



*Success in the developing world has inspired an emphasis on microfinance as an economic development strategy in the U.S., especially along the Texas–Mexico border.*

# Incubating Microfinance: The Texas Border Experience

*By Laila Assanie and Ragbav Virmani*

In many developing countries, microfinance has succeeded as an antipoverty strategy by creating jobs, fostering financial stability, enhancing vocational skills and building economically resilient communities among lower income families.

In Bangladesh from 1991–92 to 1998–99, microfinance reduced poverty rates by about 3 percent a year for direct beneficiaries and led to significant declines in poverty among nonbeneficiaries.<sup>1</sup> In western India, organizations such as SEWA Bank put an added emphasis on saving. SEWA has reported income gains of 12 to 40 percent among participants, resulting in lower poverty rates; increased spending on food, medicine and education; and greater financial security in general.<sup>2</sup>

Success in the developing world has inspired a growing emphasis on microfinance as an economic development strategy in many parts of the United States, including communities along the Texas–Mexico border. The microfinance approach relies not on social safety nets and welfare payments but on market-oriented programs that provide assistance to small businesses. Encouraging self-reliance may lead to greater income, self-sufficiency and control over one's financial future.

Conceived by the Grameen Bank of Bangladesh in the 1970s, microfinance entails small-denomination business loans to low-income individuals who lack access to mainstream financial institutions, such as banks. The loans range from less than \$50 in developing countries to as much as \$35,000 in the U.S.

Microfinance caters predominantly to microenterprises—the smallest of small businesses, with fewer than five employees and requiring less than \$35,000 in start-up capital. Today, in addition to microenterprise loans, most microfinance institutions around the world offer savings accounts, housing finance, money transfer services, consumer loans, financial education and vocational

training to low-income individuals.

Although it's a wealthy country with sophisticated financial services, the U.S. has millions of low-income, minority and immigrant households that lack access to some of the most basic banking and financial services. Several factors contribute to the low participation in mainstream banking.

First, low-income families often lack the basic financial literacy needed to open and maintain accounts at mainstream banks or simply don't trust banks. Research has shown that those without accounts seldom even initiate a loan application at mainstream banks because they anticipate rejection.<sup>3</sup>

Second, these individuals may find it difficult to maintain minimum balances required for checking and savings accounts. Fees and penalties add to the burden and make mainstream banking too expensive for people who live from one pay cycle to another.

Third, many low-income individuals hoping to start microenterprises lack the credit and work histories and other documentation required to obtain bank loans.

Being outside the formal financial sector has consequences. These households face difficulties saving, which increases their reliance on high-interest, short-term credit and makes them more vulnerable to financial crises. They also encounter barriers to borrowing. Studies suggest that a bank account is more important than net worth, education level or household income in establishing credit.<sup>4</sup> Households without a credit history have no access to consumer loans, and microentrepreneurs have no access to business loans. Without such loans, it is nearly impossible to establish a credit history.

## The U.S. Experience

By and large, microfinance has not been as widespread in the U.S. as in developing nations. By some estimates, U.S.



**Table 1**  
**Acción Border Lending by Occupation, 1994–2005**

Occupation	Loans disbursed	Percent of total	Occupation	Loans disbursed	Percent of total
Drivers (transportation/trucking)	\$1,349,098	11.56	Housekeeping/cleaning services	\$89,607	0.77
Food, other	\$1,133,957	9.72	Tax preparation services	\$88,442	0.76
Mechanics	\$705,597	6.05	Flower shops and boutiques	\$86,987	0.75
Contractors	\$672,050	5.76	Medical services, clinics, etc.	\$86,139	0.74
Clothes/apparel	\$448,414	3.84	Upholstery, furniture, auto, etc.	\$84,700	0.73
Cosmetics	\$423,827	3.63	Electrical installations	\$81,356	0.70
Adult/child day care	\$414,671	3.55	Clubs, bars, pubs, etc.	\$71,091	0.61
Consulting	\$408,267	3.50	Importing/exporting goods	\$70,208	0.60
Courier/delivery services	\$313,736	2.69	Pet sales/grooming/accessories	\$69,035	0.59
Metalwork/welding	\$304,131	2.61	Office support	\$64,547	0.55
Beauty/hair/barber/nail shops	\$302,201	2.59	Herbs, vitamins, etc., sales	\$61,763	0.53
Vehicle sales/accessories	\$284,989	2.44	Furniture	\$56,249	0.48
Household items	\$281,834	2.41	Music	\$44,197	0.38
Printing/copying	\$270,343	2.32	Flea market sales	\$41,532	0.36
Convenience/grocery/gas stations	\$262,843	2.25	Photography	\$37,874	0.32
Arts and crafts	\$258,360	2.21	Bakeries	\$29,852	0.26
Jewelry	\$236,537	2.03	Information	\$28,681	0.25
Restaurant-prepared foods	\$215,607	1.85	Pressure washers	\$24,821	0.21
Wholesale/suppliers	\$204,488	1.75	Sculptures	\$24,518	0.21
Landscaping/gardening	\$199,141	1.71	Advertising	\$21,912	0.19
Auto parts/junkyards	\$146,790	1.26	Video stores	\$21,413	0.18
Real estate	\$118,869	1.02	Magazines, brochures, etc.	\$18,807	0.16
Seamstress and alterations	\$105,037	0.90	Appliance repair	\$11,813	0.10
Entertainment	\$104,717	0.90	Taxidermy	\$9,358	0.08
Heating/AC service	\$100,021	0.86	Vending machines	\$5,278	0.05
Fencing, carpentry, etc.	\$98,363	0.84	Other	\$895,737	7.68
Medical practices	\$90,995	0.78			
Communications/equipment	\$89,900	0.77			
			<b>Total loans</b>	<b>\$11,670,698</b>	

SOURCES: Acción Texas; TXP Inc.

microfinance beneficiaries number a few hundred thousand, compared with more than 3 million in Bangladesh, a country half the size of the U.S.

Banks and other financial institutions may be beyond the reach of many poor Americans, but the poor themselves constitute a much smaller proportion of the population in the U.S. than in the developing world. Most Americans rely on the mainstream financial sector and have no need for microfinance. Credit cards, auto loans and other forms of consumer financing are commonly available to the average American.

Business environments are very different in the U.S. than in the developing world. Microenterprises, the predominant clientele of microfinance services, often thrive in the informal sector. This sector is small in the U.S. but dominates developing countries, where labor and business laws

typically aren't enforced. The U.S. economy, by contrast, is governed by complex and well-enforced regulatory laws.

Self-employed street vendors in Calcutta just need carts, utensils and some groceries to start selling food. Their New York City counterparts would be required to obtain licenses, pass inspections, pay taxes and comply with other city regulations. In both instances, the vendors are microentrepreneurs, but start-up requirements—in both human and physical capital—are considerably higher in New York than in Calcutta. For many poor but entrepreneurial Americans, this additional burden created by the complex regulatory environment is a barrier to self-employment.

U.S. microenterprises have been able to survive in the formal economy. They account for nearly 87 percent of all businesses but only 10 to 15 percent of total employment.<sup>5</sup> Stiff competition from large corporations, which enjoy low operating costs and benefit from economies of scale, is one factor hindering the growth of small businesses in the U.S., except in niche markets. Wal-Mart may put a mom-and-pop store out of business in Indiana, but it's difficult to find a similar instance in India.

Microfinance operations in the U.S. offer more services, which makes them more expensive to administer than programs in the developing world. The example of the street vendors in Calcutta and New York City illustrates the need for business development services in conjunction with microfinancing.

Most microfinance programs in the U.S. have found their footing by enhancing the likelihood of success in small businesses. In addition to supplying loans to small businesses, they provide technical training, business planning assistance, market awareness and financial literacy. Today, nearly two-thirds of all microfinance pro-

**Table 2**  
**Acción Texas Lending Impact, 1994–2005**

	Total clients	Total loans	Total loan amount	Average loan amount	New economic activity	New income	New jobs	New tax revenue
Total border	1,476	2,167	\$11,670,698	\$5,386	\$18,793,296	\$5,914,384	244	\$1,165,214
Total Texas	4,400	6,966	\$41,635,810	\$5,977	\$77,498,915	\$24,774,871	982	\$4,512,655
Border as percent of Texas	34	31	28	90	24	24	25	26

SOURCES: Acción Texas; TXP Inc.

grams require in-class business training before the loan process can begin.<sup>6</sup> Training increases operating costs of administering microfinance, resulting in continued need for subsidies, philanthropy and cost cutting.

### Microfinance Along the Border

Although U.S. microfinance and microenterprise have for the most part lagged the developing world, some areas in the U.S. have become success stories for these efforts. The Texas–Mexico border is one.

To analyze microfinance activity along the border, we consider the most recent report from Acción Texas.<sup>7</sup> Its data are among the best available for two reasons: First, the organization keeps detailed administrative records, and second, it's the biggest affiliate of Acción USA, the largest micro-lending network in the country. Acción Texas' loan portfolio has grown from \$610,000 in 1995 to more than \$8 million in 2005 (nominal dollars), an annual growth rate of 120 percent. The loan repayment rate is about 90 percent, considered high given that most of Acción Texas' clients are business novices and have low to moderate incomes.

Acción Texas data from 1994 through 2005 reveal that 34 percent of Acción's clients were border residents, accounting for 31 percent of the number of loans and 28 percent of the dollar amount. Given that the border accounts for 12 percent of the state's population, these numbers indicate strong demand for microfinance on the border.

From funding local day care centers to bakeries, the loans support a wide range of occupations across the border region (Table 1). At 93 percent, Hispanics—many of them immigrants—are by far the majority of loan recipients. Hispanics make up about 80 percent of the border population.

Loans disbursed by Acción Texas have had a positive impact on the border economy. Between 1994 and 2005, Acción Texas estimates, its \$11.7 million in microloans created nearly \$19 million in sales revenue and household spending, nearly \$6 million in additional income and 244 new jobs (Table 2).

The wide range of occupations covered by Acción's border loans is evident in new job creation over a similarly diverse cross-section of industries (Chart 1). In addition to benefiting the community, Acción Texas notes, these microloans

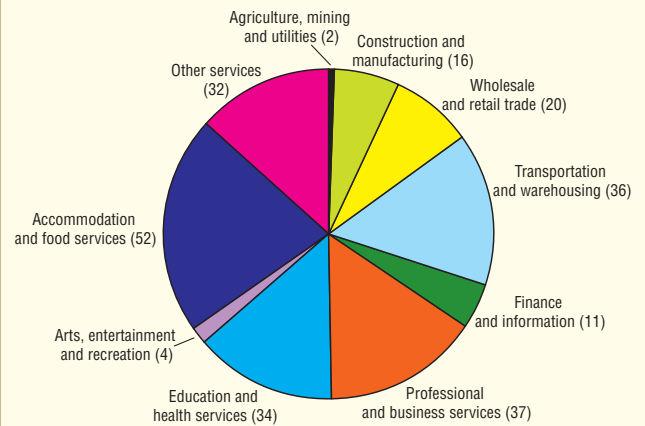
added over \$1 million to state and local tax coffers.

Whether on the Texas–Mexico border or in Bangladesh, any microfinance program's key objective is to aid economic development by helping the working poor improve their well-being. Evidence suggests microfinance has played this vital role by facilitating entrepreneurial activity on the Texas border (see box titled "Border Success Stories" on page 7). Research reinforces the importance of border area microfinance to the growth of microenterprise and economic self-reliance among the working poor.<sup>8</sup>

**Spurring Entrepreneurship.** New business creation along the Texas–Mexico border has grown at a rapid clip for the past several years. According to the region's economic census, the number of one-person microenterprises rose 113 percent between 1992 and 2002. By contrast, these microenterprises grew 32 percent in Texas and 25 percent in the U.S. (Table 3).

Such one-person businesses account for nearly 80 percent of all establishments in the border region, higher than the national average of 72 percent. Over the same time span, the border region's microenterprises increased their revenues, after adjusting for inflation, by 114 percent, doing far better than Texas' 63 percent and the nation's 44 percent.

**Chart 1**  
Jobs Created by Acción Border Lending, 1994–2005



SOURCES: Acción Texas; TXP Inc.

The Hispanic community provides another indicator of robust microenterprise growth on the Texas border. Between 1997 and 2002, the border region's 44 percent growth in Hispanic business ownership outstripped the state's 33 percent increase. Over the same five years, the region's Hispanic population grew roughly 17 percent. Clearly, more and more Hispanics are getting involved in entrepreneurial activity in the Texas border region.<sup>9</sup>

In addition to registered businesses, the region hosts many informal, cash-based microenterprises, which have probably grown rapidly in number but do not show up in official statistics. In fact, studies indicate a fourth of the income-generating activity in the Texas border colonias occurs in the informal sector.<sup>10</sup>

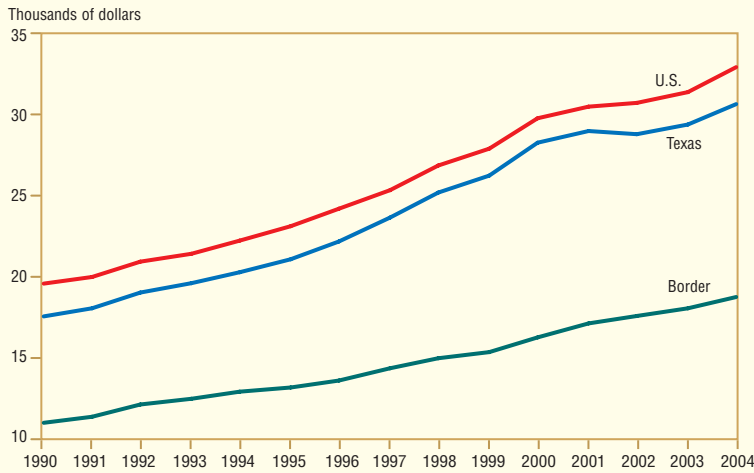
**Why the Texas Border?** The Texas border is well-suited to both microfinance and self-

**Table 3**  
Border Self-Employment Growth Healthy

	Number		Percent change	Sales (thousands)		Percent change
	1992	2002		1992	2002	
Border	50,909	108,201	113	\$1,780,530	\$3,813,050	114
Texas	1,050,584	1,388,284	32	\$38,590,973	\$62,846,543	63
U.S.	14,118,184	17,646,062	25	\$534,630,792	\$770,032,328	44

NOTES: Sales are in 2002 dollars. Border data are total of the four border MSAs (Brownsville, El Paso, Laredo and McAllen).  
SOURCE: U.S. Census Bureau, Economic Census.

**Chart 2**  
**Border Per Capita Income Falls Short of Texas and U.S.**



SOURCES: Bureau of Economic Analysis; authors calculation s.

employment. While the region faces the challenges of low incomes and high poverty rates, it is also dynamic and fast growing. Per capita income of the Texas border counties was \$18,636 in 2004, substantially below Texas' \$30,732 and the nation's \$33,050 (*Chart 2*). Moreover, in 2003 the region's poverty rate of 27.4 percent was significantly higher than the state's 16.2 percent and the nation's 12.5 percent.

Poverty, combined with a high and rising share of immigrants, has resulted in a large proportion of border households without access to financial institutions. Despite the widespread reach of U.S. banks, many low-income individuals, especially those living in such remote areas as the colonias, aren't yet served by mainstream financial institutions. In addition, many border residents are immigrants, who are often leery of banks. The distrust may stem from bad experiences—such as bank runs, devaluations and other financial crises—with mainstream financial institutions in their home countries.<sup>11</sup>

Border residents also encounter high unemployment, underemployment and generally low levels of human capital, the result of a lack of education. Such factors may discourage them from pursuing opportunities in the formal labor market, turning them toward microenterprise. In fact, both Mexican immigrants and non-Hispanic whites on the border display a greater tendency toward self-employment than the same groups elsewhere in the interior U.S.<sup>12</sup> Studies also suggest that less educated immigrants are more likely to be self-employed than their more educated counterparts, probably because the latter have more lucrative employment options in the formal job market.<sup>13</sup>

While challenges are great on the border, so are opportunities. Because the Texas-

Mexico border is the intersection of the Texas and Mexican economies, the area has a high population growth rate—mostly from immigration—and expanding cross-border economic activity, with retail sales to Mexican shoppers generating millions of dollars in revenues annually. Such growth, accelerated by the inception of the North American Free Trade Agreement in 1994, has created opportunities for microenterprises, especially in retail trade. These characteristics could in part explain why the border region's annual job growth of 2.4 percent between 1994 and 2005 exceeded the national average of 1.5 percent (*Chart 3*).

The high proportion of immigrants along the border has also led to microenterprise growth for several reasons.

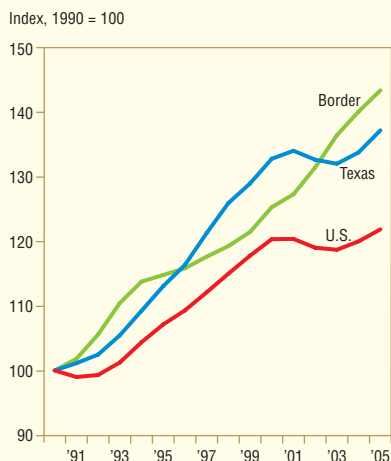
First, many low-income immigrants lack proper documentation, which encourages an informal sector where cash-based microenterprises thrive. As the developing world has shown, the presence of a large informal sector furthers the need for micro-finance.

Second, proximity to Mexico makes the border a good example of an ethnically concentrated community that carves out niche markets for ethnic goods and provides opportunities to work with and learn from employers with a similar background.<sup>14</sup> These niche markets promote self-employment, perhaps because entrepreneurs have a comparative advantage over those outside the ethnic community in providing goods and services to other members of their groups.

Third, self-employed immigrants find microenterprises important to increase family income, gain control over their finances and reduce dependence on social support structures or public assistance programs. For instance, an Aspen Institute study found that reliance on welfare payments among microentrepreneurs who participated in microenterprise development programs fell from 24 percent to 17 percent over a five-year period, with a decline in payments from \$1,460 to \$939.<sup>15</sup>

Finally, immigrants from countries with high rates of self-employment, such as Mexico, are generally more likely to pursue similar activities in the U.S.<sup>16</sup> The immigrants perhaps adhere to long-held cultural beliefs that self-employment is a better way to earn a living. Women in particular may find entrepreneurship the most flexible way to balance work and family.

**Chart 3**  
**Border Job Growth Rises Above Texas and U.S.**



SOURCES: Bureau of Labor Statistics; Federal Reserve Bank of Dallas.

## Border Success Stories

### Finding a Way to Save

When Sara Rangel needed money to pay property taxes on her tuxedo-rental business, she turned to Acción Texas. It lent Rangel \$5,000 for her immediate needs, and after she diligently repaid the first loan, she qualified for another to accumulate inventory.

Acción Texas aided Rangel through the Border Lending and Savings Initiative and the Individual Development Account (IDA) Match Savings Program, the latter funded by an initial grant of \$250,000 from the Department of Housing and Urban Development.

Partnerships were set up with local banks to maintain these IDA accounts, which allow a client to earmark money for savings for two years. Then, the client receives double the savings—because of a dollar-for-dollar “match” program—plus interest accrued on the funds. Since her second loan, Rangel has been saving \$400 each month into the IDA, and she plans to use the accumulated savings to expand her business.

*“Colonias Success Stories,”*

*Department of Housing and Urban Development,  
www.hud.gov/local/tx/library/archives/  
2003-07-21.cfm.*

### Starting a Tamale Business

In an example of microenterprise success through public, private and nonprofit cooperation, the University of Texas at Brownsville (UTB) joined with the Ozanam homeless shelter to create a local food service microenterprise from a halfway house.

After years of providing temporary shelter, Ozanam decided that business development was

the only sustainable way to aid homeless individuals. It partnered with UTB, which had assisted in microenterprise efforts for some time, and formulated a business model for a low-carb tamale production enterprise.

With the area’s small customer base and limited advertising resources, UTB realized Ozanam needed a marketing strategy unlike any other. The tripartite effort came together when UTB, acting as the microenterprise development organization, persuaded the local Wal-Mart to host Ozanam’s tamale kiosks, along with other goods produced by local microentrepreneurs, outside its stores on a weekly basis.

The retail giant’s policy that a nonprofit receive the solicitation’s primary benefits was easily met because the proceeds went to Ozanam’s homeless shelter operations.

In this process, the Ozanam-sponsored tamale microenterprise developed a sound business model under counseling and assistance from UTB and received invaluable exposure to a large customer base through UTB’s alliance with Wal-Mart.

Today, because of its commercial viability, the tamale microenterprise is ready to expand its business. It will receive financing available from UTB’s affiliation with local microfinance organizations, as well as tips on financial literacy from such organizations as the Consumer Credit Counseling Service.

*“Strategic Partnership in the Face of Scarce Resources: Social and Microenterprise Development at the U.S.–Mexico Border,” by Bill McEnea, The William Davidson Institute at the University of Michigan, January 2006.*

## Promise for the Border

While the developing world is ripe for microfinance, the economic structure and labor force characteristics in the U.S. make it difficult for microfinance to succeed. The Texas–Mexico border, however, encompasses the need for microfinance and the economic, cultural and geographical advantages that encourage it. The region offers a growing market for small business enterprise and small-scale financing.

Microfinance has the potential to bolster standards of living and economic education to advance the poor, the financially disenfranchised and the unemployed from

the fringes to the mainstream. Despite its minimalist approach, microfinance can play a significant role in economic development and complement the larger-scale efforts in promoting education, infrastructure development and business investment in the Texas–Mexico border region.

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## Notes

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<sup>1</sup> “Measuring the Impact of Microfinance: Taking Stock of What We Know,” by Nathanael Goldberg, Grameen Foundation, 2005.

<sup>2</sup> “An Assessment of the Impact of SEWA Bank in India: Baseline Findings,” by Martha Chen and Donald Snodgrass, Assessing the Impacts of Microenterprise Services (AIMS) Project, USAID Office of Microenterprise Development, August 1999.

<sup>3</sup> “Latina Microenterprise and the U.S.–Mexico Border Economy,” by Barbara J. Robles, *The Estey Center Journal of International Law and Trade Policy*, vol. 3, no. 2, 2002, pp. 307–27.

<sup>4</sup> “Banking the Poor: Policies to Bring Low-Income Americans into the Financial Mainstream,” by Michael Barr, The Brookings Institution, 2004.

<sup>5</sup> Association of Enterprise Opportunity, 2003, with data from Census Bureau’s Non-Employer Statistics and Commerce Department’s County Business Patterns.

<sup>6</sup> *Replicating Microfinance in the United States*, by James Carr and Zhong Yi Tong, eds., Woodrow Wilson Center Press, Washington, D.C., 2002, p. 240.

<sup>7</sup> “Economic and Community Impact of Acción Texas, 1994–2005,” by Acción Texas and TXP Inc., July 2006.

<sup>8</sup> Robles (2002).

<sup>9</sup> There is evidence that Hispanic-owned enterprises, especially female-owned, grew faster along the U.S.–Mexico border than in the rest of the U.S. See “Emergent Entrepreneurs: Latina-Owned Businesses in the Borderlands,” by Barbara Robles, *Texas Business Review*, October 2004.

<sup>10</sup> See “Partnership Focus: The El Paso Collaborative—Partnering to Build Assets,” <http://www.cdnp.org/resources/publications.asp#memberpapers>.

<sup>11</sup> “Asset Building in Latino Communities,” Federal Reserve Bank of Philadelphia *Cascade*, Spring 2006; “Financial Access for Immigrants: Lessons from Diverse Perspectives,” by Anna Paulson, Audrey Singer, Robin Newberger and Jeremy Smith, Federal Reserve Bank of Chicago and the Brookings Institution, May 2006.

<sup>12</sup> “Mexican Immigrant Self-Employment along the U.S.–Mexico Border: An Analysis of 2000 Census Data,” by Marie Mora and Alberto Davila, *Social Science Quarterly*, vol. 87, March 2006, pp. 91–109.

<sup>13</sup> “Self-Employed Immigrants: An Analysis of Recent Data,” by Maude Toussaint-Comeau, Federal Reserve Bank of Chicago *Fed Letter*, April 2005; “The Earnings of Self-Employed Mexican Americans along the U.S.–Mexico Border,” by Chrystell Flota and Marie Mora, *Annals of Regional Science*, vol. 35, no. 3, 2001, pp. 483–99.

<sup>14</sup> Robles (2002), Toussaint-Comeau (2005), and Flota and Mora (2001).

<sup>15</sup> “SELP Longitudinal Survey of Microentrepreneurs,” The Aspen Institute, April 1998.

<sup>16</sup> Flota and Mora (2001).