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city beat

Cash Advance

Using peer pressure as motivation, a nonprofit helps low-income entrepreneurs get their start.

by Doron Taussig

Arlita Nash has a vision. She sees a massage boutique that combines sophisticated muscle therapy with luxurious spa treatment. Nash believes people cannot be healed unless they're truly relaxed. While she has the training to provide such a service, Nash doesn't have the resources to start her own business. So, last Thursday, she found herself attending a lending agency's open house at the Guild House West apartments in North Philadelphia, lured by the promise of a loan with no credit check and no collateral. Strange thing is, it wasn't a scam.

The agency distributing these loans is the Philadelphia Development Partnership (PDP). Founded in 1989, the nonprofit organization's mission is to promote economic development in low- and moderate-income neighborhoods. In 1999, PDP decided the best way to do that was giving tiny loans to entrepreneurs like Nash. The practice, known as microcredit, is meant to bring financial assistance and an entrepreneurial spirit to people of moderate means.

PDP can ignore credit and collateral because of a system called "peer lending," which uses peer pressure to spread responsibility across several borrowers. If someone like Nash likes what she sees at an open house, she forms a "peer group" with three to eight others who become responsible for approving one another's loans.

The first loan is always \$500, and a borrower may take loans of increasing amounts up to \$5,000. There is a catch: A borrower can't take out a new loan unless everyone in the peer group is current on payments. Thus, PDP can afford not to run credit checks or demand collateral. Combine that with the fact that PDP's loans are much smaller than those offered at banks, and a loan becomes a reality for an aspiring entrepreneur who might not otherwise have been considered.

PDP has 250 current and potential borrowers in 50 peer groups, starting up everything from catering and janitorial services to graphic-design companies. The only peer-lending program in the Philadelphia region, PDP gets its money from grants and donations.

Politically, the program sounds like the perfect compromise combining assistance to those who need it with an up-by-your-bootstraps approach to poverty alleviation.

"People are very responsive to it," says Leslie Benoliel, PDP's executive director. "It speaks to both parties very well."

But popularity is not always a predictor of success.

Microcredit began in the 1980s when the now-famous Grameen Bank gave minuscule loans to Bangladeshi villagers to buy, for example, a chicken that they might use to start an egg business. Most people consider the program a success, though Grameen has come under fire for creating cultlike peer groups. Women who borrow must stick to a physical-training regimen and regularly recite Grameen's "16 Decisions." (Decision 6: "We shall plan to keep our families small. We shall minimize our expenditures. We shall look after our health.") Of late, microlending's been making its way to other parts of Asia and Africa as well.

Questions about how well the program translates into American life have been more persistent. Self-employment is not as simple in the U.S. and wage jobs are more plentiful. Additionally, credit is readily available to the poor through credit cards. So the pool of people interested in using microcredit is smaller, and success is harder to come by. Benoliel says the most common question from critics is, "What is someone going to do with \$500?"

While it's true that \$500 is not enough to start a business, PDP entrepreneurs tend to mention their loans as afterthoughts. A peer group must undergo eight weeks of free business training before members are eligible. After the training, they have continued access to free financial guidance.

Modestine Coats, the proprietress of Dirty Hands Cleaning Service, talks for 10 minutes about the computer training she received from PDP before saying, "Oh yeah, and they have a loan service, too."

Rodney Dixon tells a similar story: He recently opened Just Taste and See restaurant at 609 N. 40th St. He says that PDP's guidance helped get his restaurant up and running.

PDP "helps you with the dos and don'ts of the business world [and with] getting different contacts in the city," he says. "They eliminated a lot of the labor for me."

PDP finds that many people remain after the training period and never borrow money; it says only about 25 percent actually take loans.

"They come to us for the money," Benoliel says, "but they stay for the support."

That's not to say that the money is useless. The people who do take loans "might buy a computer, a printer, they might print up business cards," Benoliel says. "Maybe fix a van, buy in bulk. A lot spend it on advertising."

Typically, PDP entrepreneurs are working at a wage job in addition to starting their business, so their loans needn't bring immediate returns.

Coats has taken several loans — most recently for \$3,000, which she used for advertising, a new computer and to hire two employees. Dixon took a \$500 loan to pay for some licenses he needed. A larger loan would have been unreasonable for so small a business, but banks rarely make business loans of less than \$25,000. Thus far, Dixon says his business is going "wonderful." He adds, "Every week we're picking up."

Not all of PDP's entrepreneurs are as successful. Dixon says that some of the members of his peer group who planned to open a recording studio appear to be losing interest. But very few PDP borrowers default on their loans — to date, the group says, 97 percent of loans have been repaid in full.

Which raises the next major question: Does "peer pressure" ever turn ugly?

PDP has several measures in place to avert intimidation. Entrepreneurs "self-select" their groups, often recruiting friends. A PDP "enterprise agent" attends each group's monthly meetings, and a portion of every loan goes into an emergency fund. If an individual borrower is truly delinquent, PDP doesn't just hang his peers out to dry — it pursues the borrower in small claims court. Benoliel says PDP has never had a problem with "peer pressure" getting out of hand.

A visit with a peer group offered some insight. The group, "Ready to Grow," includes five entrepreneurs, three of whom have applied for loans. At their most recent meeting, they pored over each other's paperwork, discussed loan terminology with their enterprise agent and bragged on the quality of the baked goods at Salinda Lewis' Elegant Edibles. Rather than see each other as potential hindrances, "Ready to Grow" members see their peers as necessary to their individual success.

PDP ultimately makes \$17.80 on a \$500 loan, which is enough to recoup the small amount of lost loan money, but not enough to run the program. The interest doesn't pay the staff salaries. The organization relies on donations and grants to stay afloat, something that's led critics to say that microcredit is closer to "social justice" than "good business." Fine, say PDP officials, noting that it's unabashedly a charity that tries to enable the recipients to do good business.

All of this information — the free training, the low default rate, the friendly peer group — indicates that PDP's program is not an out-and-out failure, but is it a success?

A recent newsletter from the Association for Enterprise Opportunity, an umbrella microcredit organization of which PDP is a member, stated "the true success of peer lending programs should be measured by the number of low-income individuals who are able to find the path out of poverty through this model."

PDP has not collected any data on the survival rate of the enterprises it assists, but it intends to begin soon. Clearly, some ventures have been great successes and others have fizzled out. That may be as much the temper of the market as it is a reflection of microcredit's capacity.

In any case, the jury is still out on PDP's program. Still, Benoliel says her system works and that the biggest challenge is combating the perception that micro-enterprises are economically unimportant. If she succeeds, more people could come to programs like PDP looking to start a business. Rodney Dixon doesn't see why this last part should be so hard.

After all, he says, "they *want* to give you money."