ABSTRACT: Working Capital is the United States’ largest peer-group lending program. This article reviews what Working Capital has learned about the market, its customers, program impact, and service delivery over its ten year history. It presents a model for understanding how participating in peer lending groups develops “social and economic capital” in poor communities. The article then discusses how participants judge the group model as they identify the characteristics of successful groups and the impact of the group on their businesses, on themselves personally, and on the larger community. The rest of the article discusses how Working Capital evolved from a start-up operation in a single town into a multistate program and explores the advantages and limitations of rapid expansion. A checklist for choosing affiliate partners is presented, along with a list of the lessons learned about delivering services though affiliates.

The article concludes with a discussion of the differences between running a group-lending program in the United States and in a developing country and the implications of Working Capital’s experience for the microfinance industry in the United States. Noting that the hundreds of microenterprise programs in North America are reaching less than seventy thousand businesses, the author makes the case for going back to the customers of these programs to learn from them how to set up a microenter-
Introduction

This article examines the ten-year history of Working Capital, a pioneer in the domestic microenterprise field, a principal advocate of peer-group lending, and one of the largest institutions of its kind in the United States. It reviews what Working Capital learned as it grew from a small start-up microenterprise program into a multistate initiative with national aspirations, and then subsequently scaled back its operations to refocus and rebuild from a more solid base.

It also examines the advantages and drawbacks of building and serving an extensive affiliate network as a strategy for reaching scale. There are, on reflection, very good reasons why most microenterprise programs remain small and localized. The issues of replication, perfecting a methodology, and creating a stable affiliate structure are complex, and hence difficult to pin down. Nevertheless, those who wish to embark on a similar path are invited to learn from Working Capital’s experience.

This article is written to warn an organization of the challenges before it starts, so that it will be more likely to avoid difficulties later on.

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Thus, this article will serve its purpose if it helps practitioners “see around the corner” to better understand the issues they are currently facing or may face in the future.

**Working Capital**

Working Capital began operations in Massachusetts, Vermont, and New Hampshire in 1990–1991 with the objective of serving the owners of very small, often part-time and start-up businesses in low-income communities. Its peer-group lending methodology was adapted from the Latin American programs of FINCA and ACCION International. Two years later, the program expanded to Maine and also began to serve a largely Dominican clientele in Lawrence, Massachusetts, and a largely African-American clientele in Boston, marking the increasingly urban and minority focus of the program.

Then in 1994, Working Capital set up “franchise” programs in Delaware and Florida and three years later in St. Louis, Atlanta, and the Russian Far East. Franchisees purchased the Working Capital package of manuals, curriculums, systems, and software; they were trained and monitored by the Working Capital staff. They operated under the Working Capital name and were considered an integral part of the organization, but used their own loan funds and tracked their loan performance. Of these programs, New Hampshire, Delaware, Atlanta, and Russia have since reorganized themselves as freestanding microenterprise institutions after they severed their ties with Working Capital. The programs in Vermont, Maine, and Missouri closed down for lack of funding and internal problems within the local sponsoring agencies.

Over the years, Working Capital and organizations using the Working Capital methodology have served over five thousand microbusinesses and distributed some four thousand loans. Currently Working Capital is serving 542 businesses in Massachusetts and Rhode Island and
607 businesses in Florida, most members of active loan groups. Of the sites now operating independently, New Hampshire is serving 200 business owners, Atlanta 210, and Delaware 247. In the Russia program, there are currently 129 outstanding loans with 40 to 50 new loans gaining approval each month.

Working Capital also provides training and consulting services to groups interested in using its methodology, manuals, and systems through its “Working Capital Institute.” Organizations in Philadelphia, Los Angeles, Hartford, and Maryland received this training, and Philadelphia, Los Angeles, and Hartford have already initiated peer-lending programs after the Working Capital model.

Working Capital provides a comprehensive package of business services to its customers that include credit, training, and the opportunity to participate in a group of peers for support, advice, customer referrals, joint marketing, and joint venturing. Through its peer-lending program, Working Capital extends credit to self-selected member groups who review and approve each other’s loans, with no secondary review or collateral required by Working Capital. This “radical decentralization of authority” to the groups is a hallmark of the Working Capital methodology and was inspired by FINCA’s village bank model. A high rate of loan repayment is required from all the group’s members to access larger loans, which at above $4,000 also require the approval of program staff and outside advisers.

Over the past year, individual loans have been extended by Working Capital for better established businesses and businesses graduating from the peer groups. All members, both members of groups and individual loan recipients, are required to join local Working Capital business associations, which serve as a source of additional training and further networking.
What Working Capital Learned

Working Capital learned a great deal over the decade about the market, its customers, its impact on its members, and how to best deliver its services. In brief:

The Market and Working Capital’s Customers

• There are a vast number of entrepreneurs in low-income communities. Most of their enterprises are invisible, are often based at home, serve local markets, represent a supplemental source of income, and provide personal fulfillment far beyond what they bring in financially.

• Mainstream services—banks, technical assistance providers, etc.—reach only the larger and more established businesses within this market.

• Working Capital serves business owners that mainstream financial and business training services seldom reach. Most of Working Capital’s customers are start-ups or very small part-time and home-based enterprises, and their owners generally lack business plans and adequate records. Some are not even registered.

• About a third of Working Capital’s customers are at or near the poverty level; close to two-thirds are women; many are middle aged and the single head of household. Working Capital’s services are particularly attractive to city-dwelling minorities and immigrants living in low-income communities.

• While the interest in networking and training cuts across all groups, the demand for business loans from Working Capital is greatest in the Hispanic community, less in the African American community, and least in the non-Hispanic, white community, closely reflecting the availability of credit options for these different groups.
Microfinance in the United States

• Working Capital had little trouble recruiting new members in the early 90s when unemployment was high and institutional credit providers pulled back from poor communities. With current prosperity, credit is much more widely available and there is more competition. Working Capital responded to evolving market conditions by changing its group product, adding individual loans, placing a greater emphasis on marketing, and concentrating its efforts on the best performing sites.

Program Impact

• The average Working Capital customer substantially increased sales, profits and owners’ draw since joining. The percentage of businesses staying in business is also very high.

• The poorest and minorities reap the greatest social and personal benefit from peer lending groups. In these groups, intense networking and support are most likely to “spill over” into increased self-confidence, community involvement, and improved family relations—an observation noted in three evaluations.

• Those members whose businesses are full-time and growing when they join are most likely to expand their businesses further and add employees, but the owners of these businesses also tend to be better off than the average Working Capital customer. There is a tradeoff, then, between substantially increasing sales and profits and creating jobs, and working with poorer and less educated business owners who are seldom interested in business training, or transforming their often part-time enterprises into full-time businesses.

• The bonds created in successful groups often extend beyond their formal membership in Working Capital, and ex-members, now friends, often keep in contact with each other over the years.
• It was initially assumed that a majority of Working Capital businesses would eventually graduate to bank financing, but only about one in fifteen does. The number using supplier credit (and to a lesser degree other credit sources) increased substantially, however, reflecting that of these credit sources better fit this level of enterprise.

• Business owners often join Working Capital for the credit, but they often stay for the networking and support, reflecting the limitations of a “credit only” approach. Only a half to a third of Working Capital members are currently borrowing. Providing nonfinancial services is expensive, making it more difficult to cover program costs.

• Support and mutual assistance—such as customer referrals, business advice, joint marketing, and joint venturing—are most likely to occur in groups with outstanding leadership and if all the members are fully committed to their enterprises. You “get out of a group what you put in it,” most members say.

Service Delivery

• Training and monitoring a peer group is a difficult and long-term task that requires the highest level of skill as marketer, organizer, trainer, facilitator, good parent, and enforcer. All these traits are required for an “Enterprise Agent”—the staff of the local nonprofits responsible for outreach, forming the groups, and supervision—to be effective.

• Although there are exceptions, the best Enterprise Agents are from the community, have their own business, are or have been members of groups, and are fully committed to the program’s social and economic objectives. Most of the best agents so far have been middle-aged minority women with a fierce sense of commitment to their communities, who are not afraid of holding groups accountable for their promises.
The success of a local program depends largely on institutional commitment, leadership, adequate funding, and the quality of the local agent. Of the close to one hundred local affiliates that Working Capital has trained over the years, only a small number have produced most of Working Capital’s customers and loans.

If there is a strong commitment to replicate Working Capital at a new site, staff can be trained within a week, with brief follow-up training sessions over a year, at which point the transfer of technology to the new institution should be largely complete. Replication is facilitated by the fully developed set of manuals, policies, and administrative systems that Working Capital provides.

Despite its undeniable benefits, Working Capital has concluded that microenterprise development is not the “magic bullet” for alleviating poverty, or for moving many from welfare to work, that it hoped for initially. At best, it may be of help to the one in ten in the active labor force who has the interest, commitment, and skills that it takes to build a business. Furthermore, developing microenterprises is not sufficient as a strategy to turn around failing or declining local economies (although a comprehensive business development strategy that includes microenterprises could do so). Local economies grow or decline due to forces largely beyond the influence of microbusiness owners, but participation in a program like Working Capital can provide an alternative and a source of income in a downturn, and open new opportunities when the economy begins to grow.

Carrying out a substantial microenterprise program in this country and sustaining it year after year has proved to be an exceedingly difficult undertaking as evidenced by the fact that only five programs across the United States make more than one hundred loans per year, and all the programs taken together reach less than seventy thousand businesses. After years of tinkering with the model, Working Capital has accepted
that it is unlikely to cover as much as half of its operating costs through interest and fees and still serve the population it seeks to reach with the range of services it believes necessary. Individual lending and serving somewhat better established businesses will be required for Working Capital to approach its goal of covering a substantial part of its costs.

What Working Capital Hoped to Accomplish

Working Capital strengthens very small businesses and creates income and new jobs in low-income communities, as any microenterprise organization does, but it has always had a much wider set of objectives. At its core, Working Capital sees growing businesses through peer-lending groups as a tool for creating and strengthening “social capital” in low-income and minority communities with the expectation that the skills, commitment, and relationships developed in the group will ripple out into the community and to the member’s family. Other objectives include building links between local business owners and creating a cadre of nonprofit organizations with the institutional will and capacity to deliver services to microenterprises.

Strengthening Social Capital

Social capital is a term coined by Jane Jacobs (1968, 1984) to describe the networks, norms, and trust that enable people to cooperate effectively to pursue shared objectives. Working Capital fosters social capital precisely where it is most needed: in low income communities with declining economies, outward flight, declining local enterprises, and persistent crime and violence.

Working Capital builds social capital by requiring that the group members follow a set of carefully constructed “rules of the game”—writing bylaws, electing officers, reviewing loan proposals, etc.—that build mutual assistance and accountability. Unlike mobilizing for a commu-
nity project or a specific campaign, business loan groups meet for years, and the relationships have time to mature and influence families and the larger community. Program evaluations (Mt. Auburn Associates 1994; Anthony, 1996; Ashe and MacIntyre, 2000) show that the impact of participating in a Working Capital group for personal empowerment and networking is the strongest in the poorest communities.

Working Capital, and the peer lending groups its members set up and manage, are an effective mechanism for developing social capital because they embody three essential conditions that make sustained change more likely:

1. **There is a realistic opportunity to improve one’s economic lot (or at least a realistic hope that one’s position can improve) through taking risks, changing one’s behavior, and hard work.** Through Working Capital, hard work is repaid in increased income through one’s entrepreneurial efforts and increased status in the family and community. It is difficult to think seriously about change if there is little realistic possibility of improving one’s situation. If the worldview of a person living in a stagnant or worsening economy is that resources are fixed and declining, participation in an effective enterprise development program changes that vision by providing the resources needed to achieve one’s dreams.

2. **Membership in a group of peers reflects an ethos of self-improvement that supports the individual’s efforts to change.** A business lending group is a new structure in the community with a definite point of view. The ethos underlying the program encourages and supports individual initiative along with mutual assistance and accountability. It provides encouragement when the individual feels discouraged or is under pressure by friends and family to return to customary ways. Not only does the group reinforce and support
Working Capital’s credit, training, and networking services, it strengthens the commitment to make changes within the community.

3. Dynamic group leadership drives the change process forward. The strongest groups are those with good leadership and a high level of commitment. Groups with strong leadership that push ahead the group’s agenda for business development and mutual assistance and accountability thrive; those lacking these characteristics tend to flounder and eventually fall apart.

By helping individuals meet their goals through collective action and support, these groups have encouraged similar changes in the United States as they have in the developing countries where this methodology was perfected. The universal outcomes of group-based enterprise development is an important finding in its own right.

**Strengthening Economic Capital**

Creating a strong support group (social capital) is not sufficient in itself to generate sustained change. The group also needs access to external credit and technical assistance (economic capital) to achieve the desired results. The importance of both social and economic capital and how they build on each other with synergy can best be observed in immigrant communities with thriving enclave economies. In these communities where many new immigrants establish small businesses, prosper, and escape poverty within a generation or so, success depends on being part of a community whose traditions and institutions support their entrepreneurial efforts, not on each business operating alone.

The Koreans and other Asians in this generation, and the Jews and other Europeans in previous generations, provide good examples of how this works. Community-based traditions and institutions in each of these communities provide the four critical ingredients of business success: (1) support and encouragement from other business owners, (2) customer
referrals without which it is difficult to build a clientele, (3) business knowledge that is shared by established entrepreneurs with those who are just starting, and (4) capital. Working in a family business from an early age, later starting a business, and then financing the start-up of a friend or a relative’s business is an integral part of the social fabric of these communities.

Since immigrants have a difficult time accessing banks and other mainstream financial resources, they often turn to traditional mechanisms such as the Korean Gae, the Jamaican Partner, the West African Susu, or the Dominican San to finance their businesses. Those who need capital contribute to a fund on a regular basis, and each member in turn withdraws the entire amount saved that period so that she or he can use it to launch or grow an enterprise. Like the business loan groups, these “ROSCAS” (Revolving Savings and Credit Associations) require forming a group, selecting a leader, tracking payments, and holding other members accountable. They serve both a social as well as a financial purpose and build both social and economic capital. The characteristics of a strong ROSCA and a strong business loan group are virtually identical (as are the characteristics of weak ROSCAS and weak loan groups).

The high level of collaboration among the closely linked community of grocery store owners, bakers, transport service providers, artisans, traders, contractors, doctors, dentists, and restaurant owners within the Korean community in Manhattan illustrates how social and economic capital are intrinsically linked. A thriving business community attracts more customers, which generates more sales. Growing local businesses, as they trade and subcontract with each other, now have a market for more increasingly sophisticated goods and services that are not only consumed locally but also increasingly “exported” outside the community. This brings more money into the community, thereby increasing local sales, and so on. Like the national economy, a local economy thrives
when there is a positive balance of payments, and exports exceed imports (Jacobs 1968, 1984).

The Koreans in Manhattan and the residents of the Pine Ridge reservation in North Dakota illustrate the polar extremes between a thriving economy and one that has stagnated. In the Korean community in Manhattan, a dollar spent in one Korean business is spent in twelve other Korean businesses before it leaves the community, generating sales and income each time.

On the Pine Ridge reservation, of every dollar that enters the community (often through transfer payments), ninety-eight and a half cents is spent in the white-owned businesses that surround the reservation. The Lakota Fund, a microenterprise program that has operated for more than a decade in the Pine Ridge reservation, has begun to make a difference, however, with growing Indian-run businesses capturing more of the sales that would have been made outside the reservation before. The slow but necessary process of building social and economic capital and strengthening the multiplier effect as dollars are spent in local businesses is underway even in this difficult setting. This underscores the important role that a microenterprise development program can play in an impoverished community.

The rate of growth of different programs, and the amount of subsidy they require, need to be judged within the context of where they are working. Microenterprise programs will tend to reach more businesses and cover more of their costs when (1) the population reached is entrepreneurial and has experience in business, (2) the market is strong, (3) population density is high, and (4) there is a comparatively high level of social and economic capital. Working Capital has found that it is far more expensive to serve rural businesses than urban businesses because of the time and cost of transportation and the difficulty of bringing disbursed group members together. The potential market is also much
smaller in rural areas. Even within cities, there are also significant differences. It has proved far easier to serve highly entrepreneurial Dominican immigrants, for example, than other Latino communities. Working Capital has provided nine hundred loans and served over 350 businesses to a community of only twenty thousand Dominicans in Lawrence, Massachusetts, nearly a third of all the loans it has provided in the entire state. The costs of delivering services in Lawrence are, consequently, substantially lower than in other urban sites.

The Effectiveness of the Business Loan Group
As a Tool to Develop Social Capital

Working Capital is based on the assumption that a business loan group is an effective tool for growing social as well as economic capital. But how do the members see these groups? Is the group seen as a help or a hindrance?

The Role of the Group

In a recently completed study by Jennifer Barsky (2000) based on interviews with current and former group members throughout Massachusetts, in Newport County, Rhode Island, and from South Florida and Delaware, members were asked about their experience of being group members. The following summarizes what they said.

Characteristics of Successful Groups

There is no “right way” to organize a lending group, and because microentrepreneurs join Working Capital to fulfill different needs, there is no “right group” for everyone. Some characteristics of a group, however, do improve the chances of a successful outcome. Among these are commitment and determination to build a successful business and a successful group, as well as trust, honesty, and open communication among members. Good leadership is also indispensable. Depending on the
group, leaders may be required to act as facilitators, mediators, collection agencies, enforcers, innovators, or in some cases—as described by one group chairman—as babysitters. Members of successful groups are unanimous in their belief that you “get out of Working Capital what you put into it.”

**Business Growth and Social Capital**

The clearest link between group participation and the growth of the business is the creation of networks and solidarity. Among the benefits are customer referrals, networking, joint marketing and joint venturing, business advice, and mutual assistance. The opportunity to share the experience of running a business and to offer support and advice contributes to the development of business skills and knowledge and ultimately, business growth. One group member said, “All these experiences are brought together, given to other members, and passed around.” Continuous learning and feedback have been described as one of the greatest benefits of group membership.

**Economic Capital**

The Working Capital business education curriculum structures the sharing of business experiences within the group. As members work through the case studies that are based on businesses much like their own, they come to understand the principles of marketing, record keeping and business planning and apply them to their own enterprises. This curriculum reflects Working Capital’s belief that group members can largely teach themselves. Four self-training mechanisms are built into the methodology: the informal exchange of business knowledge among members; the loan approval process; the business education curriculum; and meetings with local accountants, lawyers, and marketing experts.
who provide their services on a volunteer basis, facilitated by the program staff or the group leaders.

Working Capital’s loans are also often seen as critical to the growth of the businesses. Most minority and immigrant members cite lack of capital as the greatest impediment to starting and growing their enterprise. Faced with few options, many welcome the opportunity to access credit from loans approved by peers without the complicated paperwork or embarrassment of being turned down by a mainstream financial institution (although they can, of course, be turned down for a loan by their fellow group members).

**Personal Growth**
Beyond facilitating business growth, Working Capital peer groups also build microentrepreneurs personally and professionally. For some, membership in the group was instrumental to their success; for others it kept them accountable, taught them communication skills, brought out leadership skills, built their self-confidence, got them more involved in the community, and even helped improve the relationships between family members. Members also report a feeling of fraternity with the other members that eases the isolation entrepreneurs battle when trying to grow a business. Starting a business, no matter how small, is a long and arduous process. Most of all it requires initiative and the determination and courage to keep moving.

**Community Building**
Economic and community development is the process by which individuals and organizations come together to increase the wealth of an area. Working Capital aims to promote economic and community development in exactly this way. One member put it this way: “Any time you are interacting with other businesses in your community, you are looking at your community as a microcosm and as a whole. You look at what oppor-
opportunities there are in the community, how your business affects the community and what services the community needs that you or one of your colleagues can provide.”

Summary
It is not that these results have been achieved without difficulty and struggle, or that all these interactions within the groups have been positive. Most groups start strong and with great enthusiasm, but some fall apart when problems emerge, often around loan repayment, or because commitment is weak, or leadership is poor. In many instances, members have betrayed the trust of their fellow members and defaulted on their loans, reflecting how tenuous life is for low income people, and sometimes how even friends can mislead each other.

Understanding the Stages of Group Development
One reason why so many groups have problems or ultimately fail is that the agents and staff knows very little about the process of group development. Working Capital management called in Dr. Alyce Getler, a psychologist knowledgeable about group process, to provide guidance to the Enterprise Agents.3 She identified the predictable stages that any group moves through and spelled out what these stages look like in Working Capital groups. She also pointed out that the foundation for a well functioning group is laid before the group even begins with good selection and training. Most problems can be avoided before they start by encouraging the members to consider carefully whom they accept as members.

During the initial “honeymoon” stage, which typically lasts through the training process and the approval of the initial loans, members are typically very supportive of each other. This is the “us against the world” and “we can do it” stage. The problem is that in their eagerness to be supportive, they avoid asking the tough questions, especially around reviewing the proposals the members submit. As problems inevitably
arise, the “we are all in this together” atmosphere begins to unravel, and personal conflicts and competitiveness emerge. The challenge is to learn to tolerate and grow from differences and work through conflicts productively.

If the group weathers these problems, it evolves into the “working stage,” in which members know each other well and respect each other for who they are. They feel comfortable expressing differences and conflicts, and the Enterprise Agent can take a much less active role. This, however, is not the end point of the group development process. The challenge now moves to avoiding complacency. The group has reached the “reassessment” stage, in which the group must decide “where we go from here” if it is to move forward. At this point, some members may leave, or the group could merge with another group. What is important is that the group have a clear direction and a clear vision for the future.

Dr. Getler trained Enterprise Agents in understanding these predictable stages in the evolution of groups and suggested guidelines for Enterprise Agents to use at the different stages. If building businesses and social and economic capital is the desired outcome, groups must stay together long enough to achieve this objective.

**Delivering Services and Creating an Affiliate Network**

When Working Capital started ten years ago, few institutions knew about microenterprise development, and banks had little interest in funding grassroots programs. A far different situation exists today. Now there are many programs and banks, often encouraged by the Community Reinvestment Act, which provide lines of credit to these programs more readily. Early on, Working Capital recognized that to reach microenterprises over a wide geographic area, it would need to enlist local organizations to deliver its services, and it would need lines
of credit from banks to finance its loan portfolio. This section of the article tells the story of how Working Capital developed its affiliate network and enlisted the banks, and the lessons it learned along the way as it evolved from a small project to a multistate institution.

Working Capital began operations in September 1990 soon after the New England real estate crisis of the late 1980s. The crisis led to a spate of bank closings and mergers and the contraction of access to credit of all types, especially loans to small businesses. As unemployment in some rural areas in New England edged towards twenty percent, and many who could secure jobs were working for less than half of what they earned before, the number of people turning to self-employment increased. Those who had businesses were struggling as others were attempting to start their enterprises, and conditions were difficult for both. In this setting, Working Capital’s offer of unsecured business loans was embraced as one of the few available alternatives.

The formula Working Capital offered at the time was simple: a group of about five formed a peer-lending group, which, after writing its bylaws and electing officers, reviewed and approved each other’s loans. Business loans started at $500 and, assuming payments on loans by all group members were current, progressed in stages up to $5,000. Peer-group support and pressure, it was assumed, would keep loan payments up-to-date. Groups made payments for members when a member could not (or would not) do so, using the “buffer fund” that each group set up. Although members did not cosign each other’s loans, and default by one member would not affect the credit ratings of the others, there was an implicit assumption that group members would be responsible for each other’s payments.
Phases in Working Capital’s Growth

Phase I: Getting Underway

Working Capital sold the idea that peer group lending based on the Latin American models could be adapted successfully in this country and with similar positive results. The founder and first executive director of Working Capital had worked with ACCION for many years and was thoroughly versed in the group lending methodology. He had introduced group lending to ACCION almost a decade earlier.

By mid-1990 he secured funding totaling $125,000 through the Ford Foundation, the Charles Stewart Mott Foundation, and the New Hampshire Community Trust. Since Ford funding was secured through the rural poverty window, Working Capital began its operations in rural areas. At that time, Working Capital was a project of the Institute for Cooperative Community Development (ICCD), the nonprofit arm of the Community Economic Development Program at New Hampshire College.4 It would become an independent nonprofit organization three years later.

Since Working Capital in 1990 had only one staff person, no operational presence in any community, and lacked even a loan fund, its initial strategy was to leverage the executive director’s knowledge of microlending by recruiting local nonprofit organizations to deliver Working Capital services locally. It is perhaps not surprising that there were no takers in these early months, and considerable skepticism: “Yankees will never join groups.” “If they join groups they will never pay their loans.” “There are no deals to be made out there.” “The businesses you are talking about don’t even exist.”

However, one nonprofit, the Millers River Community Development Corporation, agreed to try Working Capital’s peer group
lending model on a pilot basis, and even to use their own loan fund and track their loans. Millers River was based in Athol, Massachusetts, a once prosperous tool-making center that had since fallen into sharp decline. A VISTA volunteer was assigned the task of recruiting business owners for an information meeting that was to be held at the local YMCA. In September 1990, twenty-five business owners came to the meeting and formed two peer groups. The groups were trained, and the first loans were issued in October.

With two groups now in place, a Community Action Program in Bellows Falls, Vermont, became the second Working Capital affiliate, and the CAP Enterprise Agent formed a third group. Now that Working Capital had a Vermont presence, it negotiated a $100,000 line of credit from Vermont National Bank, secured with a $30,000 deposit from its grants. Working Capital was so sure there would be an avalanche of requests for loans that it felt that only banks would have sufficient capital to meet the demand.

That Vermont National Bank agreed to make a loan to Working Capital was precedent-setting in 1991 (although, years later, banks were clamoring to provide credit lines). According to the hard-fought agreement, the bank grudgingly gave up the authority to review the underlying loans, which were made solely on the recommendation of the groups with no review, credit checks, or collateral required even by Working Capital. The line of credit also contained, to use banking parlance, an “evergreen” clause. As long as repayment was satisfactory, the line would not have to be paid down and could be renewed from year to year without further action by Working Capital.

Once Vermont National Bank broke the ice, Fleet Bank in New Hampshire agreed to provide a similar line of credit for group loans in New Hampshire and Massachusetts. ICCD took a major role in securing these credit lines for the program.
With three groups in place and two lines of credit from banks that were promised to be available soon, the stage was set for further expansion. Eleven more organizations in New Hampshire, Vermont, and Massachusetts were recruited as affiliates. The Enterprise Agents received two days of training on the Working Capital peer-lending methodology, the first of what were to become scores of Enterprise Agent training sessions over the years.

Agents were trained using a step-by-step guide for forming a group (albeit not the sophisticated manuals that emerged later), and each agent was to follow the manual exactly. If all used the same methodology, it was reasoned, it would be possible to share experiences and upgrade the manual as Working Capital expanded exponentially. The clear delineation of responsibilities between Working Capital and its affiliates also made expansion easier and gave Working Capital some measure of control. Working Capital was designed, then, for replication since its inception.

By April 1991, seven months after the initial information meeting in Athol, Working Capital had affiliates in three states. In June, a part-time administrative officer, responsible for managing the loan portfolio and other administrative matters, was added to the staff. Part-time work study students from New Hampshire College’s Community Economic Development program assisted her in managing the loan portfolio.

Two years later, an evaluation of Working Capital, completed by Mt. Auburn Associates (1994), pointed out four ways Working Capital was different from other U.S. experiments with microenterprise development: (1) its commitment to achieving “scale and cost-efficiency,” (2) its program flexibility and ease of use, (3) its relationship with banks, and (4) its “minimalist” approach to overseeing borrower groups, since Working Capital places virtually all the decision-making process within the group. The evaluation went on to say, “By minimizing ‘barriers to
entry,’ the program makes forming and managing borrower groups attractive to potential affiliates. At the same time, centralization of some of the more sophisticated tasks, such as securing loan capital and handling loan servicing, allows affiliates to operate the program with a minimum of capacity building and resource commitments” (p. 24).

**Phase II: Expansion in New England**

By the end of 1993, the fruits of Working Capital’s expansion efforts in New England were evident, and Working Capital was seen as one of the leaders in the domestic microenterprise movement. During 1992 and 1993, Working Capital’s initial expansion into urban areas started in Lawrence, Massachusetts, where the Lawrence Minority Business Council began to serve a largely Dominican constituency; and in Boston, where it operated through thirteen local affiliates, with a largely African-American constituency. Working Capital had also expanded into Maine. The division of responsibilities between Working Capital and the affiliates played to the strengths of both parties. The affiliates had outreach capacity, while Working Capital was knowledgeable about microenterprise development and had money to lend.

Working Capital was accepted in so many communities because it helped local organizations carry out their missions, rather than undermine them and compete with them for limited funding. Since Working Capital targeted businesses that were far smaller than those served by other institutions, Working Capital was welcomed by other business development agencies, which saw Working Capital as a resource where they could send those they rejected for assistance. Through these tactics, Working Capital gained access to communities where it would have otherwise been very difficult in turf conscious New England.5

By involving so many other agencies through its “piggyback” strategy, Working Capital was, up to the mid-1990s, the largest microenter-
prise program in the country, with each of its state programs the largest microenterprise initiative in that state. Working Capital preached the importance of scale since its inception. To achieve scale, it provided only a “minimalist” package of services—loans, a self-taught business education curriculum, and networking opportunities—that were designed for easy delivery by Enterprise Agents whose level of skills varied considerably.

**Phase III: Working Capital Expands outside of New England by “Franchising” Its Model in Other States**

In 1994, Working Capital “franchised” its model at two sites, responding to requests from local groups. In Delaware, it operated through the YWCA and the First State Community Loan Fund, where Working Capital was only one of the many services offered by those agencies. In Miami, Working Capital operated through a newly created organization, Partners for Self-Employment, whose sole mission was to deliver Working Capital services. These “franchise” sites (or “Hubs,” as they came to be known) were different from the affiliates in that they paid a fee for the right to use the Working Capital name and all of Working Capital’s systems and manuals, and, like the affiliates, were considered as integral parts of the Working Capital network. Working Capital also provided its “Hubs” training and ongoing support. The Hubs, in turn, developed their own affiliate networks, replicating the way that the home office worked through its Massachusetts affiliates. The Hubs provided and managed their own loan funds both for their own operations and their local affiliates.

By September 1996, a total of 2,400 customers had joined loan groups, of whom 1,880 were current members in over 350 groups system wide. Since the inception of the program, Working Capital members had, by September 1996, received 2,700 loans valued at almost $2.5 mil-
lion, of which only three percent had been written off. By then, Working Capital was operating through some seventy local, nonprofit agencies and affiliates in seven states. Of these Massachusetts, Rhode Island, New Hampshire, Vermont, and Maine used Working Capital’s centrally managed loan fund.

In 1997, Hubs were set up in St. Louis, Missouri, Atlanta, Georgia, and in Working Capital’s first foray outside of the United States, in Khabarovsk in the Russian Far East. By late 1997, Working Capital was planning to expand its Hub network to Los Angeles, Knoxville, Philadelphia, and Coastal Maryland. Working Capital had also been recognized at the White House with the first Presidential Award for Excellence in Micro-Enterprise Development for its innovative replication package.

**Phase IV: Consolidation and Rebuilding in a Changing Market**

By early 1998, it was evident that a strategy based on rapid expansion—although it led to the rapid dissemination of Working Capital’s methodology throughout New England and even to states outside the region—was impossible to sustain with its limited staff and resources. While the overall statistics were impressive, there were issues underlying the apparent success that put the program in jeopardy.

Creating more Hubs was exhilarating, but some Hubs lacked the resources or the capacity to deliver Working Capital services on an ongoing basis. As Working Capital pressured the affiliates to be responsible and the Hubs to toe the line, the relation with the Working Capital staff quickly became adversarial. The Hubs thought they were being harassed, while Working Capital believed they were being irresponsible. While the Hubs complained that the home office did not support them adequately, they increasingly wanted to chart their own path, another source of tension between the Hubs and the home office.
By late 1998, the Hubs in Vermont and Maine had collapsed, and the Hub in Missouri had virtually stopped functioning because they were unable to secure adequate funding. Furthermore, many of the affiliates in Massachusetts that the Cambridge office directly supervised were barely serving even their existing groups, much less creating new ones, despite the intensive support they received, also mainly because raising money to support their local Working Capital programs was becoming increasingly difficult. Loan payment began to sag alarmingly throughout the Working Capital system in the regions where there was now no effective local presence.

It became evident that a fresh perspective and new leadership were required to deal with the crisis. The founding executive director stepped down, and the current executive director assumed responsibility, with the founding director focusing his efforts on Massachusetts programs, innovation, and research.

The new executive director refocused the program and made the difficult decisions that would reduce the scope of Working Capital’s operations to match its capacity to deliver quality services. This was accomplished by spinning off franchise sites that wanted to operate independently or that were not functioning well; eliminating affiliates that were not expanding the number of customers they served; and increasingly serving customers directly with Working Capital staff, and through a smaller number of closely supervised affiliates. In addition:

- The staff was completely reorganized, a chief financial officer and director of development were hired, and the board of directors was replaced.
- There was a complete halt to expansion; and potential additions to the Working Capital network received only materials and training in the methodology.
There was a major effort to improve loan repayment; and non-recoverable loans were written off.

A monitoring system was developed that tracked the performance of each affiliate and group; and affiliates were required to report their performance.

Agreements were made with Working Capital’s major affiliates to hire jointly the local program managers and jointly review their performance.

Affiliate monitoring was greatly intensified.

Working Capital participated in raising funds for the most important affiliates.

All manuals and systems were reviewed and upgraded.

Working Capital also restructured its group-lending product to provide larger loans and introduced an individual loan product with loans up to $20,000. Introducing the individual loan product required developing credit committees and retraining the staff, and although individual loans have been issued by Working Capital for less than a year, they have been responsible for most of the recent increase in the portfolio.

Since these changes were made, Working Capital has stabilized and is expanding again. Although the process of consolidation and rebuilding was controversial and painful, it was necessary; and Working Capital now is on a sound footing for its future growth. The next challenge is to build the program in what has become in the last few years a highly competitive market.

Selecting and Working with Affiliates

Working Capital developed a list of criteria for selecting new affiliates and renegotiating its relationship with its current ones, based on its experience over the years. These criteria have guided Working Capital’s reorganization efforts and may prove useful for any organization con-
templating partnerships with other organizations. The agency’s level of interest, the quality of the staff assigned to the project, their ability to support a quality program, and their willingness to work in close partnership with Working Capital are more important than the size or prominence of an agency. The criteria are these:

• A well regarded, well managed and adequately funded local agency with a businesslike focus and mentality. Affiliates that are likely to be operating years from now should be selected.

• A service area with a high concentration of potential customers (minorities, recent immigrants, low-income residents) within three hours of the headquarters office. The highest priority should be given to communities within an hour from headquarters.

• A congruence between Working Capital’s mission and the mission of the local agency.

• Active support for the initiative at the level of the Board and Executive Director and other key staff. Generally a new initiative, to be successful, needs a champion within the organization, an individual who is willing to push hard to make sure the program is and remains an agency priority.

• Real enthusiasm for the program’s mission and methodology.

• Good outreach to the population the agency aspires to reach and easy access to the agency’s offices for the program’s potential customers.

• Willingness to accept Working Capital’s involvement in the selection, training, supervision, and review of the local staff assigned to the program. (This factor has proved to be critical for ensuring quality performance.)

• Willingness to enter into a contract with Working Capital, meet performance objectives, complete monitoring forms, receive additional training, and participate in Enterprise Agent meetings.
• Allocation of significant affiliate resources to the local initiative, including at least one staff person who is acceptable to Working Capital and who is assigned preferably full-time to the project. (Working Capital has had little success with staff for whom Working Capital is only one of their many responsibilities, whatever their level of interest or capacity.)

• The provision of the necessary managerial, administrative, and logistical support for the local staff person(s) by the local agency.

• Funding for at least one year of program operations, with a strong commitment to ongoing funding.

In essence, what any sponsoring agency should be looking for are partners that strengthen the program and bring in substantial numbers of new customers and loans and that do not represent a managerial burden that is greater than their value.

This is what Working Capital learned as it developed its affiliate network:

• Affiliates should be recruited close to headquarters.

• Affiliates with real commitment and real capacity should be selected.

• The field staff must be motivated and have both the time and the skills to do the job.

• Good systems are needed to manage a network.

• A network should only be as large as the agency’s capacity to provide quality support.

• Resentment is inevitable if headquarters lacks the systems and capacity to support the network.

• Not all opportunities must be taken.

It is this last lesson which is perhaps the most difficult to accept. Each opportunity needs to be carefully scrutinized, and only the best organizations should be selected. In truth, only a few affiliates and a few Enterprise Agents organized the majority of the groups that produced
most of the loans. It proved far easier to transfer Working Capital’s technology than to support an affiliate network on an ongoing basis. Affiliates and franchisees will inevitably have problems, which will absorb an enormous amount of central office staff time.

**Why Covering Operating Costs through Interest Income Proved Difficult for Working Capital**

Working Capital was set up to replicate the FINCA and ACCION models developed in Latin America, including the objectives of reaching substantial scale and covering operating costs through interest payments. Why then has Working Capital only covered a fraction of its operating costs through interest and fees? There are reasons that have to do with differences between microenterprise development in the lesser-developed and industrialized countries:

*In developing countries, virtually every adult is involved in some type of individual economic activity.* In New England the percentage involved in self-employment ranges from sixteen percent in Massachusetts to twenty percent in New Hampshire, Vermont, and Maine, and full-time self-employment is half that rate.

*In developing countries, a business can be as simple as selling oranges on the curb.* Here even the simplest business must be reasonably sophisticated to find a niche in an economy where large businesses predominate.

*In developing countries, there is virtually no access to capital other than from loan sharks and pawnshops, which charge from twenty percent per month (secured by goods) up to ten percent per day for unsecured loans.* Here most can secure a credit card, supplier credit is readily available, and banks actively seek out solid small business loans. With an improving economy, access to credit has become much easier. Since credit is readily available, the interest rates that microfinance programs
can charge are low compared to the developing world programs: 7 percent to 8 percent per annum, compared to 24 percent to 36 percent in developing countries.

In developing countries, virtually all group members take out a loan, and most take out repeat loans. Here, while eighty-five percent eventually take out one loan, a much smaller number move up the loan ladder. Interest income per business served is much lower. Currently only a third to a half of the group members have an outstanding loan.

In developing countries, jobs are scarce and pay poorly. Here, while unemployment was close to twenty percent in Western Massachusetts when Working Capital began, it has declined to under four percent now. Those who were not fully committed to their businesses have found jobs. In developing countries, unemployment and underemployment rarely reach as low as twenty percent, but are often double that. Self-employment is often the only option.

In developing countries, there is only a rudimentary safety net. Here there are alternatives to not being productive.

In developing countries, there are strong traditions and strong personal relationships that support the creation of solidarity groups and village banks. It is understandable, then, why Working Capital’s has had its greatest success with Dominican immigrants. They not only have the least access to institutional capital; they are accustomed to joining groups, such as Sans, that have traditionally been sources of capital for them.

In developing countries, groups with twenty-five to fifty members are relatively easy to form and sustain, especially with women in rural areas. Here groups larger than five are difficult to organize (although groups up to ten have been formed). Since it costs as much to train a group of five as a group of twenty-five, operating costs per business are high.
In developing countries, overhead costs are low. Here the costs of rent and salaries far exceed any potential income that can be derived from loans.

All these factors, which now appear clear enough in hindsight, worked against cost recovery. While Working Capital proved it could deliver business services through groups, and that the impact of the group was equally as impressive as it was Latin America, interest and fees cover only a small fraction of program operating costs. Delivering Working Capital services through groups is a losing proposition financially for Working Capital and the participating affiliates, a conclusion regrettfully reached after years of tinkering with the model and the delivery of services. This fact threatens the long-term continuance of the program, since Working Capital and its affiliates must be permanently subsidized if they are to provide services on an ongoing basis.

Working Capital’s recent foray into individual financing with larger loans directed to better established businesses reflects the high cost and low cost recovery of the group loan product. It also reflects the fact that with many credit options available in a booming economy, business owners are less willing to join groups and take out loans through a structure that requires so much effort to ensure that others pay them.

**Working Capital’s Impact on Its Members**

The impact of the Working Capital program on its members, documented through three evaluations (Mt. Auburn Associates, 1994; Anthony, 1996; Ashe and MacIntyre, 2000), is consistent with the perspectives of creating social capital and economic capital described earlier. On average, the business income of Working Capital members increased $5,000 per year from when they joined—not a large amount but a significant source of supplemental income for a low to moderate-income family. Jobs have also been created in the minority and low-income
communities where Working Capital concentrates its efforts (although much more often for the owners of the businesses than for new workers).

Reflecting the ethos of mutual support and mutual accountability that permeates the group lending approach, group members refer customers to each other, use each other’s goods and services, set up joint ventures, and often turn to each other for advice and support. Many describe their groups as “like family,” with relationships often continuing for years after the groups disband. Most have sharpened their business and leadership skills through the frequent meetings that the program requires, and some are using these skills and connections to take a more active role in their communities.

The results of Working Capital’s evaluations show that most businesses being served by Working Capital have (1) achieved a high rate of survival, (2) increased sales and profits, (3) secured access to new sources of credit, especially supplier credit, (4) improved management skills, and (5) created jobs—mainly for the owners, but also for local residents.

The three characteristics of an intervention that encourage rapid change—a real opportunity to increase one’s income, a group that supports these aspirations, and leadership that drives the process forward—are found in Working Capital’s peer group model. The documented changes correspond to its theory on how social capital is created. Understanding the long-term implications will require more study, however.

**Implications for the Microenterprise Industry in the United States**

This sobering assessment of Working Capital’s first decade shows that bringing Third World methodologies to this country and applying them in a new setting was not as easy an undertaking as initially hoped. While peer groups have led to many of the same benefits they do in developing
countries, the initial plans for achieving scale and self-sufficiency have been dampened by the realization that providing business services through peer-lending groups is a slow and costly undertaking in the context of the hard-pressed communities of urban and rural America. It is also sobering to realize how difficult it is to create or strengthen institutions— even those that have the will, the leadership, and the long-term commitment necessary to carry out this work effectively—given the constant struggle for funding in addition to staffing and management issues.

Is it worth the effort? Major benefits of participating in Working Capital have been identified, but it may prove in the last analysis that developing “social capital” was more important than increasing business income. The observation that communities with strong local economies are characterized by networks, norms, and trust that enable people to cooperate effectively to pursue shared objectives is compelling. Our inner cities, declining rural areas, and reservations are a source of much of the endemic poverty, violence, and hopelessness in our society. The costs of dealing with the symptoms and not the causes of these problems are doubtlessly much higher than the costs of doing something constructive about them, and microenterprise development is one of a small arsenal of constructive alternatives.

The Challenge

Reflecting on the joys and travails of carrying out a program over many years, I am discomforted by the fact that our work is based on enterprise development models we have imposed on the communities we serve. When we evaluate our work, we ask our customers to rate the services we provide them, but what if we asked them how they would propose to make a business out of developing enterprises like theirs? Would they come up with approaches that could help us see our programs from a fresh perspective?
Millions of microentrepreneurs in low income communities across our country earn a living every day from their businesses. Less than seventy thousand of them are reached by the hundreds of microenterprise programs that have sprung up across this country over the last decade, with the number of businesses assisted growing very little over the past several years. Is it worth a small additional investment at this point to learn what our customers and potential customers suggest if they were designing and implementing their own programs and then let them test some of their ideas? We may be pleasantly surprised at the results.

References


Notes

1. This three-step model of change was developed by the author based on his participation in agrarian reform efforts in Ecuador. He observed that in the site where significant and sustained change resulted, the amount of land distributed was substantial. The land-buying cooperatives required by the government also represented a new form of organization whose officers were young literate men who seized this opportunity to take a leadership role. In the failed site, the amount of land distributed was too small to make much of a difference, and the government, instead of requiring the
peasants to organize themselves into a cooperative, permitted them to use the traditional comuna system whose leadership was old, self-serving, and largely discredited. There was little sustained change in this second area.

2. Read the report available from Working Capital for a detailed presentation of the impact of the peer group model.

3. The issues and guidelines for Agents at each stage of the group process are detailed in Getler (1997). Copies of this report are available from Working Capital.


5. In the first two years, Working Capital offered affiliates a small stipend for each group it formed. As the program became much larger, however, it quickly became evident that paying even a small stipend would bankrupt the program, and payments to the affiliates were dropped.

Acknowledgments

This report is respectfully dedicated to the hundreds of Enterprise Agents who have trained and supervised Working Capital groups over the past decade. It was the Enterprise Agents who in their day-to-day interaction with the groups brought the benefits of Working Capital to so many communities. Working Capital’s motto is “they know how.” I say to the Enterprise Agents, “you know how.”

My deepest thanks as well go to the many current and past colleagues and board members with whom I spent so many hours discussing the arcane details of program design and implementation as we became fast friends over meals at diners along the Northeast Corridor. My wife, Alyce, was my partner and adviser through it all, and my children Whitney and Katya were the willing (and sometimes not so willing) participants.

I thank you all, and I say goodbye as I leave the joys and travails of the “field” for teaching, writing, and consulting with Brandeis University as my new base of operations.

Working Capital is now in the very capable hands of its current executive director, Jim Kaddaras, a (mostly) new staff, and a new board of directors. I have the greatest hope that Working Capital will grow and prosper in ways that we who started it cannot even imagine.