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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