

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

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

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

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

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

SUMMARY OF QUALITATIVE ANALYSIS

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

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

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

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

BUSINESS PERFORMANCE

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

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

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

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

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

Participation in Working Capital

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

Table 2: Distribution of Loan Applications by Sequence Disbursed

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

Source: Working Capital Loan Department

N=325 loans approved and disbursed between July, 1992 - December, 1994

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

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

Table 3: Breakdown of Businesses Submitting Applications by Loan Level

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

Source: Working Capital Loan Department

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

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

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

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

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

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

Distribution of Business Type at each Loan Level

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

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

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

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

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

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

N=325 loans

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

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

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

Business Size in Terms of Hours Worked by Entrepreneur

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

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

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

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

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

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

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

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

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

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

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

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

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

Business Type and Size

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

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

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

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

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

Change in Business Type While Participating in Working Capital

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

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

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

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

Source: Working Capital Loan Department

* Universe: Fourth Loan Applicants

N=10

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

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

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

SAMPLE OF BUSINESSES

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

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

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

Description of Sample Businesses

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

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

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

Source: Working Capital Loan Department
N=48 applications

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

Tenure

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

Business Type of Sample Businesses

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

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

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

Source: Working Capital Loan Department
N=48 Loan Applications

COMPARISON OF SAMPLE TO OVERALL POPULATION

Business Size

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

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

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

Source: Working Capital Loan Application Data

* N = 270 out of 325

**N=48

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

Individual Business Change

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

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

Business Size

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

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

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

Source: Working Capital Loan Department

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

Additional measures of Business Change

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

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

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

Contribution of Business to Household Income

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

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

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

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

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

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

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

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

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

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

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

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

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

Attitudes by Entrepreneurs Regarding Business Change

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

Business Income

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

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

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

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

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

Sales

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

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

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

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

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

Clients

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

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

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

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

EMPLOYMENT AND JOB CREATION

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

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

SUMMARY OF DATA PRESENTED

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

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

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

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

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

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

ROLE OF WORKING CAPITAL

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

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

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

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

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

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

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

SUMMARY AND CONCLUSIONS

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

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

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