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**STRATEGIC PARTNERSHIP IN THE FACE OF SCARCE
RESOURCES: SOCIAL AND MICROENTERPRISE DEVELOPMENT
AT THE U.S.-MEXICO BORDER**

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I. Introduction

The U.S.-Mexico border region along South Texas and Northern Tamaulipas is among the poorest areas in the U.S. and is one of the poorest border regions in Mexico. In recent years, the area has experienced one of the most severe instances of capital flight in the world, primarily due to increased competition in the global manufacturing sector. Unemployment hovers around 11-13% on the U.S. side; around 20% on the Mexican side. With GDP per capita estimates of \$15,000 (U.S.) and \$1,300 (Mexico) it is no surprise that microenterprise has become a significant source of income and employment in the area. Yet while these microbusiness endeavors are continuously sprouting, they are not enough to generate the levels of economic growth needed to improve overall lifestyles. To do this, alternative strategies and community stakeholders must be engaged to maximize the efforts of local microentrepreneurs.

This brief looks at the microenterprise, social enterprise, and small business development efforts of the University of Texas at Brownsville (UTB).¹ In the past year, UTB has created an intricate network of resources designed to support its microenterprise efforts. To do this, it has leveraged state and federal funding, local NGO services, University resources, corporate investment, and the benefits of bi-national commerce. Its ability to engage local corporations as strategic partners is possibly the most notable feature of its initiative and has implications for the future of socially conscious consumption at retail. Although much still remains to be seen from UTB's efforts, its approach, accomplishments, and future plans carry valuable lessons in innovative microenterprise development and strategic community partnership.

II. UTB's Initial Efforts - Assisting Nonprofits in Need

UTB's microenterprise efforts began by assisting local nonprofits in developing their own businesses to fill the massive gaps left by recent government funding cuts. In essence, UTB was embarking on both a social enterprise endeavor and a microenterprise development initiative, as the businesses that would be developed would be small relative to other social enterprise endeavors in the U.S. The best practices of these efforts were to be used to the benefit of other local microbusinesses.

One nonprofit whose valuable services were in particular jeopardy was a homeless shelter for both illegal immigrants and legal residents called the Ozanam Center, located in Brownsville, Texas. Ozanam's homeless shelter provides temporary shelter to individuals for a maximum period of thirty days. During this time residents are offered three meals a day, clothing, English classes, medical attention, and education (for youth residents).

Though Ozanam provides a valuable short-term relief service to border region homeless, it recognized its services were limited in scope and were unlikely to produce positive long-term results. Therefore, in an effort to develop halfway house services to residents, it agreed to work with UTB in developing a microenterprise that would eventually support such a program. As a

¹ For the purposes of this paper and simplicity, all three areas will often be categorized under the term "microenterprise" where appropriate, as all references to enterprise in this paper, in any form, involve very small business ventures.

homeless shelter, Ozanam benefits from a few key features that facilitate starting a business, particularly with regard to food production. These include: a) an abundance of resident workers, b) a restaurant license (required by law to serve food to residents), c) a fully equipped kitchen, and d) experienced on-staff cooks. The biggest question quickly became, “What business was Ozanam best positioned to develop?”

Following a lengthy decision-making process and some local market research, Ozanam decided, with UTB’s approval, to begin production on a low-carb tamale - a fusion of a traditional Mexican food with a mainstream, diet-conscious label. No such food existed in the region and it was rare to find tamales in major local supermarkets. Though it would be some time before this product could enter the retail market, UTB devised a strategy to expedite the introduction of this and other local microenterprise products to the public.

III. A Top-Down Business Strategy

Microenterprises typically require long periods of time before graduating to the level of small businesses. For the Brownsville/Matamoros border region, this is in part due to limitations in advertising resources and/or the small area and consumer base in which microenterprise normally operates. UTB sought to overcome this inherent obstacle by bringing Ozanam’s low-carb tamales and other microenterprise products to a forum that experienced substantial daily consumer traffic. Accordingly, it sought a partnership with the company that maintains the largest retail presence in the region: Wal-Mart. Wal-Mart stores along the Brownsville border region collectively experience consumer traffic in the tens of thousands daily, primarily from individuals searching for a low-cost bargain. Because microenterprises along the U.S.-Mexico border can typically compete cost-wise with the largest food and textile companies, their presence at these locations is appropriate.

Conveniently, Wal-Mart maintains one of the most liberal nonprofit solicitation policies of any company its size. Company policy allows any nonprofit entity to solicit in front of Wal-Mart stores for a maximum of fourteen days annually. With four Wal-Marts in the immediate area, there would be plenty of opportunity to take advantage of this considerable storefront exposure to achieve a social end.

Using its connections and local leverage as a public institution, UTB arranged a series of meetings with local Wal-Mart store managers. Through a series of presentations, UTB proposed the following to Wal-Mart. In exchange for positive media attention and the opportunity to enhance consumer traffic, Wal-Mart would allow UTB to erect a vending booth once a week in front of one of its regional stores, beginning September 16th, 2005 (Mexican Independence Day) and continuing through the holiday season. The vending booth, which would be owned by UTB, would offer an array of goods made by local microenterprises and social enterprises such as Ozanam Homeless Shelter, who themselves would be selling their new low-carb tamales. Other microenterprise goods would include breakfast empanadas (baked by a local single mother), tote bags (made by a women’s sewing cooperative), cloth bracelets (made by area youth), as well as other microentrepreneurs’ products from both sides of the border. Each microbusinesses would be permitted to have one person present at the booth to begin building a rapport with local

consumers and observing public reaction to their products.

At the end of the holiday season the initiative would undergo a review to determine its effectiveness and whether or not it should be continued. Wal-Mart agreed to UTB's proposal and a start date of September 16th, 2005 was set.

Profit Sharing and Compliance

Wal-Mart company policy stipulated that any profits earned from the booth after expenses go to a nonprofit cause, in this case Ozanam Homeless Shelter. UTB was able to engage local microenterprises by offering a consignment deal between microentrepreneurs and Ozanam. Local microentrepreneurs would receive an agreed upon wholesale price for every unit sold at the booth. Ozanam would receive the difference between this "wholesale consignment" price and a negotiated retail price. This arrangement between the two parties allowed both to extract value from the initiative while being compliant with Wal-Mart's policy that a nonprofit be the primary beneficiary from such a project. In essence, Ozanam would act as the local buyer of microenterprise goods, reselling these products for a premium at the Wal-Mart booth. Additionally, the arrangement allowed Ozanam to achieve higher revenues than if they operated the booth alone, selling only low-carb tamales. Since production capacity at Ozanam was limited, engaging local microbusinesses to sell an array of products at the booth, in essence, was an effective method of maximizing their social enterprise venture.

Addressing Local Demand

Because of space limitations, the number of businesses present at the booth would be limited to five or six. To accommodate the demand for space at the booth, the University would establish a rotating schedule for microbusinesses whose products were perceived to be in high demand. Ozanam, and any other social enterprise selected for the booth, would be exempt from this rotation until these enterprises were fully self-sustainable.² As time progressed, microbusinesses that experienced demonstrable success at the booth would be kept in the rotation while those that did not would not be.

Social and microenterprises experiencing high, prolonged demand would be eligible to apply as regional Wal-Mart suppliers. This arrangement would require that a microbusiness have the capacity to supply a number of Wal-Mart border stores, not just their local store. As is discussed later in this brief, UTB made it a priority to offer many kinds of capacity building services to businesses ready to expand and meet this requirement.

A Trifecta of Benefits

UTB's success in establishing a community partnership between businesses, nonprofits, and the University exemplifies the potential of strategic social alliance. With ingenuity and considerable initiative, UTB was able to develop a venture that provided clear-cut benefits to each stakeholder.

² Self-sustainable defined as not needing the microenterprise booth in order to survive as a legitimate business. Though social enterprises would be exempt from rotation, they would have to demonstrate that their products had at least some sustainable level of demand.

For Wal-Mart, the initiative meant positive media exposure for its stores, improved consumer traffic, and an additional opportunity to advertise their companies as community investors. The microenterprise booth also served as a type of consumer demo; a means to observe what locally made goods were in demand and which were not. This information would determine whether or not these products should eventually be brought inside the stores.

For Ozanam Homeless Shelter, the initiative meant increased revenues to support its social services, as well as access to an enormous consumer forum. While the booth provided valuable consumer demand information for Wal-Mart, Ozanam would concurrently be able to gauge the viability of a low-carb tamale social enterprise without having to make a large upfront investment. Additionally, Ozanam's presence and signage at the booth would help in creating a better awareness of the worsening homeless problem along the border.

For local microenterprise, the initiative not only meant an opportunity to generate considerable revenues but, like Ozanam, also offered tremendous exposure for their products – a vital step on the path to growth and sustainability. Moreover, the opportunity would help thriving microenterprises minimize cyclical “dips” in business, as they would be guaranteed a consistent marketplace.

IV. Ensuring Growth and Sustainability

The second dimension of UTB's efforts focused on development and sustainability. While the microenterprise booth would provide immediate revenue streams for local entrepreneurs and social enterprises, many other services were needed to ensure growth and stability for these businesses. To address this need, UTB set up a network of bilingual local service providers that together covered every need of the average microentrepreneur. Some of these services are provided by sub-grantees of a Compassion Grant awarded to UTB by the U.S. Department of Health and Human Services, some are provided by the UTB Business School and International Innovation Center – the latter of which is an incubator for bi-national small businesses, and some are provided by NGO community partners. After a needs assessment of the local social enterprise or microentrepreneur, referrals are made to one or more of the following organizations to obtain services deemed critical to business success.

Compassion Grant Services

Consumer Credit Counseling Service (CCCS)

A significant percentage of microentrepreneurs in the South Texas/Northeastern Mexico region lack basic financial literacy and financial management skills. Without these, entrepreneurs are unlikely to sustain their business or maximize their earnings. CCCS provides a six-week course that teaches clients how to effectively budget earnings, create personalized money action plans, finance fixed overhead for their business, set up sound accounting practices, and establish good credit. They also offer continual one-on-one support even after the course is completed.

UTB's International Innovation Center (IIC) and Small Business Services

In 2001, UTB created a small business incubator aimed at developing business ideas with significant growth potential. Recognizing that in order to thrive many regional businesses operated on both sides of the border, UTB built a resource that catered to bi-national commerce. To assist these developing businesses, IIC offers work/office space at exceptionally affordable rents. It then provides in-house business services needed to promote growth: small business loan resources, export-import logistical assistance, a variety of business education classes, and workforce training. A central UTB microenterprise development goal is to help local microentrepreneurs reach a business level that allows them eligibility to enter the IIC. Among the IIC services designed to help microenterprise during the pre-entrance stage are:

Senior Core of Retired Executives (SCORE)

SCORE's services are designed to assist individuals involved in small business. This team of veteran executives offers expertise on how to effectively start a business, write a business plan, acquire the necessary capital, and obtain the licenses and/or permits needed to be in legal compliance. This valuable service offers microentrepreneurs expert advice at every step of the business development process.

Export-Import Bank

The U.S. Export-Import Bank assists businesses in financing exports to international markets and provides working capital, export credit insurance, and loan guarantees that the private sector is unable to provide. Approximately 85% of its transactions directly benefit U.S. small businesses. UTB's International Innovation Center is one of only four direct representatives of the Export-Import Bank of the United States and offers local businesses the opportunity to take advantage of virtually all Bank programs.

UTB Business School Consultant Services

One of UTB's most valuable resources in this effort was its faculty. With dozens of Business School professors at its disposal, UTB can provide pro-bono expert consultancy services to fledgling microbusinesses. Such one-on-one services fill in gaps that other service providers cannot fill. This expertise becomes particularly valuable when a microenterprise or small business of five employees or less is ready to expand to a business of ten or more. At this stage, effective management practices become increasingly challenging and financial accounting more complex. The presence of faculty consultants also allows UTB to offer customized assistance to local microentrepreneurs with obstacles unique to their particular business and setting.

Community Partner Services

Accion International

Access to start-up capital is an issue most entrepreneurs face. Many border residents simply do not have the credit history necessary to take out loans from commercial banks. Accion International has been a leading microlender in the United States and in recent years has partnered with ADMIC, a microcredit institution that is currently building offices in Matamoros, Mexico. Depending on an individual's credit history, Accion provides small business and start-up loans between \$500 and \$35,000 and offers services such as referrals to entrepreneur training programs as well as networking event opportunities.

The existence of this comprehensive service network has given social enterprises (such as Ozanam) and microenterprises the means to move beyond the informal and /or local commerce level. It has also facilitated and expedited the business development process for microentrepreneurs in the South Texas/Northeastern Mexico border region. Prior to this streamlining effort, the lack of service coordination between providers led to longer and more expensive start-up processes for microbusinesses. Low-interest loan opportunities would not be exploited and entrepreneurs, lacking the necessary guidance, would get bogged down in hard-to-understand regulatory and legal red tape. This network now minimizes the time and money microentrepreneurs must spend making their business fully operational.

V. Overcoming Regulatory Hurdles Through Inter-Enterprise Collaboration

Better coordination between service providers has led to improved communication and cooperation among microenterprises. This cooperation has assisted microentrepreneurs in overcoming regulatory hurdles that stand in the way of their growth, mainly through the pooling of available resources. A primary example of the benefits rendered from inter-enterprise collaboration is the Ozanam Homeless Shelter's work with a local empanada baker.³

Though bi-national food producers do not need much in the way of licensure or permits in Mexico, in order to do business in the wealthier U.S. market, these producers confront considerable regulatory barriers to market entry. The most daunting of these barriers (other than business registration, which can usually be done through a U.S. citizen family member if the entrepreneur is not a legal resident) is the inability of home-based food producers to obtain a health permit for their home kitchen, a guideline imposed by Texas state health code. To overcome this regulation, Ozanam and the local empanada baker established an agreement whereby the baker joined Ozanam's social enterprise effort, allowing the baker to use Ozanam's facilities to prepare her foods. As a licensed restaurant and food distributor, Ozanam was able to absorb the baker's product under its Ozanam Foods, Inc. label (the same name under which its low-carb tamales are made) and begin the process of attaining a food manufacturing license for the product. Under a profit sharing contract, Ozanam would take a percentage of all future empanada sales and the baker would be afforded the opportunity to substantially expand her operations, now that her product can be legally manufactured and distributed in Texas.

Strategic alliances such as these are essential to microenterprise development in areas of the world where not only access to capital is scarce, but the consequences of business failure are more severe. Defaults on loans and/or the loss of personal savings for an individual and their family can mean the loss of any opportunity to emerge from poverty. Alliances like the aforementioned, where risk is absorbed by more than one party, offer an easier means of testing the profitability of a new product as opposed to the conventional approach of the lone microentrepreneur.

³ A traditional type of pastry in Latin and South America.

VI. The Potential Role of Market Forces in Social Enterprise, Microenterprise, and Small Business Development

As global communities continue the process of improving resources for microentrepreneurs, initiatives like UTB's demand that we consider the role of the corporation in expediting the development of social enterprises, microenterprises, and established small businesses. Traditionally, retail corporations such as Wal-Mart have been seen as the enemy of small businesses. Rather than absorb small business products, their local market knowledge, and their skilled labor upon entry of a market, these companies substitute their products with bigger brand names (many a time, of lower quality than the small business brand) and lower-paid, less skilled staff. This leaves consumers with substandard product options and citizens with less appealing and sustainable job opportunities.

The continuing threat of small business disintegration as a result of the proliferation of corporate retail poses a considerable challenge not only to international policymakers, but to the very corporations who lead the global retail market. These leading corporations face growing criticism regarding their role in the downsizing and streamlining of local economies. Yet, as UTB's aforementioned efforts have shown, there is indeed a place for small and microbusinesses at major retail outlets. These microenterprises, especially in developing regions of the world, can match – and in some cases best – established brand name goods in both price and quality. They possess valuable market knowledge with regard to the typical consumption bundle in their region, are able to gauge a more accurate idea of what new products consumers need, and, with lower transport costs, can afford to provide stores with fresher food products. What they typically lack is the means to build capacity – an obstacle that has been substantially diminished in the Brownsville/Matamoros region through UTB's formation of a comprehensive service network.

Furthermore, retail corporations like Wal-Mart have an incentive to establish supplier contracts with small businesses, as such measures would help to dissolve the stigma of “small business destroyer.” Indeed, an effort by a leading corporation to engage successful microenterprises as regional suppliers could reshape their public image, so much so that others might be compelled to follow suit. One industry leader running an advertisement campaign boasting of its support of small businesses may create pressure on competitors to match its efforts.

VII. The Central Role of Public Policy in Social Enterprise, Microenterprise, and Small Business Development

If market forces can provide the incentive for corporations to engage small business on a greater scale, then policymakers should work harder to provide an environment that further promotes such interaction. By helping microbusinesses attain the exposure they need (i.e., facilitating a greater presence at retail), government would be one step closer to fulfilling an important social objective: job creation. Small business accounts for approximately 75% of all net new jobs in the United States, and 64% of new jobs in Mexico. Helping to level the playing field between microentrepreneurs and big business with regard to market entry would aid in the achievement of this objective.

One way in which government could do this would be through a two-part effort. First, governments could provide an option to small businesses to print a government-certified logo on their products. This logo, located prominently on the product (but at the discretion of the producer), would alert consumers to the fact that the item was made by a small business. A government-sponsored advertising campaign, which could be national in scope and run in conjunction with a logo campaign, would inform citizens of the effort, highlight the economic importance of small business development, and would urge citizens to support such enterprises.

A similar effort would entail granting tax incentives to retail corporations who support small business. To qualify for these, retail corporations would have to procure a specified percentage of their products from small businesses. Conditions to receive the incentives would vary by industry and incentives would operate on a graduated scale – that is, corporations procuring a larger percentage of their goods from small businesses would receive larger tax deductions.

Tax incentives could also be granted through retail labeling processes. An example of such a practice could take the form of making shelf price tags for all small business products yellow, instead of the generic white. The more yellow-tagged products a company carried, the greater the tax incentives granted. A government-sponsored advertising campaign would, similar to a logo campaign, inform citizens to look for these yellow tags when shopping and educate them on the economic benefits of small business growth.

These ideas are only a few of many possible actions governments could take to support small and microbusinesses. Though tax incentives certainly help such entities during their development stages, government can do more in improving small business exposure to a mass consumer market.

VIII. Conclusion

At the time of this paper's conclusion, UTB Business School was set to begin a colloquium focused on developing Ozanam's low-carb tamale enterprise. Professors and students alike will be working closely with Ozanam, local service providers and Wal-Mart to ensure that all UTB network resources are fully exploited throughout the endeavor. The objective of the ongoing colloquium is to help Ozanam graduate to different stages in its business development with each passing semester. The colloquium will offer students an invaluable service learning experience – a hands-on look at how to develop a business and maximize its chances for success while learning how to overcome the entrepreneurial hurdles that invariably present themselves during such a process. Moreover, by being provided intensive technical assistance, Ozanam will undoubtedly improve its chances for long-term growth.

On September 16th, 2005, Mexican Independence Day, UTB began its microenterprise booth campaign with Wal-Mart. While demand for the booth's different products is tracked, UTB has concurrently been involved in improving capacity for the area's most profitable microenterprises, including Ozanam. The network developed thus far has helped set the stage for a rigorous economic development program for the Brownsville/Matamoros area. While local governments work to attract large-scale corporate investment with existent cheap labor, UTB microenterprise

efforts offer a second means to alleviate poverty, particularly for those that do not possess the skill sets needed to enter the manufacturing sector. Because of UTB's efforts, these regional microentrepreneurs now have the comprehensive service network needed to fill the large demand gaps in their local economies.

ABOUT THE AUTHOR

BILL MCELNEA is a second year graduate student at the Gerald R. Ford School of Public Policy at the University of Michigan. During the winter and summer terms of 2005, under the guidance of Dr. Michael Gordon at the U of M Ross School of Business and Dr. Baltazar Acevedo at the Cross Border Institute for Regional Development (University of Texas at Brownsville), Bill conducted extensive field research focusing on the potential of microenterprise and social enterprise development along the U.S.-Mexico border. Under the auspices of the William Davidson Institute, the Edward Ginsberg Center for Community Service & Learning and the University of Michigan's International Institute, Bill assisted UT Brownsville during its efforts to develop a microentrepreneurial resource network in the Brownsville/Matamoros border region. Prior to graduate school, Bill served as a Development Associate at STRIVE, an international workforce development organization based in New York City.