

# WINNERS' CIRCLES

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## Chicago's Experiment in Low-Income Enterprise

SCOTT BAILEY

**"N**obody would help me, no one." That's the conclusion Ernestine Taylor arrived at after trying to get a loan to help keep her day-care business running. Although she had 15 years of experience and is president of a 150-member home day-care provider association, she was unsuccessful in getting help from government sources. And since she had no collateral, banks were not interested. Then she heard about a private non-profit organization called the Women's Self Employment Project (WSEP). Not only did WSEP give her a loan, but it helped her work through her financial problems and even stood by her when her loan application ran into technical difficulties.

Now Taylor is expanding her business to offer after-school care. She will employ two full-time and one part-time employees when the expansion is complete. In her neighborhood of Humboldt, west of downtown Chicago, she is already creating business for carpenters, electricians, and plumbers as she renovates her center to accommodate more children and to meet health and safety codes. She has, in effect, become her own economic development program on a block where there are as many boarded-up storefronts as there are active businesses.

Such success stories are becoming more and more common for WSEP, whose Full Circle loan fund has made \$157,200 in loans to women like Taylor. For each of the three years the program has been operating, it has had a zero-percent loan default rate, with an average delinquency rate of 2 percent. By comparison, the personal loan delinquency rate for banks—which are making supposedly safer loans—is 3.7 percent. WSEP's remarkable success suggests that, for a portion of the disadvantaged population, entrepreneurship may be a way to increase income and reduce dependency on government assistance.

### From Bangladesh to Chicago

WSEP's origins go back to the mid-1980s and a series of conversations and meetings among activists from philanthropic foundations, women's groups, community organizations, and interested individuals in the Chicago area who were concerned about the number of poor

women in the city. This group agreed on three points: first, they believed there was a large pool of untapped entrepreneurial talent among unemployed and underemployed women in Chicago; second, that self-employment should be an option for women who are trying to become financially self-sufficient; and third, that it was difficult, if not impossible, for disadvantaged women to acquire venture capital to start their own businesses.

Since there was no existing organization to address their concerns, they decided to create one. A few members of the group formed a steering committee: Mary Houghton, the president of Shorebank, a Chicago-based bank that provides financing and assistance for community and economic development for depressed neighborhoods; Gail Christopher, a successful entrepreneur; and Elseth Revere, president of the Woodstock Institute, a research and policy organization related to community-development finance. In 1986 this committee designed and developed WSEP, a private nonprofit organization that would provide training and technical assistance and make loans to low- and moderate-income women entrepreneurs. Funds for WSEP came from, among others, the Joyce Foundation, the Chicago Community Trust, and the New Prospect Foundation, with a small contribution from the Chicago Department of Economic Development.

### Peer Pressure Collateral

WSEP administrators and its board of directors knew that many small business-development programs had failed before, and they knew they had to be innovative in delivering services if they were to succeed. Several of those involved with WSEP were aware of a new approach to entrepreneurial lending that was being used by the Grameen Bank in Bangladesh.

The Grameen Bank is a private, nonprofit organization. It was founded in 1983 by Muhammed Yunus, who sought to spark entrepreneurship in rural Bangladesh. The bank lends to the poor, and mostly to women, who have little or no collateral or credit history.

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SCOTT BAILEY is a former policy analyst for the National Governors Association.

Rather than lending to individuals, the bank lends to “peer groups”; the peer group members themselves decide which member has the best idea for a business, and that person gets the loan. If that individual’s loan repayments are made on schedule, another member of the peer group becomes eligible for a loan, and so on, until all the members have received a loan. Because the success of any individual depends on the success of others in the group, and since the group—as well as the individual—has responsibility for the loans, there is a great incentive to work as hard as possible and assist other members in the group to make loan payments on time. Instead of securing the loan with collateral, the bank secures it through the peer pressure and peer support of the group. WSEP decided that one of its major initiatives would be to test whether the Grameen Bank approach could work in urban Chicago.

One of WSEP’s principal programs, the Full Circle Fund, is closely modeled after the Bangladesh bank’s practices. To obtain loans from the fund, women form peer groups, or circles, of five women. The membership of the circle is determined by the women themselves, which helps to ensure that the women are comfortable with each other. The circle then must go through training and orientation to discuss business skills, the rules of the fund, and the responsibilities of the circle members.

The attrition rate is high. A WSEP analysis of the circle program in the Englewood area of Chicago showed that 350 women reached the first stage of the Full Circle program—an initial interview—but only 50 women remained until the end of the orientation period, and only 35 women actually joined circles.

If the group makes it through orientation, the circle is certified by WSEP and becomes eligible for a loan. The circle members select two women to receive loans. A first-time loan is limited to \$1,500; the average loan is \$850. The women make 26 payments per year on the loan at an interest rate of 15 percent. If the first two women make timely loan repayments for two months, another circle member becomes eligible to receive a loan. The bulk of these loans are used to purchase equipment or inventory, such as accounting software, sewing machines, material for jewelry-making, or food preparation equipment. The loan circles are required to meet every two weeks to make loan repayments, decide about borrowing requests, discuss progress and problems, and analyze each other’s business strategies.

### **The Women of Phoenix Rising**

WSEP’s first loan circle was formed in the Rogers Park neighborhood in north Chicago. Many cultures are represented in the community: African, Asian, European, Caribbean, and Hispanic. Some residents call it the “neighborhood that speaks 50 languages.”

A relatively new circle that calls itself Phoenix Rising recently held its biweekly meeting at the Rogers Park Presbyterian Church. Rebecca Rosofsky, the WSEP enterprise agent charged with overseeing Phoenix Rising, arrived first. Her job is to ensure that all the financial arrangements of the group—loan payments, members’ bank accounts, and the circle’s bank ac-



photo courtesy WSEP

**Peer pressure encourages financial responsibility at the Women’s Self-Employment Project. Here, WSEP participants wait for loan disbursements at a Full Circle meeting.**

count—are in order. She also handles miscellaneous problem-solving for the group, which often means working seven days a week. Although technically Rosofsky oversees the group, she tries to restrict herself to an advisory role in circle meetings.

Tina Weller, whom the circle members elected chairman, runs the meeting. She and Jane Lasser are the first circle members to arrive. Weller works in a law office and is currently taking classes to become a paralegal. She wants to start a temporary-employee legal secretary service. Lasser makes costume jewelry. Among the members of the circle, she is farthest along in developing her business. She has been able to support herself by selling her jewelry to both Chicago-area stores and stores across the country.

The other members arrive individually over the next few minutes. Lillian Eglo, who works during the day for a visiting nurses association, devotes her evenings and weekends to starting “Lil’s on the Lake,” a food service that caters events in the area. She eventually wants to open a restaurant of her own. Iris Cotton makes lingerie for larger women. Her business, “Sensuous Hugs Lingerie,” has done well making customized fashions, but she eventually wants to market her designs to chains of lingerie shops and clothing stores for larger women. The final member, Gloria Pailer, who is currently unemployed, wants to make a business out of her hobby of embellishing clothes. She takes plain clothes and adds designs, beads, or other things to “funk ’em up.”

### **Mutual Support**

The women were initially attracted to the Full Circle program for similar reasons. They all want more than to “just get by.” They all needed more money to raise their standards of living. Each believed that her skill or idea was valuable. They all had difficulty locating start-up capital. A few of the women had bad credit histories; others had no collateral. For someone in this situation, Lillian says, WSEP seemed to be too good to be true.

Part of the attraction of WSEP is the opportunity to talk with other women who are facing similar problems. Each woman has different past experiences and is at a



photo courtesy WSEP

**Grameen Bank founder Dr. Muhammed Yunus at a Full Circle meeting in Chicago.**

different stage in the development of her business. As a result, each can offer other members different types of help. When Lasser has a question on credit histories, Weller—who previously worked at a bank—is able to respond. When Eglo mentions she has trouble getting a client to pay, Lasser—who has a lot of experience with problem accounts—gives her advice on the best ways to handle delinquent accounts receivable. And when Weller says she needs business cards, Cotton—who recently shopped around for them—tells her where to get good inexpensive cards.

The circle members say that the emotional support of the other women is as important as the financial help. In one meeting, Eglo, the caterer, talked about a hard week she was having. Because she has no car and she works during the day, she had great difficulty the prior weekend getting supplies and preparing food for an outdoor event. To make matters worse, it rained when she got to the event site, which ruined her plans. Afterwards, she said she wanted to sit down and cry, and maybe even give up her business. But the other women in the group immediately responded with offers of help with transportation and advice on how to plan, organize, and prepare for events. Iris even offered to give Lillian a large umbrella to help cope with the rain. The other circle members received similar offers of help and advice when it was their turn to discuss their business.

### **Off of Welfare**

WSEP has run up some very impressive statistics. Through the Full Circle program and several other self-employment programs, WSEP has served over 2,500 women; 650 women have participated in entrepreneurial training programs; and 300 small businesses have been started.

The Full Circle program of WSEP has made 136 loans with a total value of \$157,200 and has formed 21 loan circles. The repayment rate is 100 percent for each of the three years of the program: every woman who has borrowed money has paid it back. The average delinquency rate is approximately 2 percent. While the 2 percent figure is quite low by financial industry standards, it actually overstates the problem that the Full Circle program has with non-current loans. Nearly all of

the Full Circle's delinquent loans are less than 30 days late in being paid. Most banks don't consider a delinquency a "problem" loan until it is 90 days overdue.

In 1988, in an effort to go beyond anecdotal evidence, WSEP joined with the Illinois State Department of Public Aid to conduct a demonstration project to test whether self-employment could reduce welfare dependency. Twenty women on AFDC who had expressed an interest in self-employment were chosen to participate in the project. The average participant had been on AFDC for six years. Of the 20 participants, 16 women completed the project; today, 14 no longer receive AFDC benefits, while two others receive reduced benefits. The 12 most successful participants earned 61 percent more than the income they previously received from their combined public assistance payments. Recently, the women who successfully completed the program celebrated their second year off welfare.

WSEP administrators concede that, while many of the women improve themselves economically in the program, the ventures often are only able to make the women marginally self-supporting. To help clients earn more income, WSEP staff recently have highlighted the importance of product development and marketing to help the women reach a larger and broader clientele and keep their businesses growing. Still, there are many women in the program who are unable to markedly improve their standard of living after reaching self-sufficiency.

Yet WSEP Director Connie Evans cautions those trying to evaluate the program that "success" means different things to different women. Some of the women in the program want to build their businesses into large, highly profitable enterprises; others just want to become self-supporting; and others simply want to add to the family income. WSEP's only goal is to help women increase their income and decrease their dependency on public assistance. Anything that works toward that goal is a success. By that standard the program is performing well.

### **Barriers to Self-Employment**

Evans wants to remove city, state, and federal regulations and laws that are barriers to self-employment for disadvantaged women. Federal AFDC regulations that set income and asset limits for recipients are an example of this type of barrier. In most cases, for purposes of welfare eligibility, a self-employed welfare recipient cannot separate cash obtained through business loans or the value of a business's capital equipment from her personal assets. She cannot deduct the repayment of the principal of a business loan as a business expense. She cannot claim depreciation. Generally, a person loses welfare eligibility if her assets exceed \$1,000. If she has anything other than the smallest of businesses, she loses all her benefits. Compounding the problem is the possible loss of Medicaid benefits.

Evans would like to see changes so that a woman in a self-employment venture could retain her benefits for a set period until her income stabilizes. Currently, if a woman on welfare participates in job training or educational programs, she retains welfare benefits; if she finds employment, she is allowed 12 months of transitional



child care and Medicaid benefits. WSEP would like the same assistance and benefits made available to AFDC recipients who want to try self-employment.

Rent for public housing is another problem. As soon as a woman earns some income from a self-employment venture, her rent payment shoots up. This is problematic because income from a start-up enterprise is different from other employment. Revenues are usually volatile. One week a WSEP client may have a great deal of income and the next several weeks, none at all. WSEP is arguing for restraint in increases in rent until incomes from these ventures stabilize.

City ordinances are another impediment to work in the home. Most WSEP clients can't afford office or shop space, and working and selling in their home is their only option.

Finally, there is the over-arching problem with city and state government economic planning. In determining their economic and community development strategies, state and local governments often neglect self-employment as a tool to bring individuals out of poverty. Programs like WSEP are considered only as an afterthought, if at all.

Evans is quick to concede that self-employment is not a solution for every woman who is dependent on public assistance. But she believes there are ambitious and


talented disadvantaged women who are fed up with working for someone else, are in family situations that make it difficult for them to find employment, or just

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## **Self-employment should be an option for women who are trying to become economically self-sufficient.**

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have a dream of creating their own business. For these women, women like Ernestine Taylor and the members of the Phoenix Rising circle, self-employment may be their best opportunity to escape poverty.

WSEP has fulfilled part of that obligation by demonstrating that women can use self-employment to better themselves. Ernestine Taylor, the women in the Phoenix Rising circle, and many other ambitious and talented women have a brighter future as a result of WSEP's innovative efforts. 

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214 Massachusetts Ave., N.E.  
Washington, D.C. 20002  
(202) 546-4400, ext. 516

# LETTERS

Alger Hiss, Daniel Bell, Eduard A. Lopez, Sidney L. Jones, Louis D. Enoff, Robert J. Myers, Horace B. Deets, Dallas L. Salisbury, Owen Harries, Ray S. Cline, Robert B. Oxnam, Ben Stavis, Lee Edwards, Phillip D. Grub, June Teufel Dreyer, Keith Idso, G. M. Woodwell, Walter C. Oechel, Mark Harmon, Marion Clawson, Daniel Lashof, Andrew Gettelman, William A. Nierenberg, James M. Strock

## To Tell the Truth

*On April 6, 1992, Adam Meyerson, editor of Policy Review, sent the following letter to Alger Hiss:*

Dear Mr. Hiss:

The archives of the Communist Party of the Soviet Union are becoming available to historians now, and the details of whatever involvement you may have had with the CPSU will presumably become known. Should you wish to make your story known yourself, *Policy Review* would be very interested in publishing it.

*Policy Review* is the quarterly magazine and flagship publication of The Heritage Foundation. I enclose a copy of a recent issue, which includes tributes to seven heroes of the Cold War—Winston Churchill, Harry Truman, Konrad Adenauer, George Meany, Whittaker Chambers, John Paul II, and Ronald Reagan.

Should you wish to make your story known in our pages, we would be interested in either an article or an interview. If you joined the Communist Party, we would want to know why. If you ever committed espionage for the Soviet Union, we would want to know why. If you would want to apologize to Whittaker Chambers for any reason, we would want to publish your apology. We would also want to know if you ever became disillusioned with the Soviet Union or ever broke with the Communist Party and, if so, why.

Please let us know if you would like to tell your story in this way.

## State of Denial

*Mr. Hiss replied to this request on October 7, 1992.*

Dear Mr. Meyerson:

Thank you for your letter of 6 April 1992 inviting me "to make [my] story known in [your] pages" now that formerly secret archives of the Soviet Union are becoming available to historians. The delay in my reply is occasioned by the time it has taken to conduct thorough research at the archives in Russia.

As I have said and written for some 44 years, I was never a member of the Communist Party and never committed espionage for the Soviet Union. Therefore, I personally have nothing to add. However, I am pleased to inform you that, as a result of the opening up of the archives of the CPSU and intelligence services of the Soviet Union, I do have something new to report.

I wrote to Russian officials in charge of the archives to ask them for all the Soviet materials about my case. Following up my letters and at my behest (advanced age and poor eyesight keep me close to home), John Lowenthal, an historian/documentary filmmaker of the Cold War and of my case, conducted research at the archives and met with Colonel-General Dmitry A. Volkogonov, Counsellor of the President of Russia, People's Deputy of the Russian Federation, and Corresponding-Member of the Russian Academy of Sciences. General Volkogonov is Chairman of the Commission for the Accession of KGB and CPSU Central Committee Archives of the Supreme Council of the Russian Federation as well as co-chairman of the American-Russian commission investigating the fate of prisoners of war and other Americans held in the Soviet Union. He is also an historian and biog-

rapher of Stalin and Trotsky.

I enclose a copy of General Volkogonov's response of 14 October 1992 authoritatively confirming that I was never a spy for the Soviet Union. (As for the accusation that I was a member of the Communist Party USA, there is no supporting evidence whatsoever in any archive or known to any Russian official consulted by Mr. Lowenthal.)

I trust that this answers your questions and that you will print this entire letter and as written.

**Alger Hiss**

Dear Mr. Hiss:

Thank you for your letter of 27 October 1992, which we shall publish in a forthcoming issue of *Policy Review*.

Our invitation to you still stands. If you ever joined the Communist Party or ever committed espionage for the Soviet Union, we would be happy to publish an article in which you explained why. General Dmitry Volkogonov's statement cannot be regarded as the last word on this subject.

General Volkogonov is a distinguished historian with extraordinary access to Soviet files, but he may not have had access to all the relevant archives on Soviet agents in the United States in the 1930s. Indeed his declaration that he saw no evidence that Whittaker Chambers was a Soviet agent may have been a signal by Volkogonov that he did not see the proper documents. The truth can be better judged when KGB and Soviet military intelligence (GRU) archives are made openly available to Western as well as Russian historians.

Even then, historians must con-