems that some of these businesses serve a niche market of Latinos across the State while others have also bridged into the Anglo market. 11% of responses indicated that a primary market for their products was exports to other countries. Wilson and Martin (1982) described a strength in the development and generation of the Cuban community was a reliance on and positioning of ties and relations to, Latin American markets. The maintenance of ties between this immigrant community and the Dominican Republic, Ecuador and Peru have helped to generate income for families both in the home country and in Lawrence. From the interviews it seems that the bulk of this activity is generated from shipments home to family or friends who act as sales agents. Products are generally second-hand and while much of the merchandise is clothing and small appliances, there are several cases of cars, motorcycles and larger appliances such as refrigerators, stoves, etc. being shipped.

The international connection to the Dominican Republic is entirely through re-sale of U.S. products. No businesses produce for the Dominican market. Many of those retail businesses indicating an export-oriented market also maintain a consistent customer base in the local Latino market. However, there is little bridging to the broader mainstream economy.

**Table 1: Distribution of Primary Markets
for Sample Businesses**

Markets	% of Business
Local	61%
Local Region	15%
Regional	13%
Export	11%

Source: Working Capital Loan Department
N=48 businesses for which data were obtained

The businesses most likely to reach external markets are service-oriented businesses. These businesses have been able to bridge into broader markets more effectively for several reasons. These enterprises tend to: 1) be bigger, full-time and often businesses that operate out of fixed locations; 2) offer services that meet a need in broader communities; and 3) have greater visibility.

A primary goal of the Minority Business Council is stated as helping Latino businesses bridge into the mainstream economy. Enterprise Agents encourage this by sharing information throughout loan groups about other businesses using such forums as flea markets, street fairs and other venues to market their products. Leonor Sanchez explained events such as the Chamber of Commerce mixer on Valentines Day will help those entrepreneurs more motivated to establish and use the connections to build relationships with the Anglo community. Now, some businesses do reach broader markets but many continue to rely upon friends and family members.

SUMMARY OF QUALITATIVE ANALYSIS

Working Capital affects the work of institutions and individuals. On a community level, the Minority Business Council has been able to employ the program as a means to organize businesses in the community, to demonstrate the capacity and needs of these businesses and to draw upon existing networks to strengthen the Latino voice in the political, economic and cultural life of

Lawrence. High participation rates solidified the credibility of the organization as representing the interests of business owners in the community, which in turn has allowed the Council to advocate on behalf of its member businesses. The building of legitimacy have the potential for long-term growth of the program not only in the number of participants but in the capacity of the organization to provide access to other resources in the community. The high visibility of the Council has served to counteract negative stereotypes of the Latino community.

The initiation of the Working Capital program has influenced perceptions of entrepreneurs toward their businesses, stimulated some new networks between businesses and strengthened some existing networks, and provided steady and consistent access to credit and technical assistance to businesses previously unable to access these resources.

The impacts from formalizing relationships between businesses and the building of new networks are at present the most difficult to determine. Businesses predominantly target local Latino markets and new relationships to bridge into other markets do not seem to have emerged. Networks that do exist assist businesses to operate more efficiently but have not resulted in the building up of local internal markets nor have they generated the type of integrated export-oriented practices characteristic of successful enclave economies. This may be an area that will require more concentrated attention in the future

BUSINESS PERFORMANCE

The Lawrence Minority Business Council-Working Capital program has effectively reached businesses previously unable to access credit and training. The provision of credit through business borrower groups, has sought to strengthen old connections and foster new connections both within and outside

the local community. The previous section outlines some examples of this influence upon certain businesses.

But have these changes had any detectable impacts upon the businesses themselves? By applying the findings from the qualitative analysis to the empirical data obtained from the loan applications, I expect to find a) a movement of businesses from income-supplement to growth-oriented as entrepreneurs develop a more formal view of their business; b) a shift of businesses from income-supplement and growth-oriented to more established due to the ability to purchase inputs and equipment more rapidly due to credit; and c) growth in business income, and to a lesser degree sales and customers⁸.

The movement from income supplement to growth oriented business and from growth-oriented to established business should be reflected in the hours devoted by the entrepreneur to her/his business and the contribution of the business to the household income. Increases in business income, sales and customers are gauged by a comparison between reported changes by entrepreneurs prior to participating in the program to changes reported after participating. I turn to a consideration of empirical evidence from the loan applications. Initially, I use data obtained from the 325 loan applications that have been approved and for which loans were disbursed. Then I explore the sample of 48 businesses to secure a more detailed understanding of business change. In turning to the sample, I first provide a comparison to overall data to provide the reader with an understanding of the representativeness of the sample to the overall population.

⁸A growth in business income is expected if the business grows and takes on a more important role in the household. Sales and customers would also be expected to grow although this growth may be limited to the reliance upon local markets demonstrated in the previous section.

Participation in Working Capital

The Lawrence-Working Capital program got under way in July, 1992. At the time the data for this research were collected, the longest running loan groups had barely exceeded 2 years. While businesses in the data set varied in their tenure with Working Capital, no business had been involved for much longer than the two years.

Table 2: Distribution of Loan Applications by Sequence Disbursed

	Number of Loans Disbursed	Percentage of Loans Disbursed
First Loan	170	52%
Second Loan	94	29%
Third Loan	50	15%
Fourth Loan	11	3%
Fifth Loan	0	0%
Total	325	100%

Source: Working Capital Loan Department
N=325 loans approved and disbursed between July, 1992 - December, 1994

Since its inception the Lawrence Minority Business Council has disbursed a total of 325 loans⁹ to 170 participating businesses. This accounts for 26.2% of all Working Capital loans. The table above provides a breakdown of the total loans disbursed in Lawrence by loan level. As can be expected, a majority of all loans (52%) are first loans. A considerably smaller percentage of the 325 loans are second (29%) and third (15%) loans. Fourth loans account for 3% of all loans. The first businesses to reach the fourth loan level applied in August of 1994.

⁹This refer to all the loans processed through the end of December, 1994 at which time these data were collected.

Table 3: Breakdown of Businesses Submitting Applications by Loan Level

	Number of All Businesses	Percentage Of All Businesses
Loan 1	76	45%
Loan 1 & 2	44	26%
Loan 1,2,3	39	23%
Loan 1,2,3,4	11	6%
Total	170	100%

Source: Working Capital Loan Department

N= 170 businesses submitting loan applications during the period of July, 1992 - December, 1994.

That more than half the loans disbursed in the first two years of the program were first loans is not surprising. However, table 2 does not give information on the percentages of businesses that are progressing through the program to higher loan levels. Table 2 presents the percentages of participating businesses reaching each loan level. A significant percentage (45%) have received only a first loan, 26% of all businesses have received only a first and second loan, 23% of all businesses have received a first, second and third loan and 6% of businesses have received a first, second, third and fourth loan from Working Capital.

The largest category of businesses is those that have only received a first loan. In the first 30 months (July 1992-December 1994) loan groups disbursed 325 loans. Business debt through Working Capital typically must be paid within 4 - 6 months for a first loan, 4 - 12 months for a second loan, 4 -18 months for a third loan and 4 - 24 months for a fourth loan. While repayment terms may vary based upon group by-laws¹⁰, most groups use the standard loan terms (Tan, 1995). If these loans were equally distributed each month for thirty months, then one might expect less than 45% of businesses would have only received a first loan. This high percentage of first loans only can either be attributed to a large influx of new participants in the last 6 months of this period, a substantial drop-out rate of businesses after the first loan or long lag periods between loans.

¹⁰Each loan group prepares by-laws that govern repayment terms within this period.

However, only 10 first loans¹¹ were disbursed during the last 6 months of this period accounting for only 3% of all applications. Thus, a fairly high percentage of businesses have either left the program after the first loan or chosen to wait before applying for a second loan.

Borrowers often utilize the full loan term. A typical third loan applicant or fourth loan applicant will have participated in the program at least one and a half years or two years, respectively. Despite the short program tenure, a significant percentage of businesses have already reached the higher loan levels. Almost 30% of all businesses in the program have reached either the third loan level or the fourth loan level. This may indicate that a significant percentage of businesses that continue with the program to the second loan level will also continue on to the third and fourth loans. The first loan level may play a role of weeding out of businesses not likely to continue on.

Distribution of Business Type at each Loan Level

To understand better the type of business that continues with the program to higher loan levels, I categorized the loan applications by business type. Because the data for business type were not previously available at the second, third and fourth loan levels, I use the type of business specified on the first loan application to track each businesses across loan levels. This is based upon the assumption that the business remains the same at different loan levels. Nevertheless, these data must be read with caution because, as the previous chapter describes, businesses do evolve and change activities over time.

¹¹This information was obtained from the 48 loan applications in the sample (August 1994 - December 1994) period.

**Table 4: Percentages Of Loans By Business Type
At Each Loan Level***

	Loan 1	Loan 2	Loan 3	Loan 4
Wholesale	2%	2%	0%	0%
Retail	39%	42%	44%	40%
Production	8%	2%	8%	0%
Service	15%	15%	11%	20%
Other	3%	2%	3%	0%
Combination	34%	37%	33%	40%
Total	100%	100%	100%	100%

Source: Working Capital Loan Department - Data on All Loan Applications

*This table refers to business type declared on the first loan application.

N=325 loans

The breakdown of loans by business type is fairly consistent across the first three loan levels but changes slightly for the fourth loan level. I would have expected the distribution to be more consistent at the higher loan levels because of the high percentage of entrepreneurs that do not continue directly after the first loans. Retail accounts for the highest percentage (40%) at each loan level including the fourth loan level. Combination businesses are the second largest category ranging from 33% to 40%. However, the percentage of fourth loans to service businesses (20%) is higher than the percentages at previous loan levels. Although because only 10 fourth loans have been disbursed, it is not possible to draw too many conclusions from this increase.

Loans to production-only businesses account for a small percentage of the total loans disbursed. Based upon my qualitative research and a review of applications for a sample of businesses, I believe that many of the loans captured in the combination category are loans to retail/production businesses. These businesses are those that manufacture a product for sale to individual customers. The low percentage of loans to production-only businesses reflects that a small percentage of loans is disbursed to businesses that produce inputs to other industries. Thus, while connections with other businesses are frequent among

borrowers, these connection do not represent the backward linkages in which businesses serve as suppliers and markets for other businesses.

Business Size in Terms of Hours Worked by Entrepreneur

The Working Capital loan department uses hours worked per week by the owner as a means of defining business size. This schema separates participating businesses into three main groups: very small, medium and large.¹² According to this framework, very small businesses are defined as those in which the owner works less than 20 hours, medium are those with 20-35 hours worked, and the large category includes businesses in which the owner works more than 35 hours.

According to the information through my interviews, while hours may vary given other household needs, generally entrepreneurs with income-supplement businesses tend to dedicate less hours to their business than those in other categories. Thus, the influence of the program in formalizing entrepreneur's attitudes towards the business will be reflected in the change of hours worked over time. Businesses moving from an income-supplement stage to a growth-oriented stage can be expected to have increased hours devoted to the firm.

Table 5: Distribution Of Overall Program Loans To Businesses By Size Of Business

Less than 20 Hours	30%
20 - 35 Hours	40%
More than 40 Hours	30%

Source: Working Capital Loan Department - Data on All Loan Applications
N=325 loans

¹²The loan department actually uses the terms: very small, medium small and small. For the purposes of clarity, I changed these categories to very small, medium and large.

Loan applicants specify the number of hours per week worked by the owner in the business. An analysis of data obtained from all loan applications shows that the Lawrence-Working Capital program disburses 30% of all loans to businesses in which the owner works less than 20 hours, 40% of all loans to businesses in which the owner works between 20 - 35 hours per week and 30% of all loans to businesses in which the owner works more than 40 hours (refer to Table 5).

Table 6: Loans To Businesses By Size Of Business At Each Loan Level

	Loan 1	Loan 2	Loan 3	Loan 4
Less than 20 Hours	28%	32%	33%	30%
20 - 35 Hours	41%	41%	39%	30%
More than 40 Hours	30%	27%	28%	40%

Source: Working Capital Loan Department - Data on All Loan Applications
N=325 loans

By comparing hours worked reported on loan applications 1-4 (Table 6), it is possible to draw some conclusions about the differences in business size at each stage of the program. For loan levels 1-3, the largest category (approximately 40%) of hours worked is businesses in which the owner reports working 20-35 hours (medium). At loan level 1, the second highest percentage of applications received are from large businesses (30%) with the smallest percentage of applications from very small businesses. The 2nd and 3rd loan levels show a slightly different picture with the second highest percentage of loan applications submitted by very small businesses and fewer by large enterprises. The applications are distributed similarly between these two categories. The fourth loans differ considerably with 40% of all loan applications submitted by large businesses and 30% for both very small and medium businesses.

The percentage of loans to businesses is similar across the first three loan levels implying that business size may not be a factor in whether a business

owner moves from the \$500 to the \$1,000 and \$1,500 loans. However, the businesses that progress in the program moving to the fourth loan for \$3,000 are more likely by this definition to be the large businesses than medium or very small.

Business Type and Size

How does the type of business activity affect the amount of time an owner dedicates to the firm? Comparing the data obtained on loan applications for different business size and type offers some additional insights.

Table 7: Distribution of Size of Business on Loan Application By Type

	Less than 20 Hours	20 - 35 Hours	More than 35 Hours	
Wholesale	50%	25%	25%	100%
Retail	36%	50%	14%	100%
Production	32%	37%	32%	100%
Service	29%	21%	50%	100%
Other	43%	14%	43%	100%
Combination	21%	42%	37%	100%

Source: Working Capital Loan Department - Data on All Loan Applications
N=325 loans

While retail accounts for the highest percentages of business in the program, these businesses tend to be concentrated in the small and medium categories. In only 14% of all retail establishments, the owner works 35 or more hours of work per week. Service businesses tend to be larger with 50% of all service establishments essentially full-time ventures for the owners (more than 35 hours). Combination businesses have similar percentages in the medium and large categories. Interestingly enough, production businesses are fairly evenly distributed among business size. Given the up-front expenditures usually required for production-based businesses, one would expect these businesses to be primarily full-time.

Change in Business Type While Participating in Working Capital

When making the previous comparisons according to business type, I relied entirely upon information provided on the first loan application. Because of the data limitations, I made the assumption that those entrepreneurs specifying their business type on the first loan application continued to operate the same type of business throughout. However, this assumption is somewhat tricky. In Chapter III, I described how businesses evolve and change over time by adding new activities and dropping old activities. To try to understand how businesses may change their activities over time, I tracked those businesses at the fourth loan level to determine changes in business specification from the first loan application.

Businesses at the fourth loan level all applied after August, 1994 when Working Capital instated a new standardized loan application that requires borrowers to specify their business type at *each* loan level. Because no business had reached the fourth loan level prior to August, I was able to draw a comparison for the entire population of fourth loan applicants to the first application for each of these businesses.

**Table 8: Comparison Between Stated Business Type
From First Loan to Fourth Loan***

	Type of Business Declared On 1st Loan Application	Type of Business Declared On Fourth Loan Application
Wholesale	0%	0%
Retail	40%	20%
Production	0%	20%
Service	20%	50%
Other	0%	0%
Combination	40%	10%

Source: Working Capital Loan Department

* Universe: Fourth Loan Applicants

N=10

Results from the fourth loan application show a significant change in business activities reported from the first loan application to that specified on the

fourth. For example, 50% of applicants classified their business as service on their fourth loan application compared to 20% of the same group of applicants on the first loan. While not one business was classified as production on the first loan application, 20% of entrepreneurs considered their business to be production on the fourth application. The percentage of applicants that defined their business as retail dropped from 40% to 20% and as combination from 40% to 10%.

I would have expected that as businesses grew and progressed they would tend to diversify activities yet these data show businesses focusing activities instead. Thus, the generation of new activities described in the previous chapter may ultimately result in the concentration on those activities that provide the most stable source of income for the household. This is consistent in the increased percentage of service activities and the decline in retail. It is important to caution the reader that these data are only obtained from the 10 businesses that have made it to the fourth loan level. While I hesitate to draw too many conclusions from this shifting of business definition, this should continue to be monitored.

SAMPLE OF BUSINESSES

While much can be learned from interpreting overall program statistics, there are certain variables that are not consistently available throughout the various loan applications. For this reason, I decided to focus on a sub-set of the overall population discussed above in order to draw out more specifics about the business, the impressions from business owners regarding their current business and the changes in their overall business performance (for those having received at least one loan) since participating in Working Capital.

The sample is drawn from the 48 businesses submitting loan applications in the period from August, 1994 - December, 1994. The reason I use these 48 businesses is 1) the present loan application contains more detailed questions about the goals and operation of the business, purpose of the loan and projected revenues and costs of the business; and 2) this group is comprised of the most recent borrowers.

I recognize that this group is not in a statistical sense representative of the whole population of loan applications. Below I outline some differences between the sample and population. Despite these differences, the sample provides an opportunity to compare changes to businesses remaining in the program. This section first describes the sample and then analyzes changes in business size and contribution of the business to household income from first loans to most recent loans. Finally, I trace the reported changes in business income, sales and customers during the 6 month period prior to the loan for the first and most recent loans to provide a contrast of the percentage of businesses reporting changes prior to starting the program to the percentage after having participated in the program.

Description of Sample Businesses

The sample is 48 businesses applying for the most recent loan in the period between August and December, 1994. The group is comprised of businesses applying for loans 1-4. This section will first briefly describe the break-down of sample in terms of loan level, tenure and business type.

**Table 9: Breakdown Of Sample Loan Applications
Submitted In The Period
August-December 1994 By Loan Level**

	Number of Applications at each loan level	Percentage of Applications at each loan level
Loan 1	10	20%
Loan 2	14	29%
Loan 3	13	27%
Loan 4	11	23%
Loan 5	0	0%
	48	100%

Source: Working Capital Loan Department
N=48 applications

In this sample, businesses were fairly evenly distributed across the four loan levels. The highest percentage of businesses (29%) were applying for the second loan with 27% of businesses applying for third loans and 23% applying for fourth loans.

Tenure

Working Capital normally targets its services to existing businesses rather than to start-ups. Unlike other micro-enterprise assistance programs that try to reach any individual with business ideas, Working Capital tends to focus on businesses that are at least semi-operational. Thus, most of the businesses have been in operation prior to joining the program. Nelson Quintero, LMBC Director states that a typical borrower has little or no *formal* business experience. He estimates that about 1/2 the businesses just have a business idea when they come to the program. The other 1/2 had a business previously. Nonetheless, in this sample 61% of respondents indicated 4-10 years experience in this type of business.

Business Type of Sample Businesses

The sample is comprised predominantly of retail businesses (42%). Service businesses account for 25% of all loan applications with combination businesses accounting for 23% and production-only businesses for 8%.

**Table 10: Distribution of 48 Loan Applications
By Business Type**

Type	Percentage
Wholesale	0%
Retail	42%
Production	8%
Service	25%
Other	2%
Combination	23%

Source: Working Capital Loan Department
N=48 Loan Applications

COMPARISON OF SAMPLE TO OVERALL POPULATION

Business Size

The sample of 48 businesses applying for loans since August is larger in measured hours worked by the owner than the overall Lawrence data. Overall data show the program disbursed 40% of loans to medium businesses and 30% to very small and large enterprises. In the months between August and December, 1994 loan groups approved 52% of all loans to medium businesses with 30% to large enterprises and only 18% to the very small businesses.

**Table 11: Distribution Of Both Overall
And Sample Businesses By Size**

Size	Percentage of Loan Applications from Overall Data*	Percentage of Loan Applications from Sample of 48 Businesses**
Very Small (< 20 hrs)	30%	18%
Medium (20-34 hrs)	40%	52%
Large (> 35 hrs)	30%	30%

Source: Working Capital Loan Application Data

* N = 270 out of 325

**N=48

This is consistent with previous findings that businesses at higher loan levels tend to be larger than those at lower loan levels. The overall data are weighted more toward 1st loans while the sample data are weighted against first loans. Other possible explanations for the higher percentages of loans to medium businesses for the most recent loans include: permanent shifts by entrepreneurs to devoting more hours to their business, temporary shifts to more hours worked due to seasonal demands, less efficiency in the business requiring greater attention by the entrepreneur. The latter seems the least likely explanation because entrepreneurs have overwhelmingly reported increases in sales, income and customers.¹³ The second explanation may partially account for the increase because the sample period includes the month of December the busiest month for many businesses, particularly retail. Nonetheless, a review of application dates reveals that less than 15% of businesses applied for loans during the month of December. Therefore, if the sample is representative of current program trends, a higher percentage of large businesses (with more hours worked by the owner) are applying for and receiving loans now than previously. This trend towards larger businesses may be accounted for by larger new entrants, the tendency for those businesses that remain in the program to be large, and growth in business size while participating.

Individual Business Change

In this section, I trace changes in the business performance of the sample businesses over time by comparing responses made on the first loan application with the most recent application for those businesses having previously applied for loans. Of the 48 respondents, data were available for only 26 of the businesses in the sample. This section looks at changes in this subsample of business over time and provides some information on whether and how this program helps in the performance of businesses.

¹³The following section presents a detailed presentation of this information.

Business Size

A crucial question in measuring program impact on businesses is determining whether businesses have grown while participating in the program. In comparing the current business size of sample businesses to that reported in first loan application, I again looked at numbers of hours reportedly worked by owners. I found that the percentage of businesses in both the first category of very small and medium businesses declined slightly while the category including the largest businesses increased by three percentage points. This indicates a slight rise in business size during participation in the program. Individual businesses experienced some growth in hours dedicated to the business during this period.

Table 12: Comparison Of Hours Worked By Owner In Business Between First And Most Recent Loan

	First Loan Percentages	Most Recent Loan Percentages
Total # of Responses		
< 20 hours	19%	18%
20 - 35 hours	54%	52%
> 35 hours	27%	30%

Source: Working Capital Loan Department
N=26 businesses applying for loans within the period of August - December, 1994
for whom previous loan information was available.

Additional measures of Business Change

That the number of hours worked by owners increased slightly may indicate a growth in business activity and therefore overall growth of the business, but only looking at hours worked is not sufficient. As indicated previously, long hours worked may also be an indication of inefficiency in operation or the devotion of a greater time commitment for decreasing returns. Therefore, I chose to look at how this change in business hours is reflected in terms of building a sustainable source of income for the owner and the household. One available measure is the contribution of the business to the household income. This measure is useful in determining the importance of the

business to supporting the household. I compare changes in the contribution of the business to household from the first loan application to the most recent application.

I recognize that using this measure without a concurrent figure for the actual change in household income may provide an incomplete picture of business performance. For example, a business that contributes the same amount to a household whose income drops during the loan period would register an increase in the contribution of the business. Due to data limitations, I am unable to accurately determine figures for business or household incomes during the loan period. Or many growth-oriented businesses will draw little upon the business for living expenses and salaries to maximize re-investment and therefore these growth businesses may not be captured in the short-term by this measure. Nonetheless this measure can offer insights into the role the business plays within the household and, when combined with the entrepreneur's impression of business changes in the following section, provide information on the importance of the business to the household.

Contribution of Business to Household Income

The loan application asks entrepreneurs to specify the contribution that the business makes to household income by selecting one of five categories: hardly any, one quarter, one half, three quarters and almost all.

Table 13: Contribution of Business to Household Income as Reported on the Most Recent Loan Applications For Sample Businesses with More than 1 Loan

Contribution to HH Income	Percentages of Business
Hardly Any	27%
One Quarter	27%
One Half	16%
Three Quarters	7%
Almost All	23%

Source: Working Capital Loan Department
 N=26 businesses applying for loans within the period of August - December, 1994
 for whom previous loan information was available.

Table 13 provides a break-down from the most recent loan applications of those 26 businesses for which previous loan information is available. This is to provide an idea of the current distribution of businesses in each category. Thus, 27% of businesses¹⁴ in the sample that previously applied for loans indicated that they derived hardly any income. Another 27% of businesses derived one quarter of their income from the business. 23% of those sampled indicated their business provided almost all their household income. By comparing the responses of applicants for the first loan to the responses of the same applicants for their most recent loan I was able to construct an idea for how businesses have changed in their importance to participating households.

¹⁴Because I refer to a sample in which no business is repeated in this section, I discuss changes to *businesses* not applicants.

**Table 14: Comparison in Business Contribution
to Household Income for Sample Businesses
Between First Loan and Most Recent Loan**
Most Recent Loan

		Hardly Any	One Quarter	One half	Three Quarters	All	Total
First Loan	Hardly Any	2	3			2	7
	One Quarter	1	2	1	1	2	7
	One half			1		1	2
	Three Quarters		2	1	1		4
	All	1		2			3
	Total	4	7	5	2	5	23

Source: Working Capital Loan Department

N=26 businesses applying for loans within the period of August - December, 1994
for whom previous loan information was available.

Two businesses that had previously reported hardly any income on the first application were in the same situation while 3 increased to one-quarter the income and two to all. The biggest categories of businesses on the first application were those reporting hardly any and one quarter their income. On the most recent application the biggest category is one-quarter followed by the one-half and all categories. However, 3 out of the 5 reporting one-half on this application had previously earned three-quarters to all their income from the business. No business that currently generates all its household income from the business had been in this position when entering the program.

The table shows a fair number of businesses shifting between categories. Businesses providing all household income at the time of the first loan application dropped down to providing either hardly any or one-half the households' income. Simultaneously, businesses previously reporting little or no contribution increased to providing all household income.

Because this indicator is influenced by changes in other income-generating activities available to the household, it is important to interpret this in conjunction with other variables to attempt to determine how the business has

changed. For this reason, this variable should be considered in light of responses from entrepreneurs regarding whether the business income grew or decline during this period. Those businesses with high reliance upon the business to support the household will likely be more affected by changes in business income, sales and customers.

Attitudes by Entrepreneurs Regarding Business Change

As part of the loan applications, entrepreneurs were asked to provide information on changes they had experienced in their businesses in the preceding 6 months in terms of sales, business income and customers. Almost all businesses indicated that their businesses had grown in sales, income and clients during the 6 months prior to applying for the loan.¹⁵ In general, businesses gained in clients, sales, business income and hours worked.

Business Income

A higher percentage of businesses report an increased income in the 6 months prior to their most recent application than in the six months prior to the first loan application. 33% of respondents reported earning much more income in the 6 months prior to their most recent application compared with only 24% reported earning *much more* income in the 6 months prior to their first loan application. 41% of the businesses fell into the category of earning *more* (but not much more) income on their most recent application compared to 43% reporting *more* on their first application. Together, this shows that 74% of businesses increased their incomes in the 6 months prior to the most recent application compared to 67% reporting increases in income prior to the first loan application.

¹⁵In the past this information was solicited only on the first loan application. Therefore, it is not possible to look at changes occurring as a result of participation in the program. The Working Capital program now uses a standard loan application for each of the loan levels. Again, the best analysis possible with the data is the comparison from first to most recent loans. This will provide a basis for examining trends in the future.

**Table 15: Comparison Between Reported Change
In Business Income In The 6 Months Prior
To First And Most Recent Loan For
Sample Businesses With More Than One Loan**

	First Loan	Most Recent Loan
Much More	24%	33%
More	43%	41%
Same	33%	26%
Less	0%	0%
Much Less	0%	0%

Source: Working Capital Loan Department
N=26 businesses applying for loans within the period of August - December, 1994
for whom previous loan information was available.

Sales

Both the first and the most recent loan applications showed that 33% of entrepreneurs reported much more sales in the preceding 6 months. However, 48% of respondents on the most recent application marked *more* sales (but not much more) compared to 29% on the first application. Combined 81% reported more or much more sales on the most recent application while only 62% of all respondents reported more or much more sales on the first loan application. 10% of businesses reported less sales prior to their first loan compared to 4% reporting less sales on the most recent application.

**Table 16: Comparison Between Reported Change
In Sales In The 6 Months Prior
To First And Most Recent Loan For
Sample Businesses With More Than One Loan**

	First Loan	Most Recent Loan
Much More	33%	33%
More	29%	48%
Same	29%	15%
Fewer	10%	4%
Much Fewer	0%	0%

Source: Working Capital Loan Department
N=26 businesses applying for loans within the period of August - December, 1994
for whom previous loan information was available.

Interestingly enough, 10% of respondents on the first loan application and 4% on the most recent application indicated fewer sales, yet no respondent specified decreased business income. This may result from efforts taken by entrepreneurs to minimize costs through the various cooperative techniques outlined in the previous chapter. Thus, despite fewer sales, entrepreneurs may still report the same or more income.

Clients

Entrepreneurs were asked to report how their customers had changed in the 6 month period prior to the application. On the first loan application, 29% of the respondents stated they had obtained many more customers in the preceding 6 months while 56% of the sample stated they obtained many more customers on the most recent loan application. 40% of businesses reported more (but not many more) customers on their most recent application compared to 33% on the first loan application.

Table 17: Comparison Between Reported Change In Customers In The 6 Months Prior To First And Most Recent Loan For Sample Businesses With More Than One Loan

	First Loan	Most Recent Loan
Many More	29%	50%
More	33%	40%
Same	33%	10%
Fewer	5%	0%
Many Fewer	0%	0%

Source: Working Capital Loan Department
 N=26 businesses applying for loans within the period of August - December, 1994
 for whom previous loan information was available.

EMPLOYMENT AND JOB CREATION

In sample businesses, there are four full-time positions and six part-time positions in addition to the owner's employment. In addition, eleven businesses reported that the owner used this as full-time employment. This essentially means that through the assistance of 48 businesses, 15 full-time jobs are

supported and 6 part-time jobs. Although the 48 businesses are not necessarily representative of all borrowers because the sample is weighted against first loans, they may provide some indication for those businesses that continue with the program. If these figures are extrapolated to the 170 businesses participating in Working Capital in Lawrence, as many as 50 full-time jobs and twenty part-time positions may be supported. Ten entrepreneurs derived almost all their income from the business. When this figure is applied to the whole program, an estimated 33.3 households are fully supported by businesses assisted through the program. The ability for Working Capital to reach scale in a cost-effective manner may ultimately create greater opportunities for employment than other more costly programs.

SUMMARY OF DATA PRESENTED

The data have proven somewhat equivocal in explaining what changes have occurred in individual businesses. Data from the overall population and the sample of the 48 most recent applicants show slight increases in both business size and the contribution of business to the household particularly at the higher loan levels. The largest proportion of businesses participating in the program are medium businesses defined as those enterprises in which the owners devote 20 - 35 hours per week. Businesses are predominantly classified as retail, and they are heavily concentrated in the very small and medium categories.

Percentages of businesses that progress through the higher loan levels remain fairly consistent through the first three loan levels. Fourth loans have been disbursed at slightly higher proportions to larger businesses, more concentrated in service or combination business than at the other loan levels. The group of businesses reaching the higher loan levels not initially only had slightly higher percentages in the more stable service sector industries but also

experienced an increase in percentage of businesses classifying their businesses as service on the fourth loan application.

In comparing the sample of businesses from the first to the most recent loan applications, slight increases in business size and contribution to income appear. The percentage of large businesses increases by three percentage points while the percentage of small and medium businesses declines. In addition, the numbers of those businesses fully supporting the household increased from 3 to 5 businesses, although these are different businesses.

Ultimately, in the absence of more conclusive data on income or sales levels for businesses, the best indicator may be the impressions of business owners as to how their business has progressed. Large percentages of businesses report increases in sales, clients and customers on both the first and most recent loan applications. However, the percentages of businesses reporting more and particularly much more is greater for the most recent loan applications than the first loan. This indicates a greater percentage of businesses with growth in sales, customers and income.

While businesses have primarily targeted a local market, a not insignificant percentage (39%) have expanded beyond the local market to reach external markets. The ability for businesses to continue to reach these external markets may depend upon the strengths of the networks they are able to establish.

ROLE OF WORKING CAPITAL

According to the data provided here businesses have grown in terms of hours worked by the owner. In general, business owners also indicate that they feel as though their clients, sales and business income have grown in the six

month period prior to the application. In personal interviews with entrepreneurs, many indicated that changes in their business is both directly and indirectly attributable to their participation in Working Capital. Those businesses that had reached higher loan levels of \$1,500 and \$3,000 emphasized the direct assistance from the program in terms of purchase of equipment, investments in advertising and/or materials that enhanced productivity and markets. Those entrepreneurs at lower loan levels found the assistance provided in terms of capital to be somewhat negligible.

Many entrepreneurs pointed out that Working Capital had provided a stimulus to businesses to grow more through the support it offers to business people than through the actual loans. Miguel, the owner of a music academy, outlined his many expenses and the list of priorities for investment that would really help to build his business. This list included primarily advertising and marketing but also included the purchase of new equipment. In all the list totaled over \$11,000. At the second loan level, Miguel explained that \$1,000 is too small to even make a dent in these needs. On the other hand, Working Capital was important in what he described as the “stimulus” it provides to entrepreneurs. He explains:

People have all sorts of ideas to start businesses but economically things are always so difficult. It is so hard to get a business going that it kills the enthusiasm in the entrepreneur. Small businesses face endless numbers of obstacles to get started, to grow and to build a lasting business. This takes a toll on the morale of the entrepreneur. The good thing about this program is that it is a small way of giving back that stimulus and encouraging the business owner to continue on his/her way.

Other entrepreneurs see the low loan levels and stepped process as providing an opportunity for the business owner to consider how to invest each loan. This allows for the higher level loans to be maximized in terms of

enhancing business productivity. One entrepreneur indicated had he started with a \$3,000 or \$5,000 loan initially, he would not have known the best way to use it. Now he plans out how each loan will be used to grow the business.

One problem has been the difficulty in actually measuring this through the data provided. Because the loan application has changed over time and different applications has been used at each loan level, the ability to measure such tangibles as business income has been quite difficult. I believe this problem will be remedied to some extent by the introduction of a new, standardized loan application. However, I believe a few more steps could be taken to ensure accurate and consistent data. For example, annual sales could be used as a measure of business size. Sales figures could therefore be easily compared against hours worked by the owner to determine whether increases in time devoted to the business actually translate into business growth. The measurement of net business income will also be useful as a measure to compare with contribution of business to the household. This would provide a means of factoring out other reasons for increased contribution such as job loss and decreased household income. The new standardized loan application will provide a more useful tool since the same variables may be measured across the loan levels.

SUMMARY AND CONCLUSIONS

The introduction of the Working Capital-Lawrence program has offered credit in a format familiar to many entrepreneurs. The peer loan groups resembled the purchasing pools previously utilized for consumer credit. In addition, several entrepreneurs were familiar with similar micro-loan programs from the Dominican Republic where credit programs targeting informal sector businesses had been operating since the 1970's.

The impact that this program has had on the broader community is manifest personally, economically and institutionally. What has been accomplished within a short period of time is the formation and growth of a truly representative community organization that promotes and supports entrepreneurs. Latino business owners have obtained visibility and a voice in City affairs. In addition, the overall image of the community, self-esteem and attitudes of business owners towards themselves and their businesses have increased through participation in the program.

The empirical data show a more equivocal picture. As described above, conclusions about business changes are complicated by data limitations and the limited tenure of the program. Business size and contribution to income are slightly higher at higher loan levels with a greater concentration in the more stable service sector. This may result from either 1) larger businesses continuing in the program to higher loan levels; and/or 2) individual businesses growth during the program. The comparison between business type at first loan and fourth loan for those businesses reaching the fourth loan level indicate some changes occurring for individual businesses. Impressionistic information obtained from businesses indicates a high percentage of businesses that experience growth in customers, sales and income both prior to and during the program.

Chapter V

Conclusions and Recommendations

Prior to initiating the Mt. Auburn Associates evaluation of Working Capital in 1993, Peter Kwass admits he "felt considerable skepticism about the idea of peer lending. The stereotype of the American entrepreneur as individualist seemed to contradict the whole idea of a peer group process. While for some, this may be true. There is a certain type of person that does benefit from this peer experience." A review of studies of several enclave economies demonstrate that success in building ownership and economic opportunity in communities have occurred through collective business development drawing upon community or "ethnic" resources. These resources observed in enclave economies generate high levels of integration among businesses that strengthen internal markets and access to external markets, cooperative arrangements that enhance productivity and information sharing.

Traditional business development strategies in low-wealth communities have focused primarily on enhancing factor inputs by providing capital and entrepreneurial training to "atomistic" individual small firms. Literature on enclave economies examine the role that linkages and interaction of businesses play in generating economic opportunities for certain "successful" communities.

Working Capital affiliates use credit as a means to organize businesses into collaborative networks. When I set out to study the Working Capital loan program in Lawrence, my primary goal was to determine the extent to which the peer-lending model generated linkages and networks among micro-businesses in Lawrence with "economic multiplier effects" in the community. I asked the question how has this group-based program helped very small businesses to

come into contact, share information and establish connections that extend benefits beyond the benefit of an individual loan.

Through this research, I have found repeated examples of productive interactions among micro-businesses. This interaction, however, seemed to precede the establishment of the program. In fact, the business interaction may be one of the reasons for which the program has taken off so dramatically within this community. The tapping in to the informal networks of businesses helped to generate high participation rates with entrepreneurs acting as program recruiters among friends, co-workers and families. The extensive interaction of businesses prior to the inception of the Lawrence program helped the program grow at the pace it did making it the largest affiliated program in Working Capital and accounting for more than a quarter of all loans disbursed. Thus, contrary to my original hypothesis, that networking was an impact of the program, I found interaction of businesses provided the proper conditions for high participation rates and successful recruitment.

The minority business community in Lawrence is in many ways a thriving entrepreneurial community where low-income households have developed alternate means of generating income through commerce, production and provision of services in the local economy. These economic activities range from retail sales to clothing manufacturers to electronics and auto repair services. However, the extent to which these activities are able to support a household and provide the opportunities for future economic gain both for the household and the community is debatable.

There is tremendous heterogeneity not only in the types of activities but in the attitudes of entrepreneurs and the prospects for growth. In Chapter III, I outline a typology of three types of businesses: the income-supplement, growth-oriented and established entrepreneur. Drawing upon this typology and using

business size as the determinant for categorizing each business, most businesses seem to fall within the income supplement and growth-oriented category of businesses.

The largest percentage of businesses are concentrated in the retail sector. This sector has a greater tendency towards income supplement than firms in other sectors. Other sectors such as service and production are more likely to be either growth-oriented or established. The time and resources required for these businesses may influence this orientation.

As a result of participating in the program, many business owners have changed the manner with which they view their business from an income-supplement to a more growth-oriented strategy. This is supported most definitively through the qualitative research in which program participants describe the evolution of their vision for their business to a more permanent enterprise. While some entrepreneurs have clearly taken steps that lead to the establishment of the business as a full-time venture, others express gradually adopting different practices such as the separation from business accounts from household accounts, the decrease in “consuming” profits and the generation of cost reduction strategies.

The formalizing role of Working Capital helps businesses move from one stage to the next. While this is clearly evident in the qualitative findings, it is also reflected in the loan data. The data show some increases in percentages of businesses that move from the very small to medium size business over the period of participation in the program. Business size (in terms of hours worked) and contribution to income are slightly higher at the third and fourth loan levels with higher percentages of large businesses at the fourth loan level. The types of businesses at higher loan levels tend to be concentrated in the larger, more stable service sector. This is due in part to the continuation of those businesses starting

out as service businesses through the program to higher loan levels. However, there is also evidence that businesses evolve during their tenure in the program into service sector businesses.

The growth as reflected in the loan data is not dramatic. While the program provides an emphasis for entrepreneurs to grow their businesses, opportunities for growth may ultimately be constrained by limited local markets. Entrepreneurs operate within an extensive network of collaboration designed to minimize the cost of doing business and provide shared knowledge of the industry. This interaction has influenced the start-up of businesses, the movement of businesses into new products and services and the strengthening of supply lines to the business. However, the concentration of businesses primarily in retail and service industries that generate few linkage opportunities with other local businesses, diminish the potential for strengthening internal markets. In addition, a strong reliance upon local markets for customers limit opportunities to exploit external markets.

Current networks benefit many of the part-time, home-based businesses retail activities. These arrangements provide an important foundation for the future. Cooperative production strategies are already in place revealing a culture of trust and cooperation that is believed to be integral to successful, enclave economies of the Cuban and Asian communities in the U.S. and the flexible- specialized economies of Northern Italy and Brazil. Cooperation has been strengthened through the loan group interaction and the reliance upon each business. However, they alone will not promote the expansion of the many businesses into fully-supporting growing enterprises. The networks while fairly well-established are limited to assisting tiny businesses to reduce costs slightly. The majority of businesses are based in re-selling locally, products that are manufactured outside the community. These local markets draw upon friends and relations as primary consumers and may not prove sufficient to expanding

businesses. By redirecting activities toward building and strengthening external markets, not only these businesses but the whole economy could benefit.

Credit and business interaction strategies of Working Capital have solidified existing business activities somewhat. The majority of owners believe business sales and incomes have increased during their participation in the program. However, more strategic growth oriented strategies will be necessary to build up an enclave economy. Future program development should target those activities that bridge into mainstream markets or solidify internal markets both among businesses and with local consumers.

The challenge of the Minority Business Council in carrying out the Lawrence-Working Capital program will be to help businesses target external markets, continue to diversify products and services and continue to strengthen the core networks and cooperation within the community.

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