

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

by

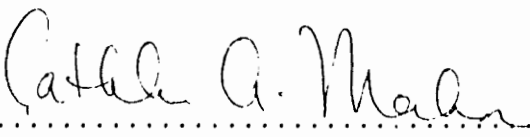
Cathleen A. Mahon
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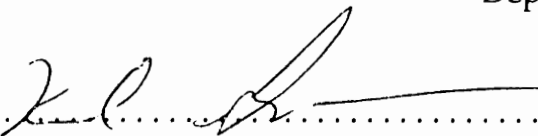
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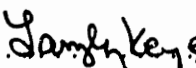
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Cathleen A. Mahon

Submitted to the Department of Urban Studies and Planning
on May 25, 1995 in partial fulfillment of the
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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 re-invent 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.