

*Policies promoting Microenterprises in Colonias. What works? What does not work? And Why?*

Cecilia Giusti<sup>1</sup>, Ph.D.  
January 30, 2003

**I. Research Question**

The Small Business Administration Office reports that small businesses<sup>2</sup> in the U.S. represent more than 99 percent of all employers, employ 51 percent of private-sector workers, and represent nearly all of the self-employed, with Texas following such a pattern (SBA 2002). Small businesses are widely recognized as a valuable foundation in fostering economic growth. Of those who are self-employed, which represents 7 percent of the work force, 53 percent have home-based businesses and 3 percent own franchises (SBA 2002).

Additionally, women-owned businesses constitute a highly dynamic sector within this trend. The Organization for Economic Co-operation and Development estimates that women entrepreneurs<sup>3</sup> in the U.S. increased from 29.7 in 1980 to 35.2 percent in 1990 (OECD 2000), and the U.S. Economic Census reports that women-owned business<sup>4</sup> increased 16 percent in the 1992-97 period.

Several attempts have been made to promote the development of small businesses, both to inject dynamism in the economy and to improve living standards, as self-employment is seen as one route out of poverty. At the federal, state, and local levels policies are being designed to reach and support potential businessmen and businesswomen to become financially independent. This paper discusses our present

---

<sup>1</sup> Dr. Giusti is a Visiting Professor at the Landscape Architecture and Urban Planning Department and a Research Associate at the Center for Housing and Urban Development at the School of Architecture at Texas A&M University.

<sup>2</sup> SBA defines small business as “independent business with less than 500 workers”

<sup>3</sup> The Organization of Economic Co-operation and Development (OECD), define entrepreneurs as workers who declare their professional status to be that of *employers or own-account workers*

<sup>4</sup> Women-owned business are defined as privately held firms in which women own 51% or more of the enterprise

knowledge of how effectively these policies promote microbusinesses from the point of view of Colonias on the Texas-Mexico border. To what extent do such promotions reach the population in these low-income communities in Texas? As they are designed and implemented, should we expect these policies to have a positive effect on the intended beneficiaries?

I propose that colonias residents, who fulfill the conditions of “minority and economically disadvantage entrepreneurs” are not benefiting as expected from policies aiming to serve their needs as business men and women. This problem may arise from lack of knowledge of the opportunities available, or from communication problems that prevent the proposed policies from reaching the intended target group, or from the design of such policies, or from a combination of them. Discussing this proposition will be the core of this paper.

During the summer of 2002 the Center for Housing and Urban Development (CHUD) of Texas A&M University (TAMU) developed a microenterprise training and development program in four colonias in the Laredo area: Rio Bravo, El Cenizo, Larga Vista and Quad (Mirando) cities. This program was based on the unquestionable need in the area and the fact, supported by research, that the resource most lacking in low-income communities is education and training. Based on the infrastructure set by the Field-Base Research and Learning Center (FRLC) of CHUD, we worked mainly with Hispanic women from these communities who showed interest in exploring ways to generate independently some extra income. I was in charge of starting and implementing the program. This paper is based primarily on this experience.

From this training and development program, we realized the lack of systematic information on how businesses have been established, how they perform and their current struggles in Colonias. And as a result I proposed a research project to gain a more comprehensive understanding of microbusinesses in Colonias along the Texas-Mexico border, my main focus being their contribution to economic development and to the designing of policies to serve the needs of this economic group.

This paper, then, represents a combination of my experience in training microentrepreneurs in Colonias and my ongoing research. It is not a finished work, but it expresses the state of the investigation and the bases for my research proposal.

## **II. Research Location**

The border area between the U.S. and Mexico can be characterized as a distinct economic region as it shows unique characteristics clearly different from the rest of the country. From Texas to California on the U.S. side and from Nuevo Leon to Baja California on the Mexican side, this region has frequently been a focus of study. During the last decade this border region has grown dramatically compared with the rest of the United States, NAFTA being one of the explanation factors. As trade between the U.S. and Mexico has increased dramatically, border areas have become great examples of the benefits and problems arising from such trade agreements.

However, this area is not a homogeneous region (Giusti 1988; Boudeville 1966). There are dynamic rich areas and there are stagnant poor areas. Colonias express the adverse side of this increased dynamism. As the city becomes more appealing to new investors and residents, the cost of living increases, and the low-income population tends to move away from the city, looking for more affordable housing. As a consequence of the lack of other low-income developments, Colonias became an option for these residents. Cities such as Laredo, Brownsville, and El Paso have grown dramatically and show signs of economic dynamism, offer more and better services and, at the same time, low-income settlements such as Colonias also grow and become more visible.

Our paper concentrates on the Colonias around the city of Laredo, in Webb County, Texas, where our training was done. Laredo is located on the border, Nuevo Laredo being the corresponding Mexican city.

### **II.1 What are Colonias?**

"Colonia" is a Spanish term for neighborhood or community. In Texas, following the Office of Attorney General definition, "Colonia" refers to a residential area along the

Texas-Mexico border that may lack basic water and sewer systems, electricity, paved roads, and safe and sanitary housing. Colonias can be found in Texas, New Mexico, Arizona and California, but Texas has both the largest number of Colonias and the largest colonia population.

According to the 2000 census, Texas contains 1,450 Colonias, a 21.5 percent increase from 1,193 colonias recorded in 1992 that are located primarily along the state's 1,248 miles border with Mexico. Currently, 350,000 residents (280,000 in 1992) are concentrated in these Colonias, an increase of 25 percent in eight years.

The development of Texas Colonias dates back to at least the 1950s, but the 1980s and early 1990s show the largest growth. Developers, taking advantage of scarce housing resources, created unincorporated subdivisions using agriculturally worthless land, land that lay in floodplains or other rural properties. They divided the land into small lots, put in little or no infrastructure, and then sold them to low-income individuals seeking affordable housing. In the beginning this “marginal” land was divided and sold with little control by local and state authorities. For a variety of reasons, regulations operating in most urban and rural developments in the country were not mandatory, and Colonias residents originally had very little control over the basic services provided to them or their legal status as landowners. As explained later, control of selling procedures in Colonias was almost nonexistent.

However undesirable such land, however, the demand was great because of the limited supply of adequate and affordable housing in cities and rural areas along the Texas-Mexico border. A growing number of low-income, low-skilled workers with very limited budgets were incapable of paying the city's housing costs. Cities became more and more expensive for these families, especially if they desired to own, rather than rent, their housing.

The accessibility of otherwise useless land and its commercialization by local developers coupled with the rising need for low-cost housing contributed to the development of new Colonias and the expansion of existing ones. People with low-incomes often buy the lots through a “contract for deed”, a property financing method

whereby developers typically offer a low down payment—as low as \$50.00—and low monthly payments but no title to the property until the final payment is made. Although apparently a very dubious arrangement, it has been an affordable alternative for thousands who could not afford formal financing systems; the prospect of becoming landowners for such small payments was very attractive to these low-income families. Another relevant fact for newcomers in Colonias is that they are able to build their houses in phases. While initially they may lack electricity, plumbing and other basic facilities, residents build homes as they can afford materials and keep on adding features as finances allow them.

Approximately half of the population in colonias do not have an adequate water supply and most do not have wastewater services. Most colonias have dirt roads without even gravel surfaces and have no surface drainage systems. Incidence of health problems is high. Flooding is common in many colonias, making the existence of privies an additional health problem.

## ***II.2 Colonias population profile***

Colonia residents are mainly of Hispanic origin (97 percent from the latest census). For the purpose of this paper I will use Census 2000 information for Rio Bravo Colonia as a sample of other similar communities. In Rio Bravo, according to the latest census, 98 percent of the population is of Hispanic origin. This is a very high percentage, especially when compared with the state of Texas (32 percent) and with the nation as a whole (13 percent). Rio Bravo Colonia and Webb County (94 percent of Hispanic population) are mainly populated by Hispanics, Mexico being the main country of precedence.

Educational levels are very low in Colonias. Whereas in the U.S. more than 80 percent of the population of 26 years of age and older have at least graduated from high school, in Rio Bravo this figure is only 21.5 percent. In Texas 75.7 have high school diplomas or higher education and in Webb County the figure is 53 percent. In Rio Bravo, only 2 percent of the population has a Bachelor's degree or higher. This is much lower than the Webb County at 14 percent, Texas at 23 percent and the national rate of 24

percent. It is clear that in terms of education, colonias, in general, and Rio Bravo, in particular, present very low performance.

A very interesting variable is residence in the last five years. Whereas in the U.S. as a nation, 54 percent of individuals have lived in the same house for the last five years, in the case of Rio Bravo Colonia, 70.3 percent declare living in the same house for the last five years. This variable has a value of 58.8 percent in Webb County and 49.6 percent in the state of Texas. This statistic is important because it tells us that population in colonias is more steady than in the rest of the country, contrary to the widely held belief that they are “temporary” communities. Many people considered the colonias as part of the “first stage” in a migration process from the south to the U.S., but it seems that the colonias population is more established than expected.

Another misconception about colonias is the presupposition that these are “Mexican communities”. In Rio Bravo in 2000, 60 percent of the population was American citizens by birth. In Webb County, 69.7 percent of the population claims the U.S as their place of birth, in Texas, the figure is 85 percent, and nationally the figure is 87.7 percent. Going one step further, from the 40 percent of the foreign-born population in Rio Bravo, 12 percent has entered the country in the last 10 years, which means that 88 percent of the foreign-born population has been living in the U.S. for more than 10 years. We find, then, a population that is more established than commonly accepted, and a population that is, for the most part, American.

Having said this, we also observed, following the same census, that 58 percent of Rio Bravo population declares they speak English “less than very well”. This is a very high figure compared with the 12 percent in the state of Texas. Webb County has 44 percent of the population not speaking English “very well,” and the country as a whole only shows 4.2 percent in this category. Additionally, 95 percent of the population in Rio Bravo Colonia declares that they speak Spanish at home. This is interesting because if we relate it with the previous statistic of nativity, we find that although 60 percent of the population in Rio Bravo was born in the U.S., most of them keep Spanish as the home

language, and 58 percent speak English “less than very well”. Indeed, when any service is provided in Colonias, to be successful, communication must be in Spanish.

Median annual household income in Rio Bravo Colonia is \$17,149, which is about one-third of the median household income in the country and about a quarter of that in the State of Texas. Average family size is 4.8 people, much higher than the 3.14 in the nation. The result is that income per capita is much lower in Colonias. In the case of Rio Bravo, we observe that the national per capita income of \$21,587 is 4.7 times the per capita income in Rio Bravo, which is \$4,556. There is a big gap in terms of income between Colonias and the national standards. Thus, 57.6 percent of the population in Rio Bravo is defined as living below poverty level, a percentage much higher than the 31 percent in Webb County (which is still a large number). The state of Texas shows 15.4 percent in this category, whereas in the country as a whole, 12 percent of the population is living below poverty.

Summarizing, we observe a low-income, isolated, and ethnically concentrated market, where self-employment is already emerging as an income-generating alternative.

### **III. What are Microbusinesses**

Microbusinesses by definition are very small business. How small should a small business be to be considered a microbusiness? There is not a definite answer to this question. As in the case of small businesses, they should be defined based on the characteristics of each economic sector. According to the SBA, small businesses are generally defined as those businesses with less than 500 employees. Clearly, in the case of Colonias, microenterprises will typically be family businesses with very few employees.

As we may imagine, based on the ethnicity of the population in the border region, the majority of businesses should be owned by Hispanics. At the nation level, from the 20,821,934 firms in 1997, 5.8 percent were Hispanic-owned. In the state of Texas, that

percentage increases about three times, to 15.8 percent. In Webb County this percentage is more than 60 percent, and although there are no data at the Colonia level, we may assume that more than 90 percent should be Hispanic-owned business.

SBA divides the total number of firms between employer and non-employer firms. The non-employer firms figure gives a proxy variable to the microbusinesses as they do not have paid employees. Nevertheless, this could also refer to high-tech consultant firms, which are not the type of microbusinesses we are focusing on for this paper. Having said that, however, we are using this variable cautiously, but as a valuable indicator. Nationally, 74.6 percent of these firms are non-employer firms, and from all Hispanic firms in the nation 82 percent are non-employer firms. In the state of Texas, we find that 77 percent of total firms are non-employer firms, and from all Hispanic-owned firms in the state, 81 percent are non-employer firms. Therefore, as expected, the majority of businesses in general, and Hispanic-owned businesses in particular, refer to small firms.

Another relevant variable from the latest population census comes from the class of worker. The advantage of using census information is that data is found at the Colonia level. One category is called “self-employed worker in own not incorporated business.” This is a relevant approximation of the self-employment figure we are looking for. In the case of the whole country, 6.6 percent of all workers are defined as “self employed in own not incorporated business.” In Texas, this variable is 7.1 percent, in Webb County, 8.4 percent and in the Colonia Rio Bravo, the figure is 12 percent. This means that Colonias tend to have more self-employed individuals than the nation as a whole. The lack of job opportunities and very low skill levels are clear explanatory variables of such phenomena.

Considering that more than 90 percent of the Colonia population is Hispanic, we very likely will have a majority of what is nationally considered minority owned business. Besides, taking into account that the per capita income in Rio Bravo is \$4556, it is very reasonable to argue that most of the businesses in the Colonia will have very low capital, and most of them will not employ a great number of people.



Although this is a very good approximation, we do not have an exact figure for how many microbusinesses are working right now in Colonias. This figure will be one of the main outcomes of my ongoing research. I am conducting a survey in approximately 10 Colonias in the Laredo area (Webb County) and around Harlingen and Weslaco (Starr and Hidalgo Counties). This research aims at obtaining more systematic information on the number of microbusinesses in Colonias, their years of operation, level of efficiency, connectivity with other microbusinesses, etc. This is vital information, as most of these firms are not even registered and no record exists for their activities. A major outcome will also be to learn to what extent these businesses have taken advantage of one of the many policies designed to serve their needs. This assistance aimed at Colonias entrepreneurs could be financial and technical, in terms of support in the market study, or bookkeeping, developing a business plan, etc.

What we may infer, without much controversy, is that the majority of businesses in the Colonias will fall under the category of “socially disadvantaged” and “economically disadvantaged,” as well as “minority-owned business.” Afterward we will present some of the policies that target these economic groups.

#### **IV. Microbusinesses - Economic Growth – Theory - Policy effectiveness**

One common policy addressing the poverty problem has been the promotion of microbusinesses. Proponents have maintained that “self employment provides a route out of poverty and an alternative to unemployment or discrimination in the labor market” (Glazer 1975). This is not only a trend in the U.S., but an approach shared by most countries, especially in the developing world (see Hall 1996, Miller 1994, Miller and Clarke 1990, Raheim 1996 among others).

Referring specifically to marginalized ethnic and/or racial groups in the U.S., as Colonias are characterized, Glazer and Moynihan (1970) argue that “business in America is the most effective form of social mobility for those who meet prejudice.” Harrison

(1995) and Kijakazi (1997) study specifically Hispanic and African American minorities' entrepreneurs. They argue that the need of more and better job opportunities in marginalized groups in the U.S., lack of qualified job skills, and cultural barriers result in serious problems finding well-paid jobs. The promotion of self-employment among these groups has been seen as an important policy with the objective of improving living conditions and securing job opportunities. Issues such as discrimination, and cultural barriers, argue supporters of this view, are expected to be avoided through self-employment policies.

Although this was the more prevalent approach in the 1970s and 1980s, there is a growing skepticism about the effectiveness of these policies. Mixed views are now being discussed about the ability of microbusiness to encourage economic advancement (Light and Rosenstein 1995; Servon Bates 1998; Bates 1990). The assumption that poor, disadvantaged minority populations can use microenterprise programs as an entry point into the mainstream economy and as a route out of poverty is seriously questioned. Defining success as "leading to economic sufficiency," Servon and Bates (1998) argue that entrepreneurs most likely to succeed have higher education and capitalization levels, and that those who match the category of "disadvantaged" in their educational level the least likely to succeed as entrepreneurs.

Following the same discussion, in a more recent study, Fairlie (2001) has acknowledged that self-employment has actually worked as a better route for economic success than fixed-income strategies. He analyzes data for men and women in disadvantaged communities. Comparing self-employment with low-paying jobs earnings—which are the only jobs available for unskilled workers—he finds a more optimistic result. His findings show that self-employment strategies clearly have been more effective for men in business, whereas women have shown less success. It seems that female entrepreneurs have encountered more obstacles that need to be addressed in a different way than their male counterparts in their way out of poverty.

Therefore, conflicting reports on our understanding of men and women's entrepreneurial behavior and its impact on economic performance result in lack of

consensus on the best policies to alleviate poverty. The big question in our ongoing study is to what extent our knowledge of low-income, isolated populations in Colonias along the border matches or does not match these portrayals. Our research aims at bringing more elements into the discussion of the link between self-employment and well-being based on the case of Colonias in the Texas-Mexico border region.

As it is clear from the Fairlie study referred to above (2001), special issues need to be addressed for the promotion of women in business from the lowest income groups. In general, the contribution of women-owned businesses are recognized as they are seen as promoting increases in family income and community economic development. Because women are expected to work near their homes, it is more likely that they will start businesses within their communities, thus benefiting community economic development (Jones 1993). At the same time one of the main findings of our research will be to have a better account of how many of these potential or current entrepreneurs have (or possibly could have) benefited from federal / state / local policies promoting self-employment.

Bates (2002) analyzed the Minority Enterprise Small Business Investment Company (MESBIC) that worked during the Clinton Administration. While the purpose of the program was to support minority business, half of the loans approved under this program went to New York City cab medallions. Taxi driver medallions represent outstanding collateral as they have appreciated steadily in value and they are highly liquid. If the taxi owner defaults on the loan, the MESBIC repossesses the cab medallion and sells it for an amount exceeding the outstanding loan balance. Bates suggested that the lesson learned from the MESBIC is that two distinctive small business financing strategies dominate among surviving MESBIC's that operate profitably: 1) asset-based lending that is collateral driven and 2) venture-capital investing targeted to large-scale MBEs run by sophisticated, highly experienced business managers.

Headd (2000) will argue that small businesses, especially those with less than 10 employees, show higher shares of employees working part time, employees with a high school or less education, and employees 65 years of age or older. He also finds that small

firms may play a major role in aiding those making the transition from welfare to work. We expect that the type of business found in Colonias will match these characteristics, and will likely generate some employment. However, although job-creation is not expected to be the main objective promoting these microbusinesses, it could be a secondary benefit.

My argument is that while Colonias are characterized as “sub-standard housing communities,” we generally emphasize the first part and forget the last: they are communities. These communities, mainly isolated from urban areas, are starting to enjoy more services as state and federal money is going there. And, as observed before, they enjoy a relatively stable population, and regardless of the many difficulties they face, Colonias are showing signs of being livable communities. As dynamic communities, they should be in constant need of more services like shopping, food, and basic services establishments. To serve these needs, we expect a variety of businesses to be situated in these communities.

However, a basic question of how many businesses are in colonias is not an easy one. There are no clear records of the number of businesses and their level of operation. If we combine the basic profile of a Colonia resident and the needs in these communities, we can build up the role businesses may be playing. This is a clear example of the route out of poverty: the need to create jobs in a very tight labor market, especially for those with very low job skills.

## **V. Government Policies Promoting Microbusinesses**

Given the importance of small businesses and microbusinesses in the economy, there are several policies promoting them. From the federal government down to local authorities, a broad range of policies supports the creation and growth of small businesses. We discuss here policies promoting the transfer of people who can't get into

the labor market into business—from scarce, low-paying jobs into independent business—as a way out of poverty.

It is clear though, that not all small businesses require the same type of policies; as observed before, there are several types of small businesses. In our paper we concentrate on microbusinesses in Colonias that are characterized by very small size, concentrating on services or products with little value added that are serving local communities.

The Small Business Administration (SBA) initiated the *Microenterprise Program*. Understanding the importance of this economic activity, SBA has conceived a set of policies and functions that are expected to encourage the promotion and support of microbusiness. The design, though, is not straightforward. The federal government, in general, does not deal directly with local beneficiaries. SBA establishes specific agreements with local organizations or institutions that are the intermediaries and will manage federally supported money to promote microbusiness in their communities. These intermediaries are called *Small Business Development Centers*. More than 58 SBDC in Texas are distributed into four main District Offices: San Antonio, Lubbock, Houston, and Dallas/Fort Worth. The Laredo Development Foundation, within the San Antonio District Office, serves the Laredo area. However, as we have observed, its outreach capabilities are limited in terms of Colonias.

Reaching the Colonias population is not an easy task. As presented before, Colonias residents are isolated, not only geographically but also culturally and in many cases they do not even speak English “very well.” Most of the services that are more likely to actually reach this population in these communities will actually have to go to Colonias. We observe that Colonia residents do not commonly go to the city nearby to use services not provided in their area. Several variables interact in this situation, including cultural background, lack of self-esteem, lack of language skills, and geographical isolation. In order to have services that reach these beneficiaries, service providers need to get into “Colonias territory.” Furthermore, as the service is better received if provided locally and if providers communicate in Spanish, the most successful

approach should be to deliver the service through the resources available in the local community. This is the approach the Colonias Program from TAMU has used very effectively. The use of “Promotoras”<sup>5</sup> as the deliverer has allowed these communities to really benefit from the services available to them. In fact, the training and development program TAMU promoted in the Summer 2002 took advantage of the trust residents have in their Promotoras who actively participated in our training.

### ***Policies Promoting Microbusiness and Self-Employment***

Following SBA regulations, there is a special category for “**disadvantage entrepreneur**” that will be useful because it gives some preferential treatment to people in this category when they apply for loans and because more resources are assigned for this category at the federal level.

***Disadvantaged microentrepreneur***--This is the owner, majority owner, or developer, of a microenterprise who is also:

1. A low-income person;
2. A very low-income person; or
3. An entrepreneur who lacks adequate access to capital or other resources essential for business success, or is economically disadvantaged, as defined below.

***Economically disadvantaged microentrepreneur***—This is an owner, majority owner, or developer of a microenterprise whose ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities as compared to others in the industry such that his or her ownership of a small business would help to qualify the small business for assistance.

***Small business development Program***—The Small Business Act authorize a Minority Small Business and Capital Ownership Development program designated the Business Development (BD) program. The purpose of the BD program is to assist eligible small disadvantaged business concerns compete in the American economy through business

---

<sup>5</sup> Promotoras are Colonia residents hired from the community who are trained to do the outreach activities.

development. The applicant concern must possess reasonable prospects for success in competing in the private sector if admitted to the BD program. To do so, it must be in business in its primary industry classification for at least two full years immediately prior to the date of its BD application. Through its private sector service providers, SBA may provide a wide variety of management and technical assistance to eligible individuals or concerns to meet their specific needs, including: Counseling and training in the areas of financing, management, accounting, bookkeeping, marketing, and operation of small business concerns; and the identification and development of new business opportunities.

***Historically Underrepresented Business (HUB)***—Both at the federal and state level efforts are being made to ensure that HUB receives preferential treatment in order to obtain state-sponsored contracts. The HUBZone Empowerment Contracting Program stimulates economic development and creates jobs in urban and rural communities by providing federal contracting preferences to small businesses. These preferences go to small businesses that obtain HUBZone (Historically Underutilized Business Zone) certification, in part by employing staff who live in a HUBZone. The company must also maintain a principal office in one of these specially designated areas.

***Microloan Demonstration Program***—SBA contracts with local lenders and technical assistance institutions to provide the funding and support for microbusinesses. The list of technical Assistance Providers in the state of Texas are listed on appendix 1. From these eight organizations, there are specifically two of them, Accion Texas and the Rural Development and Finance Corporation (RDFC) that are currently working –or at least are starting to work—with Colonias in the Webb County. We worked closely to these institutions as they actively supported our training in the four colonias in Webb County.

When approaching RDFC, we have learned that their target clients are already established businesses that have at least two years of operation, and showing tax records is a requirement to access their loans. Still, RDFC will not reject a loan even when there are problems with the applicant’s credit history. Another advantage of RDFC loans is

---

The advantage of having promotoras is that they are trusted individuals from their communities

that they could be very small amounts, which banks will be more reluctant to offer. In addition, if the applicant asks the loan to buy a sewing machine, RDFC will take this machine as a collateral.

Accion Texas, on the other side, offers loans even to start-ups, and expressed their willingness to give loans to applicants who have bad or no credit history. The main restriction came in its outreach capacity. In this case it is clear the need to actually go to Colonias to provide the service, and specially to provide technical support in order to design business plans that support a micro loan.

***IDA: Individual development Accounts***— This program, funded with the U.S. Department of Housing and Urban Development , consists of a very original scheme in which the beneficiary obtains both funding for a project, and at the same time receives training on how to manage money. This is a very ambitious financial literacy project. In Texas this program is specifically geared toward Colonias potential entrepreneurs. Over the course of two years, Accion Texas --a lending intermediary for HUD in the area-- expects to help 120 business owners maintain a savings account and develop financial literacy skills.

A potential entrepreneur who qualifies and obtains a loan from a financial institution will have to register and open an IDA account in a previously designed financial institution. Participants agree to make monthly deposits for 24 consecutive months, which will be matched dollar for dollar by Accion Texas. At the end of the program, participants will receive these matched funds for use in their business, stimulating investment and revitalization of the local economy. The program will enable residents to understand the importance of saving money and managing their finances through financial literacy training.

The issue is how many Colonia residents are actually using this program? As far as we have observed in our work in Rio Bravo, El Cenizo, Larga Vista and Mirando City a minimum number of the residents participating in our training were aware of this program. In fact, none had actually taken advantage of it or was planning to do so. More



technical support seems to be required so potential entrepreneurs may consider this alternative in their searching for financial resources. Just advertising through Internet, or through intermediaries located in the major urban areas is not guarantee for reaching potential beneficiaries. More outreaching programs are essential to actually serve the Colonias.

***Community reinvestment Act (CRA).*** The federal Community Reinvestment Act of 1977 was intended to encourage financial institutions to provide credit to businesses and individuals in low- and moderate-income neighborhoods<sup>6</sup>. Activities encouraged by the CRA include the financing of small businesses and community-based services such as child care, educational assistance, health and social services, affordable housing and other activities that can help revitalize or stabilize communities. The CRA requires periodic evaluations of financial institutions' records to determine how well they are meeting community or regional credit needs. The Financial institutions subject to the CRA are monitored by the federal Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Reserve System or the Federal Deposit Insurance Corporation (FDIC).

SBA has published a report on Micro business friendly banks in the United States. The report presents current business micro-loan data to small firms and the banks that serve them. The data contained is reported by banks to their regulating agencies through call reports and CRA reports. The interesting fact is that the smaller loan category is “less than 100k” amount much larger than the typical loan that Colonias entrepreneurs is expected to request.

---

<sup>6</sup> Financial institutions include state member banks, holding companies, non-bank subsidiaries of bank holding companies, edge and agreement corporations, branches and agencies of foreign banking organizations operating in the US and their employees and associates, according to Federal Reserve.

## **VI. Conclusions**

There is no clear information as to the number of business in Colonias along the border. Most of the data used in this paper serves as a “reasonable” approximation to the real number. In terms of the policies serving economically and socially disadvantaged microentrepreneurs, the information comes from the lender / financial institution. Data is generally aggregated and rarely specifies if it includes Colonias.

In addition, we have presented some of the policies and programs the Small Business Administration have to promote small business. Although the way in which SBA partners with local institutions and organizations seems like a positive policy, sometimes it gives big margin of error, as we have observed in the case of the Colonias around Laredo. For instance, the Laredo Development Foundation, an organization aiming at supporting small local businesses, seems to be more efficient supporting more “formal” established firms. The same observation can be made with respect to the Rural Development and Finance Corporation (RDFC) as it is actively trying to have a more visible presence in Laredo. As it supports businesses that have at least two years of operation, with a tax record already established, it is more likely to serve businesses in the city than the disadvantaged Colonia entrepreneur.

Accion Texas, as it presents itself as an organization willing to serve the needs of the least advantaged, with less requirements, it will be the most to be expected to serve financial needs of the Colonias in the area. However, it lacks outreach strategies that are more effective in Colonias.

One big question is why Colonia residents in this area are not taking advantage of the IDA program. This is a very generous program, in which the customer has very little to lose, and the benefit is very high. However, as far as our understanding of the current beneficiaries of this policy, there are very few cases in Colonias.

A similar situation is observed in relation to the Historically Underrepresented Business (HUB) cases. Most of the firms who are benefiting from this characterization

are firms in the city; they are usually bigger and more established, have historic records, and are more aware of the policies available to them. Although this is a very positive situation, it is not what is observed in Colonias. In these isolated communities the service most lacking is *information*. If we connect this with the fact that most of the population does not speak English proficiently, we have a better understanding of the problems Colonias residents encounter. Stronger outreach activities, with a strong Spanish content, are imperative if the goal is to reach the lowest-income population.

A big problem found when trying to match funding available with the needs of Colonias potential entrepreneurs is the lack of valuable collateral to get the loan. A second problem, on the side of the receiver, is the very little formal knowledge they have about how to set a business plan, a basic requirement when asking for loans. Another setback is the lack of information from the receiver about the possibilities available. On the part of the deliverer, we found limited capacity to actually reach the target population. The Colonia population is ethnically marginalized, has low language skills, and has limited self-esteem that makes outreach difficult.

In our ongoing research we will generate statistical data on the efficiency of policies promoting microbusinesses from the point of view of the client. Colonia entrepreneurs are to be interviewed in order to evaluate their needs, their current level of productivity, and to what extent they may take advantage of some of the current programs available to them.

## References:

Bates, Timothy, 1990, "New Databases in the Social Studies", *Journal of Human Resources*, Vol.25, No.4, pp.625-643

Bureau of Economic Census, Census 2000, URL: <http://www.census.gov/>

Echeverri-Carroll, Daniela Brandazza, Cecilia Giusti, 2001, "Free Trade and Women in Business in the Americas - What Role Should Women's Organizations Play?" (in Spanish) *InfoPYME*, Vol.4, October 2001

Fairlie, Robert W, 2001, Earnings Growth Among Disadvantaged Business Owners. Final Report to the Office of Advocacy, U.S. Small Business Administration. Internet, <http://www.celcee.edu/all/c20021037.html> Final Report to the Office of Advocacy, U.S. Small Business Administration

Center for Women-Owned Businesses in the United States, 2002: A fact sheet

Giusti, Cecilia, 1988, *Regionalization in Peru*, Master thesis, Institute of Social Studies, The Hague

Glazer, Nathan 1975, *Affirmative Discrimination: Ethnic Inequality and Public Policy*, New York: Basic Books Inc. Publishers

Hall, 1996, "Micro-enterprise", in *World Watch*, V.9, March-April, pp.10-19

Harrison, Rebecca Charlene, 1995, *Houston Hispanic Entrepreneurs. Profile and Needs Assessment*, New York: Garland Publishing, Inc.

Headd, Brian, 2000, "The Characteristics of Small-business Employees" in *Monthly Labor Review*, April, pp. 13-18

Jones, Mary. "1993. "Rural Women" in Allen & Truman, eds. *Women in Business. Perspectives on Women Entrepreneurs*, London: Routledge

Kijakazi, Kilolo, 1997, *African American Economic Development and Small Business Ownership*, New York: Garland Publishing, Inc.

Miller and Clarke, 1990, "Microenterprise Development in Third World Countries" in *International Journal of Technology Management* V.5, N.5, pp.513-522

Organization for Economic Co-operation and Development, 2000, *Women Entrepreneurs in SMEs: Realizing the Benefits of Globalization and the Knowledge-based Economy*, Paris: OECD

Raheim, S, 1996, "Microenterprise as an Approach to Promoting Economic Development in Social Work", *International Development*, Vol.39, No.1, pp.69-82

Richardson, Patricia and Christina Hartshorn. 1993. Business Start-up Training ". in Allen & Truman, eds. *Women in Business. Perspectives on Women Entrepreneurs*, London: Routledge

Roemer, Michael and Mary K. Gugerty, 1997, Does Economic Growth Reduce Poverty?, CAER Consulting Assitstante on Economic Reform II, Discussion Papers, Harvard Institute for International Development

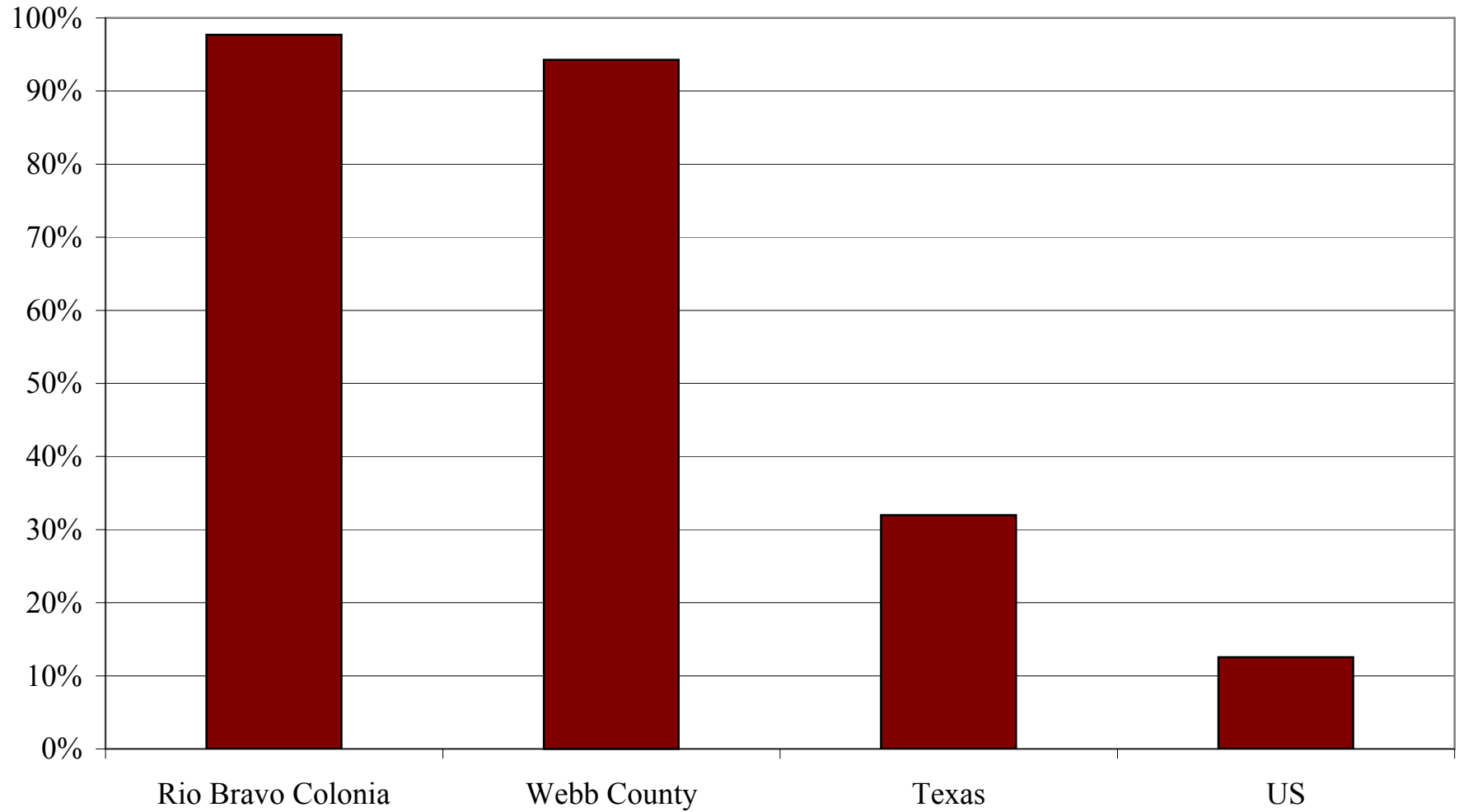
Small Business Administration, 2001, Office of Advocacy, Characteristics of Small Bunisess Employees and Owners

Small Business Administration, 2002, Office of Advocacy, "Small Business by the Numbers", URL: <http://www.sba.gov/advo/stats/sbafaq.pdf>

Servon, Lisa and Timothy Bates, 1998, "Microenterprise as an Exit Route from Poverty: Recommendations for Programs and Policy Makers." EconPapers Center for Economic Studies. Internet: <http://econpapers.hhs.se/paper/wopcenses/98-17.htm>

Wilkins, Joanne, 1987, Her Own Business. Success Secrets of Entrepreneurial Women, New York: McGraw-Hill Book Company

Fig.1 Percentage of Hispanic Population, 2000  
US, Texas, Webb County and Rio Bravo Colonia



**Fig 11. Growth Rates US 1982 - 1997 (in percentage)**

