

# **Policies Promoting Microenterprises in *Colonias*: What Works? What Does Not Work? And Why?**

by Cecilia Giusti, Ph.D<sup>1</sup>

## **I. Research Question**

The Small Business Administration Office reports that small businesses 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.<sup>2</sup> The same pattern is seen for small businesses in Texas (SBA, 2003). Small businesses are widely recognized as a valuable foundation for fostering economic growth. Of those who are self-employed — representing 7 percent of the work force — 53 percent have home-based businesses and 3 percent own franchises (SBA, 2003).

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

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 businesspeople to become financially independent. This paper discusses our present knowledge of how effectively these policies promote microbusinesses in *colonias* (defined in section II.1) on

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<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) defines entrepreneurs as workers who declare their professional status to be that of employers or own-account workers.

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

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 posit that *colonia* residents who fulfill the conditions of “minority and economically disadvantaged entrepreneurs” are not benefiting as expected from policies aiming to serve their needs as businesspeople. 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 those reasons. This paper will discuss these unmet needs and possible reasons why the policies are not benefiting their target audience.

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 Mirando. This program was based on the tremendous needs in the area and the fact, supported by research, that the resource most lacking in low-income communities is education and training (Harrison, 1995; Headd, 2000; Richardson and Hartshorn, 1993). 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 independently generate some extra income. I was in charge of starting and implementing the program. This paper is based on that experience.

From this training and development program, we realized there was a lack of systematic information available to researchers on how businesses got established, how they perform, and what their current struggles are like in the *colonias*. 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 the designing of policies to serve the needs of this economic group.

This paper, then, represents a combination of my prior experience in training microentrepreneurs in *colonias* and my ongoing research to gather more data and information in order to determine what policies and form of implementation will best serve the population of *colonias*. It is a work in progress, indicating the state of the investigation and providing the basis 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 that are clearly different from the rest of the country. From Texas to California on the U.S. side and from Tamaulipas 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 to the rest of the United States, in part due to NAFTA. As trade between the U.S. and Mexico has increased dramatically, border areas have become extreme examples of the benefits and problems arising from such trade agreements.

However, this area is not a homogeneous region (Giusti, 1988; Boudeville, 1966). Within it, there are rich, dynamic areas and there are poor, stagnant areas. *Colonias* express the undesirable side of increased dynamism. As a 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. Few developers build housing for low-income residents; as a consequence, *colonias* become an option for them. Cities such as Laredo, Brownsville, and El Paso have grown dramatically, show signs of economic dynamism, and offer more and better services, yet, at the same time, find low-income settlements such as *colonias* growing and becoming more visible on their fringes.

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, with Nuevo Laredo being the corresponding Mexican city.

## II.1 What are *Colonias*?

*Colonia* is simply Spanish for neighborhood or community. However, in Texas, following the definition of the Office of Attorney General (2002), *colonia* has come to mean 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-mile 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 showed 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 *colonia* residents originally had very little control over the basic services provided to them or over their legal status as landowners. As explained later, control of selling procedures in *colonias* was almost nonexistent.

However undesirable such land, 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 — and low monthly payments — but no title to the property until the final payment is made (Larson, 1995). 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 is 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 continue to add features as finances allow them.

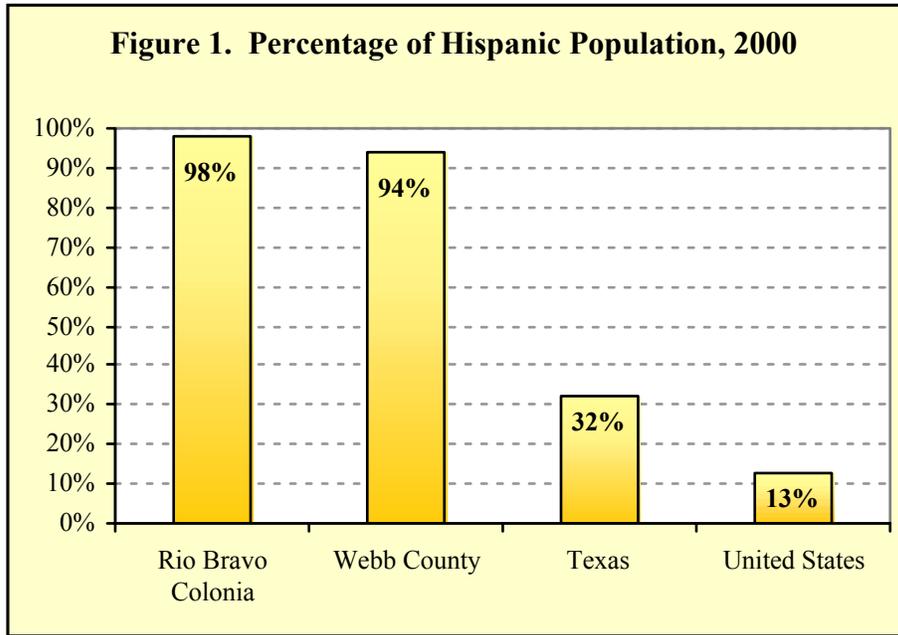
Approximately half of the population in *colonias* does not have an adequate water supply and most do not have wastewater services. Most *colonias* have dirt roads without even gravel surfaces and have no surface drainage systems. Incidence of health problems is high. Flooding is common in many *colonias*,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

## II.2 *Colonia* Profile

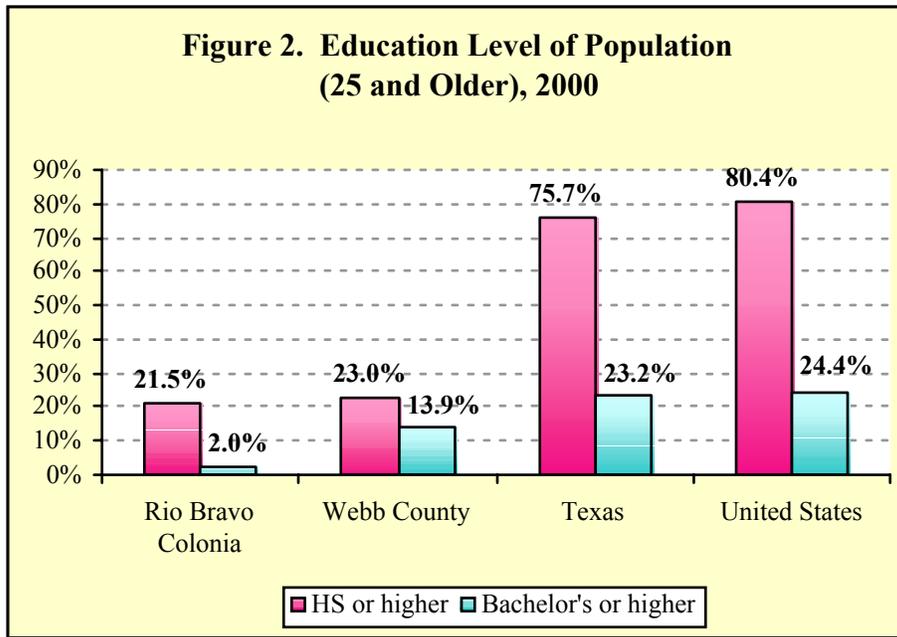
*Colonia* residents are mainly of Hispanic origin (97 percent, according to the latest census). For the purpose of this paper, I will use *Census 2000* information for Rio Bravo Colonia (hereafter referred to as Rio Bravo) as a sample of other similar communities. In Rio Bravo, 98 percent of the population is of Hispanic origin (Figure 1). 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). Both Rio Bravo and Webb County are mainly populated by Hispanics (the county is 94 percent Hispanic), most of them of Mexican heritage.

Educational levels are very low in *colonias* (Figure 2). Whereas in the U.S. more than 80 percent of the people who are 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 percent have high school diplomas or higher education, but 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 for 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.



Source: U.S. Census Bureau, *Census 2000*.



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A very interesting variable is residence in the last five years (Table 1). 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, 70.3 percent said they lived 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 the population in *colonias* is steadier than in the rest of the country, contrary to the widely-held belief that they are “temporary” communities. Many people consider *colonias* as part of the “first stage” in a migration process from the south into the U.S., but it seems that the *colonia* population is more established than expected.

**Table 1. Demographic, Social, and Economic Indicators, 2000**

	<b>Rio Bravo Colonia</b>	<b>Webb County</b>	<b>Texas</b>	<b>United States</b>
Population	5,553	193,117	20,851,820	281,421,906
Hispanic or Latino	5,425	182,070	6,669,666	35,305,818
Percent Hispanic	98%	94%	32%	13%
Percent (25 and older) with high school diploma or higher	21.5%	53.0%	75.7%	80.4%
Percent (25 and older) with bachelor degree or higher	2.0%	13.9%	23.2%	24.4%
Lived in same house since 1995	70.3%	58.8%	49.6%	54.0%
Born in the United States	60.3%	69.7%	85.0%	87.7%
Speaks Spanish at home	95.3%	91.3%	27.0%	10.7%
Speaks English less than "very well"	58.2%	44.2%	12.3%	5.2%
16 years and older	3,285	130,196	15,617,373	217,168,077
Number (16 and older) in labor force	1,517	69,019	9,937,150	138,820,935
Percent (16 and older) in labor force	46.2%	53.0%	63.6%	63.9%
Number unemployed	226	6,442	596,187	7,947,286
Percent unemployed	6.9%	4.9%	3.8%	3.7%
Median household income	17,149	28,100	45,861	50,046
Per capita income	4,556	10,759	19,617	21,587
Percent of individuals below poverty level	57.6%	31.2%	15.4%	12.4%

Source: U.S. Census Bureau, *Census 2000*.

Another misconception about *colonias* is the presumption that they are “Mexican communities.” In 2000, 60 percent of the people of Rio Bravo were 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, of the 40 percent of the population in Rio Bravo that is foreign-born, 12 percent 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, from the same census, that 58 percent of the people of Rio Bravo say they speak English “less than very well.” This is a very high figure compared with the 12 percent for the state of Texas. Webb County has 44 percent of its population not speaking English “very well,” while the U.S. as a whole shows only 4.2 percent in this category. Additionally, 95 percent of the people in Rio Bravo say they speak Spanish at home. This is interesting because if we relate it to 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, for any service provided to residents in *colonias* to be successful, communication must be in Spanish.

Median annual household income in Rio Bravo is \$17,149, which is about one-third of the median household income in the U.S. and about a quarter of that in Texas. Average family size is 4.8 people, much higher than the 3.14 in the nation. The result is that per capita income 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 of Rio Bravo is defined as living below the 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 in poverty.

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

### **III. Microbusinesses in *Colonias***

A microbusiness, by definition, is a 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 fewer than 500 employees. In the case of *colonias*, microenterprises will typically be family businesses with very few employees.

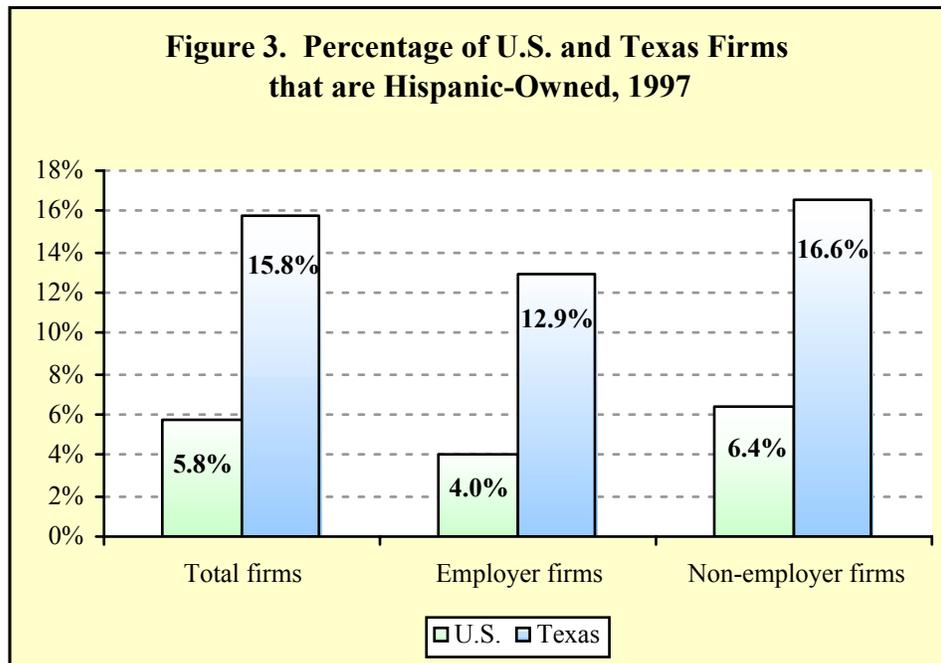
Based on the ethnicity of the population in the border region, the majority of businesses should be owned by Hispanics. In 1997, there was a total of 20,821,934 firms in the U.S., and only 5.8 percent of them were Hispanic-owned (Table 2). In the state of Texas, that percentage increases about three times, to 15.8 percent. In Webb County, the percentage is more than 60 percent. Although there are no data at the *colonia* level, in our current research, we observe that in the *colonias* where we are applying our survey, more than 90 percent of firms are owned by Hispanics.

SBA divides the total number of firms between employer and non-employer firms (Table 2). The non-employer firms figure gives a proxy variable to the microbusinesses, as they do not have paid employees. In theory, this could also refer to high-tech consultant firms, which are not the type of microbusinesses we are focusing on for this paper. However, it is not likely that non-employer firms in *colonias* belong to the categories of high tech or highly qualified professional services. Nevertheless, we are using this variable cautiously, as a valuable indicator. Nationally, 74.6 percent of these firms are non-employer firms, and of all the 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 of all the Hispanic-owned firms in the state, 81 percent are non-employer firms (Figure 3). Therefore, as expected, the majority of businesses in general, and Hispanic-owned businesses in particular, refer to small firms.

**Table 2. U.S. and Texas Firms by Race or Ethnic Origin of Owner, 1997**

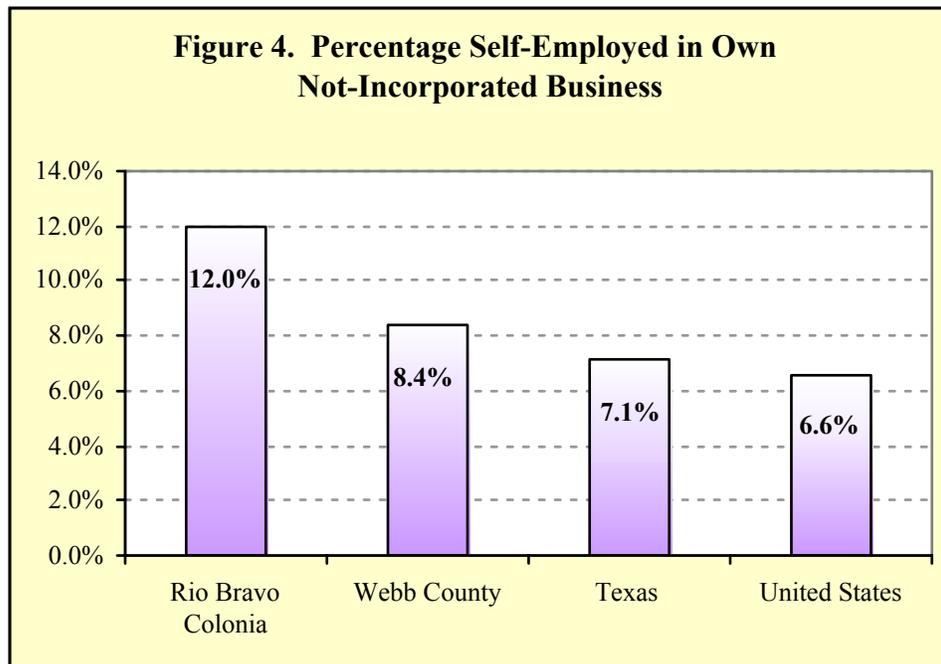
	Total firms		Employer firms			Non-employer firms		
	Number	Percent	Number	Percent	% from total firms	Number	Percent	% from total firms
<b>Total U.S. firms</b>	<b>20,821,934</b>	<b>100.0%</b>	<b>5,295,151</b>	<b>100.0%</b>	<b>25.4%</b>	<b>15,526,783</b>	<b>100.0%</b>	<b>74.6%</b>
Non-minority-owned firms	17,782,901	85.4%	4,679,929	88.4%	26.3%	13,102,972	84.4%	73.7%
All-minority-owned	3,039,033	14.6%	615,222	11.6%	20.2%	2,423,811	15.6%	79.8%
Black-owned	823,499	4.0%	93,235	1.8%	11.3%	730,264	4.7%	88.7%
Hispanic-owned	1,199,896	5.8%	211,884	4.0%	17.7%	988,012	6.4%	82.3%
Native American-owned	102,679	0.5%	20,105	0.4%	19.6%	82,574	0.5%	80.4%
Asian-owned	912,959	4.4%	289,998	5.5%	31.8%	622,961	4.0%	68.2%
<b>Total Texas firms</b>	<b>1,525,972</b>	<b>100.0%</b>	<b>348,166</b>	<b>100.0%</b>	<b>22.8%</b>	<b>1,177,806</b>	<b>100.0%</b>	<b>77.2%</b>
Non-minority-owned	1,125,932	73.8%	254,372	73.1%	22.6%	871,561	74.0%	77.4%
All-minority-owned	400,040	26.2%	93,794	26.9%	23.5%	306,245	26.0%	76.6%
Black-owned	60,427	4.0%	6,684	1.9%	11.1%	53,542	4.6%	88.6%
Hispanic-owned	240,396	15.8%	44,837	12.9%	18.7%	195,559	16.6%	81.4%
Native American-owned	39,549	2.6%	23,392	6.7%	59.2%	16,707	1.4%	42.2%
Asian-owned	59,668	3.9%	18,881	5.4%	31.6%	40,437	3.4%	67.8%

Source: U.S. Census Bureau, *Census 2000*.



Source: U.S. Census Bureau, *Census 2000*.

Another relevant variable that can be used to estimate the number of microbusinesses comes from the census variable “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 reasonable approximation of the self-employment figure we are seeking (Figure 4).



Source: U.S. Census Bureau, *Census 2000*.

In the U.S., 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 Rio Bravo, 12 percent. This means that *colonias* tend to have more self-employed individuals than the nation as a whole. This phenomenon is explained by the lack of job opportunities and very low skill levels characteristic of *colonias* and their residents (Robles, 2002; Rochin *et al*, 1998).

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 businesses. Moreover, taking into account that the per capita income in Rio Bravo is

\$4,556, 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.

This is an approximation, as we do not have an exact figure for how many microbusinesses are operating right now in *colonias*. In fact, one of the main outcomes of my ongoing research will be to come up with a figure that is as close as possible to exact. I am conducting a survey in approximately 20 *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 of their activities. A major outcome of this research will also be to learn to what extent these businesses have taken advantage of one of the many policies designed to serve their needs. Policies aimed at *colonia* entrepreneurs might include financial and technical support, assistance in completing a market study, bookkeeping, and developing a business plan, among others.

What we may infer, without much controversy, is that the majority of businesses in the *colonias* will fall under the SBA category of “socially disadvantaged” and “economically disadvantaged,” as well as “minority-owned business.”

#### **IV. Microbusinesses and Economic Development**

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; and Raheim, 1996).

Referring specifically to marginalized ethnic and/or racial groups in the U.S., as the population of *colonias* would be 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) specifically study Hispanic and African American minority entrepreneurs. They argue that, among marginalized groups in the U.S., the need for more and better job opportunities, the lack of qualified job skills, and cultural barriers result in serious problems for minorities to find well-paid jobs. The promotion of self-employment among these groups has been seen as an important policy with the objective of securing job opportunities and improving living conditions. Supporters of this view argue that discrimination and cultural barriers can be mitigated or avoided through policies that promote self-employment.

Although this was the more prevalent approach in the 1970s and 1980s, there is a growing skepticism about the effectiveness of these policies. The ability of microbusiness to encourage economic advancement is now getting mixed reviews (Light and Rosenstein, 1995; Servon and 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 being seriously questioned. Defining success as “leading to economic sufficiency,” Servon and Bates (1998) argue that the entrepreneurs most likely to succeed are those who have higher education and capitalization levels, and that the least likely to succeed as entrepreneurs are those who match the category of “disadvantaged” in their educational level.

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 — which are the only jobs available to unskilled workers — he finds a more optimistic result for self-employment. 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. Furthermore, Robles (2002) questions the definition of entrepreneurial success in analyzing low-income women in business along the U.S.–Mexico border. She proposes to include non-economic variables that are considered important within the Hispanic community in order to get a more accurate picture of “success.”

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 Fairlie's (2001) study makes clear, 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 is recognized 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). We will test this assumption in order to have a better account of how many of these potential or current entrepreneurs have (or possibly could have) benefited from federal, state, or local policies promoting self-employment.

One example of a similar inquiry into the effectiveness of certain policies was done by Bates (2002). He analyzed the Minority Enterprise Small Business Investment Company (MESBIC) that operated during the Clinton Administration. While the purpose of the program was to support minority businesses, half of the loans approved under this program went to New York City cab medallions. Taxi driver medallions represent excellent collateral, as they have appreciated steadily in value and they are highly liquid. If the taxi owner defaults on the loan, MESBIC repossesses the cab medallion and sells it for an amount exceeding the outstanding loan balance. Bates suggested that the lesson

learned from MESBIC is that among surviving businesses that got MESBIC loans and continue to operate profitably, two distinctive small business financing strategies dominate: 1) asset-based lending that is collateral-driven and 2) venture-capital investing targeted to large-scale MBEs (minority business enterprises) run by sophisticated, highly experienced business managers.

Headd (2000) also argues that small businesses, especially those with fewer 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 businesses found in *colonias* will match these characteristics and will contribute to creating wealth in these communities. 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 easy to answer. There are no complete 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 illuminate the role that businesses could 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 to promote them. From the federal government down to local authorities, a broad range of policies supports the creation and growth of small businesses. Policies promoting the transfer of people who cannot get into the labor market into business as well as policies promoting the transfer of people from low-paying jobs into independent business are genuine steps at getting them 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 research, we concentrate on microbusinesses in *colonias* that are characterized by very small size, dealing with services or products with little value-added, that serve 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 act as the intermediaries and manage federally-supported money to promote microbusiness in their communities. These intermediaries are called *Small Business Development Centers*. More than 58 SBDCs 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, its outreach capabilities are limited in terms of serving *colonias*.

Reaching the population of *colonias* is not an easy task. As presented before, *colonia* 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 actually reach these communities are services that go to the *colonia* because *colonia* residents generally do not go to the nearby city to use services that are not provided in their area.

Several variables interact to produce this situation, including residents' cultural background, lack of self-esteem, lack of language skills, and geographical isolation (exacerbated by lack of public transportation). In order to have outreach services that successfully get to these beneficiaries, service providers need to get *into* “colonias territory.” Furthermore, because the service is better received if provided locally and if providers communicate in Spanish, the most successful approach should be to deliver the service in Spanish through the resources available in the local community. This is the approach that the TAMU *Colonias* Program has used very effectively. Using *promotoras*<sup>5</sup> to deliver the services has allowed these communities to really benefit from those services available to them. In fact, the training and development program that TAMU implemented in the summer of 2002 took advantage of the trust that residents have in the *promotoras* who actively participated in our training—trust they wouldn't necessarily have in outsiders.

#### V.1 Policies Promoting Microbusiness and Self-Employment

Following SBA regulations, there is a special category for “disadvantaged entrepreneur.” People in this category receive preferential treatment when they apply for loans because more resources are assigned to this category at the federal level. Below are the main subcategories of this designation.

*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

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<sup>5</sup> *Promotoras* are *colonia* residents hired from the community who are trained to do the outreach activities. The advantage of having *promotoras* is that they are trusted individuals from their communities.

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 authorized 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 businesses compete in the American economy through business development. The applicant 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 to meet their specific needs, including the identification and development of new business opportunities, as well as counseling and training in the areas of financing, management, accounting, bookkeeping, marketing, and operation of small business concerns.

*Historically Underrepresented Business (HUB)* — Both at the federal and state level, efforts are being made to ensure that a 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 (intermediary) lenders and technical assistance institutions to provide funding and support for microbusinesses. A list of these local lenders and technical assistance institutions in the state of Texas are listed in the appendix. Two of these eight organizations, Acción Texas and the Rural Development and Finance Corporation (RDFC), have started to work with *colonias* in Webb County.

The clients that RDFC targets are already-established businesses that have been in operation at least two years and can show tax records as a requirement to apply for a loan. Still, RDFC will not automatically reject a loan even if there are problems with the applicant's credit history. Another advantage of an RDFC loan is that it can be a very small amount, smaller than most banks are willing to offer. In addition, RDFC is flexible in terms of the required loan collateral. If the applicant asks for a loan to buy a sewing machine, RDFC will accept that machine as collateral.

Acción Texas offers loans even to start-ups and is willing to give loans to applicants who have bad or no credit history, but its main drawback is its lack of outreach capacity. In this case, it is clear that there is a need for Acción Texas to actually *go to* the *colonias* to provide its services, especially technical support in order to design business plans that support a micro loan.

*IDA: Individual Development Accounts* — This program, funded by the U.S. Department of Housing and Urban Development (HUD), consists of a very original scheme in which the beneficiary obtains funding for a project and, at the same time, receives training in how to improve financial management. This is a very ambitious financial literacy project. In Texas, this program is specifically geared toward potential entrepreneurs in *colonias*. Over the course of two years, Acción 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 in a previously-designated financial institution. Participants agree to make monthly deposits for 24 consecutive months, deposits that will be matched dollar for dollar by Acción 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.

So 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, a minimal 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 that potential entrepreneurs may consider taking advantage of the IDA program in their search for financial resources. Merely advertising through the Internet or through intermediaries located in the major urban areas will not guarantee that potential beneficiaries will find out about such programs. More outreach programs are essential in order to actually serve the *colonias*.

*Community Reinvestment Act (CRA)*. The 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 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 CRA are monitored by the 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 microbusiness-friendly banks in the United States. The report presents current business microloan data to small firms and the banks that serve them. The data are 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," an amount much larger than the typical loan that a *colonia* entrepreneur is expected to request.

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<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 U.S., and their employees and associates, according to the Federal Reserve.

## VI. Conclusions

Self-employment is considered one of the most effective policies to overcome poverty. Microbusinesses owners belong to this category. In general, it is accepted that in low-income communities with high unemployment rates and low educational attainment, the promotion of self-employment through the creation of microbusinesses is a positive policy that allows these individuals to overcome their limitations to entering the labor market. The Small Business Administration (SBA) has designed several policies to support the creation and growth of these businesses by classifying them as “disadvantaged businesses,” which allows them to access preferential financial treatment, and by creating programs such as the Microenterprise Development Program.

*Colonias* along the Texas–Mexico border emerge as a clear example the kind of communities that these policies are intended to benefit: low-income communities with a high level of unemployment, an average educational attainment of only 6<sup>th</sup> grade, low English skills, and a concentration of a minority (Hispanic) population.

This paper looked at the extent to which certain federal, state, and local policies intended to benefit, among others, people in *colonias* — particularly entrepreneurs and potential entrepreneurs — were actually able to reach them. Though our research is not completed, there are several indicators that suggest areas for improvement in the delivery of services provided through these policies.

We have found, so far, that there is no reliable information on the number of businesses in *colonias* along the border. Most of the data used in this paper are a reasonable approximation of the real numbers. Information about policies serving economically and socially disadvantaged microentrepreneurs comes from lenders and financial institutions, and that data is generally aggregated and rarely specifies whether it includes *colonias*. This dearth of specific, reliable data is a barrier to obtaining good research results; therefore, we are currently administering a survey in a sample of *colonias* in order to collect relevant data on their businesses.

This paper has also presented some of the policies and programs that the SBA has designed to promote small businesses. SBA partners with local institutions and organizations, and these partners are in charge of outreach to the clients. We have observed that in some cases, local partners that are located in cities have not taken their services out *to* the possible beneficiaries. Thus, the really needy microentrepreneurs in the *colonias* — who often cannot get to the cities where the partners are located — do not benefit from these available funds. We have observed that many people in these communities lack knowledge about the services that are ultimately designed to serve their needs. For instance, the Laredo Development Foundation (located in the city of Laredo), an organization aimed at supporting small local businesses, seems to be more efficient at supporting more formal, established firms but is less successful at reaching business owners in *colonias* in the region. The same observation can be made with respect to the Rural Development and Finance Corporation (RDFC) as it actively seeks a more visible presence in Laredo. Because it supports businesses that have been in operation at least two years and have an established tax record, it is more likely to serve businesses in the city than the disadvantaged *colonia* entrepreneur.

Acción Texas, a not-for-profit financial institution, presents itself as an organization willing to serve the needs of the least advantaged. This institution has fewer requirements for loan eligibility and is willing to approve loans for start-up businesses; so it is more likely to benefit people in the *colonias*. However, Acción Texas has only just started to enter these communities, so there is little evidence of their success at this point. One big question is why *colonia* residents in this area are not taking advantage of the IDA program. According to Acción Texas, only two applicants (out of four) have successfully opened an IDA. This is a very generous program in which the customer has very little to lose and the benefits from it are very high, yet the number of people in *colonias* benefiting from it is very limited.

A similar situation is observed in relation to the Historically Underrepresented Business (HUB) cases. Most of the firms that benefit from the HUB designation are in the city; they are usually bigger and more established, have historic records, and are more

aware of the policies available to them. This is a very positive situation, but it is not repeated in the *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 that *colonia* residents encounter. Stronger outreach activities, especially in Spanish, are imperative if the goal is to help the lowest-income population out of poverty.

For *colonias*, there are problems on both the receiving end and the giving end of policies designed to benefit entrepreneurs and small businesses. For recipients, we found that a big problem in trying to match available funding with the needs of potential *colonia* entrepreneurs is their lack of valuable collateral to get a loan. A second problem is the very little formal knowledge they have about how to draw up a business plan, a basic requirement when asking for a loan. Another setback is that *colonia* residents lack information about the possibilities for aid that are available. Among organizations that deliver services, we found limited capacity to actually reach the target population. The *colonia* population is ethnically concentrated and geographically marginalized and has limited English language skills and low self-esteem, all of which 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 being interviewed in order to evaluate their needs, their current level of productivity, and the extent to which they take advantage of any of the current programs available to them.

## Appendix

### LOCAL LENDERS AND TECHNICAL ASSISTANCE INSTITUTIONS FOR THE MICROLOAN DEMONSTRATION PROGRAM

1. Acción Texas (San Antonio)
2. Business Invest In Growth (BIG) (Austin)
3. Business Resource Center Incubator (Waco)
4. The Corporation for Economic Development of Harris County (Houston)
5. Neighborhood Housing Services of Dimmit County (Carrizo Springs)
6. Rural Development and Finance Corporation (San Antonio)
7. San Antonio Local Development Corporation (San Antonio)
8. Southern Dallas Development Corporation (Dallas)

There has been only one recipient of a technical assistance grant in Texas, the Corpus Christi Chamber of Commerce.

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