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MICROCREDIT LENDING IN THE SAN DIEGO-TIJUANA BORDER REGION: THE LOS NIÑOS EXPERIENCE

by
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Microcredit Lending in the Border Region

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Microcredit lending has become a major innovation in anti-poverty and economic development programs around the world. The core philosophy of microcredit lending programs is that poor people are best able to help themselves when they are granted access to the same kinds of market mechanisms that sustain much of the "real" economy, particularly access to credit. Small loans, sometimes as little as a few dollars, are given to individuals that may lack access to traditional banking institutions. These funds become the foundation for modest investments and improvements in quality of life that many economists believe may help to reduce poverty and foster long term economic development.

While much of the research on microcredit lending focuses primarily on programs implemented in rural areas where there are strong community ties, this brief examines the use of microcredit lending in the U.S.-Mexico border region, a complex, highly metropolitan area. This region is of particular interest because here, more so than in many other parts of the world, the gaps and inequities of the expanding global economy are especially glaring. As such, the border region provides a useful laboratory to help us understand and address the challenges of globalization, poverty reduction, and economic development.

The Promise of Microcredit

The development community has been seeking to foster economic growth and poverty alleviation for decades. While these efforts have employed a variety of strategies and found some success, the goal of reducing poverty and promoting overall economic development has proved elusive. Recently, many development scholars and practitioners have begun to believe that microcredit lending and other micro-finance programs may have the potential to transform lives and economies in a profound way where other strategies have failed in the past. This is because microcredit lending capitalizes on the entrepreneurship and ingenuity of those it seeks to benefit.

Instead of supposing that outside forces must rescue them from poverty, microcredit advocates believe that access to credit enables poor people to improve their own lives and economic situation by providing opportunities to obtain loans at reasonable interest rates. It empowers them to invest in themselves and their own ideas. This in turn allows poor people to make their own decisions in order to increase their disposable income, improve their quality of life, and achieve eventual self-sufficiency in a way that might not be possible otherwise.

The basic premise underlying microcredit lending programs is that a lack of access to credit makes it extremely difficult for people to improve their economic situation. People lack access to credit for a variety of reasons in developing countries, including deliberate institutional exclusion (because poor people are perceived to be an unprofitable clien-tele), social stigma and exclusion, and even self-exclusion due to distrust or lack of information about formal financial institutions.

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Microcredit programs strive to address these problems by providing poor people with legitimate access to credit in the form of small loans. Loans are typically used to purchase the capital necessary to start up a new business or improve the operations of an existing one. At times, microcredit loans are also used to make home improvements, assist with the expenses of schooling or medical needs, or facilitate other investments to improve people's quality of life. Frequently, microcredit lending programs also offer supplementary financial services, such as training to help ensure the success of the loan recipient in using money wisely and paying back the loan in a timely manner.

The microcredit approach has been applied since the 1970s by development organizations like Grameen Bank, ACCION International, and Opportunity International. Today, there are more than 10,000 microfinance institutions worldwide, some with loan portfolios as large as $50 billion. These programs range from non-profit organizations to commercial banks that offer microcredit services to the poor while also attempting to make a profit. Such programs have also gained widespread praise in recent years. Indeed, in recognition of their accomplishments using this approach, Grameen and its founder, Mohammed Yunus, received the Nobel Peace Prize in 2006.

Still, despite the enormous potential that many economists see in microcredit lending programs, some scholars and practitioners question the microcredit approach. Its long-run impact remains unknown, and even its short-term effects are a point of contention for some economists. Recent problems in the financial world illustrate the dangers of loading poor people with debts that may become an untenable burden. Further, most scholars maintain that microcredit is not a universal remedy; instead it is one strategy to reduce poverty which has the capacity to positively impact the lives of a certain portion of the world's population. It may be part of a solution, but it is not *the* solution to world poverty and underdeveloped economies.

In any case, there are many facets of microcredit lending that need to be further studied and perhaps improved upon if it is to live up to the potential of its promise. Some of the most pressing issues and concerns include the sustainability of microcredit programs (their ability to operate independently of outside subsidies), the trade-off between microcredit lending organizations' dueling objectives of benefiting the poor and remaining profitable, and concerns about making poor people overly dependent on receiving successive loans in order to maintain an upward trajectory. Still, many scholars and practitioners remain convinced that microcredit has remarkable potential as a means to alleviate poverty and promote growth, self-sufficiency, and individual empowerment.

Microcredit in Mexico

In 2008, there were over forty different institutions and programs in Mexico, offering microcredit loans and other services to at least 3.5 million active clients. Major programs have been developed in Mexico by Compartamos Banco, ProMujer, the Foundation for International Community Assistance (FINCA), Asesoría Dinámica a Microempresas (ADMIC), and Fondo 5 de Mayo, among others.

While Compartamos has offices in almost every Mexican state, including recent ventures into Baja California and Baja California Sur, most other programs are more locally or regionally focused. For example, FINCA operates primarily in the region surrounding Mexico City in southern Mexico. ADMIC is based in Monterrey, Nuevo León in the northeast, and has operations in nine out of thirty-two Mexican states. Fondo 5 de Mayo has several branches throughout the Mexican state of Puebla.

Meanwhile, some organizations, like ProMujer, take a targeted approach to microcredit lending, by focusing on specific populations. Initiated in 2001, ProMujer focuses its efforts on women, providing financial ser-vices, business education, and health education and services. Today, Pro-Mujer operates in six Mexican states, as well as Bolivia, Nicaragua, Peru, and Argentina. As of 2008, all branches of ProMujer, excluding its newest branch in Argentina, had achieved self-sufficient operations. As it plans to further expand the breadth of its operations, ProMujer continues to prioritize both financial and human development services.

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ProDesarrollo, an independent association of microcredit lending programs, plays an important role in linking the diverse array of microfinance institutions. At the same time, the federal government and several state governments have also initiated and encouraged the development of microcredit programs in Mexico.

The federal government created the Programa Nacional de Financiamiento al Microempresario (PRONAFIM) in 2001, during the administration of President Vicente Fox, who strongly advocated the use of microcredit lending to foster the development of small businesses, or "*changarros*." PRONAFIM is a federal governmental program with the objective of contributing to the establishment and consolidation of the microfinance sector in Mexico. Most PRONAFIM microloans are awarded to people in the retail and manufacturing sectors and the profits resulting from these loans are intended to be used for education, food, and housing.

Meanwhile, state and local governments have also established microcredit programs. In 1998, the state government of San Luis Potosí, located in central Mexico, created "Let's Start Up Together" (Emprendemos Juntos) in order to address the need for financial security. Both PRONAFIM and Emprendemos Juntos were established with the common goal of helping socially marginalized people in Mexico improve their quality of life through small business ventures that create employment opportunities and become valuable sources of income. Both federal and local programs attempt to provide the poor with access to credit with the hope of promoting economic advancement.

In addition, seeking to bridge the public, non-governmental, and private sectors, the Mexican government has also encouraged commercial banks and microfinance institutions to work together in order to maximize the number of people in Mexico who can benefit from microcredit. Since microfinance institutions sometimes fail to reach their full potential due to a lack of capital, partnering with a commercial bank can be one remedy to ensure greater access to capital investment.

Meanwhile, there are important criticisms of the microcredit approach as applied in Mexico. In particular, some of its institutional peers criticize Compartamos for what they see as exorbitant interest rates charged to loan recipients. This controversy lies at the heart of the microcredit debate: is it ethically acceptable to profit from the unfortunate circumstances of the poor, if it also brings some level of benefit to them? In essence, this is a debate about how to balance the intended benefits that microcredit lending offers to poor people, while ensuring that lending programs remain sufficiently profitable to be sustainable.

For its part, Compartamos defends its policies by arguing that running a profit ensures that it will be able to continue operating and give more loans to more people who need them. Moreover, higher profits also provide a means to ensure the broadest possible reach of their programs and, thereby, the greatest good in a relatively short period of time. Hence, using this approach, Compartamos expects to achieve a greater and more sustainable impact in the regions where they operate than other programs, thereby maximizing the benefit both to Compartamos and its loan recipients.

Microcredit in the Border Region

The rapid expansion of microcredit programs also raises some questions about their design and viability in different contexts. For example, the dynamic, transitory nature of the U.S.-Mexico border region would seem to present a significant challenge to microcredit lending programs, which often rely on close social ties that exist in the poor, mostly rural communities where multiple generations of people have well-developed "social capital" networks. When individuals and families have been established in the same community for years or even generations, groups that already know and trust one another may be more willing to contribute to and

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repay loans, support each other in repaying the loans on time, and cooperate to help their businesses succeed.

Because of its recent and rapid growth, as well as its role as a conduit for large-scale migration to the United States, the border region often lacks these kinds of cohesive, high-trust communities. Indeed, many of the people who live there are recent immigrants who migrated from other parts of Mexico or even other countries in Latin America. This would seem to present significant obstacles for microcredit lending, at least using the kind of cooperative group model frequently employed elsewhere.

Despite these challenges, there are still a number of organizations that strive to meet the demand for financial services among the poor in the border region, including Compartamos, En Común, Soluciones Financieros Internacionales, PROSPERIDAD, and Los Niños. In 2007, the Trans-Border Institute partnered with Los Niños, a binational organization based in the San Diego-Tijuana region to study and draw lessons from its approach to microcredit lending in the border region. Below we discuss some of the findings of that study.

The Los Niños Experience

Los Niños was founded in the late 1970s to assist individuals and communities in the border region. During its nearly thirty years of operation, Los Niños has developed an array of programs that strive to provide education, create financial opportunities, build communities, and increase food security. Its microcredit program works towards these goals by creating financial security and enterprise opportunities for both families and individuals.

In its early years, Los Niños was primarily focused on its founding objectives of providing charity and direct assistance to children in the border region (hence its name, which means “The Children”). However, Los Niños program directors began to perceive that its programs did not yield sufficient benefits in terms of overall poverty reduction or the creation of economic opportunities, and worried about fostering dependency on its services.

Los Niños established neighborhood-based programs designed to create the capacity for individual and community self-reliance…

Los Niños Director Elisa Sabatini pointed

Los Niños Community Development Programs

Los Niños operates four main programs that seek to strengthen local communities in the border region, with an emphasis on promoting proper nutrition and ecological sustainability, strengthening leadership skills, volunteer and training opportunities, and microcredit lending.

Nutrition and Ecology Program

The Los Niños food security model integrates nutrition, health, and organic agriculture into a community-based approach that offers program participants self-reliant methods to address their food and health needs. Los Niños works with the *promotoras* to promote awareness of nutrition and ecological issues facing their communities.

Community Leadership and Education

This program provides training for members of low-income border communities on subjects including leadership, nutrition, health, business, organic agriculture and community organizing. Los Niños also offers a credential program to participants who have completed all of the programs, and allows them to become a Los Niños employee as a *promotora. Promotoras* are able to work within their community as outreach workers as well as teach classes and training sessions for Los Niños. These training programs give low-income communities the tools to build self-sufficiency and find appropriate solutions to improve their lives.

Voluntourism and Education-Based Travel

The goal of this program, implemented in 2003, is to promote service-learning opportunities for individuals and groups from outside of the border region. Los Niños offers both weekend and weeklong visits that offer participants the opportunity to learn about the border region and the challenges that its residents face, as well as to participate as volunteers in Los Niños community development programs. The program fees paid by volunteers helps to provide additional income for Los Niños development programs.

Microcredit Program

Under this program small loans are made available to graduates of the community leadership and education program that they can use for either income-generating activities or emergency funds. By providing access to credit, Los Niños creates an environment of self-sufficiency and economic growth among community members. So far this program has yielded many successful businesses and a 100% loan repayment rate.

out that, while the organization's nutrition programs offered im-portant guidance on how to prepare healthy meals, the families their programs targeted needed more substantial economic opportunities in order to improve their quality of life. More important, there was a realization within Los Niños that charity, while appreciated, did not sufficiently empower the individuals and communities that received it to become self-reliant. "It is important for us to be very conscious of not creating dependency, and basically [focus on] giving the people the tools to become self-sufficient" said Rigo Reyes, a member of the Los Niños staff.

Accordingly, Los Niños began to shift toward a model of community develop-ment that emphasized a participatory process through which community members could identify their own needs and organize themselves to take the actions necessary to address them. Accordingly, Los Niños developed a mission statement focused on improving "quality of life by creating opportunities for children and their families to realize their human potential through participation in the development of their communities."

Consistent with this mission, Los Niños established programs designed to create the capacity for self-reliance, such as its Community Leadership and Education Program. Graduates of that program, called *promotoras*, or "promoters", have been an instrumental part of the development, implementation, and success of Los Niños' programs. *Promotoras* are members of the community who receive training and tools to organize, operate programs, and promote the overall development of their communities. In an interview for this study, Los Niños Director Elisa Sabatini emphasized the critical role of the *promotoras*: "I consider them the eyes and the ears of Los Niños in the communities. They really indicate over time what the needs are and how they shift. They are the agents of the organization and communities."

The *promotoras*, all of whom are women, play a key role in the microcredit lending program that Los Niños developed in 2004. Following Los Niños' community-based approach, interest in developing a microcredit program arose from the need for financial security expressed by community members, particularly the *promotoras*. As Los Niños began to implement a microcredit program, some of the organization's staff sought training and subsequently organized a pilot project that they tested on graduates of Los Niños' Leadership Education and Nutrition Programs. After learning from the initial pilot program, Los Niños has gradually expanded the initiative while continuing to solidify its lending model.

By mid-2008, the Los Niños microcredit program had awarded almost 350 microloans to its loan groups, amounting to over $125,000 across its five years of full operation; this is a fairly small number in comparison to some of the more sizeable microcredit lending programs described above. However, the number and total amount of loans expanded dramatically in 2007 and 2008, suggesting real potential for future growth.

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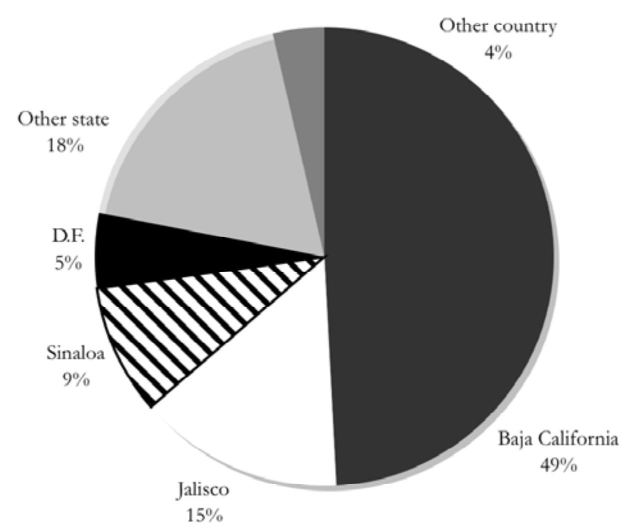
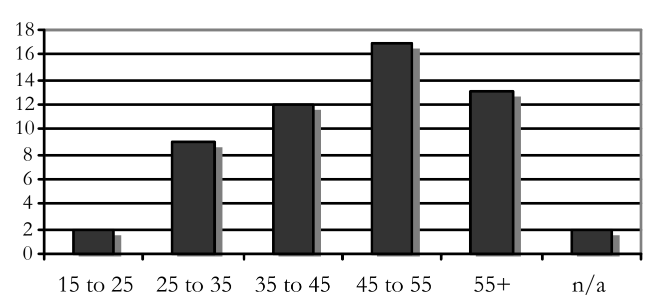
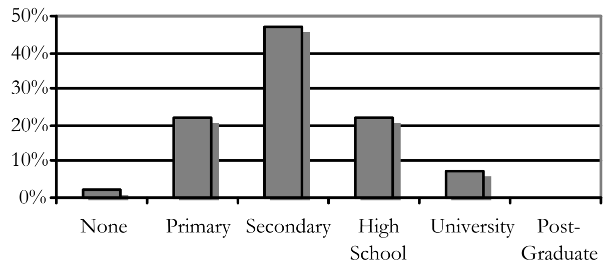
Loan Recipient Place of Origin, By State



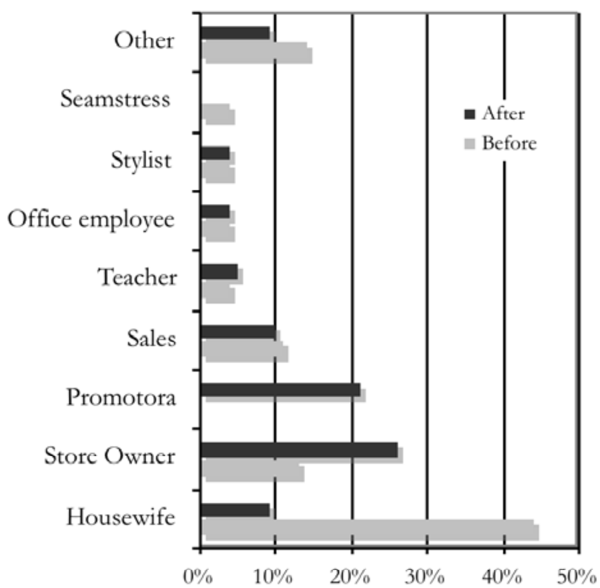
Age Distribution Among Loan Recipients



Highest Educational Level Obtained



Employment Before and After Los Niños



Perhaps most notable is the fact that Los Niños had maintained a zero-default rate from January 2004 through March-July 2008, the period considered for this study. In addition to a 100% repayment rate, Los Niños has retained an average of 80% of its clients from each loan cycle.

To understand these results, it is useful to examine Los Niños' lending model. The Los Niños program employs a group loan model in which the members pool their credit, support each other, learn together about financial management, and count on one another to make timely payments. Participants frequently form groups based on interest in similar business ventures. This allows loan recipients to share their common experiences and learn from one another to increase each of their chances of success. Additionally, the direct, weekly contact with the group's designated *promotora* for meetings and program activities ensures that there are opportunities for a regular and very personal relationship that helps reinforce the obligation to repay the loan.

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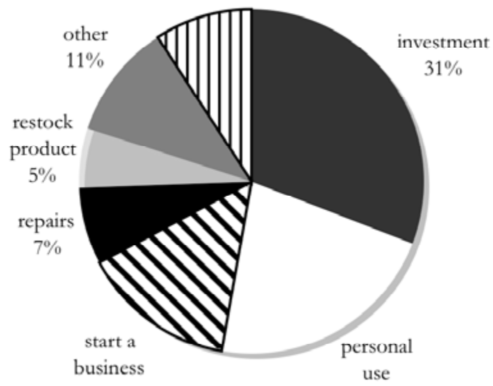
As part of its efforts to analyze and evaluate the Los Niños approach to microcredit lending in the border region, the Trans-Border Institute distributed a survey to fifty-five then-current loan recipients in Tijuana and Mexicali. The survey included a variety of questions focused on learning more about the characteristics of the loan recipients and how they use their loans. The survey was developed as a written questionnaire, piloted with a small group of *promotoras*, applied in June 2008 to all then-enrolled loan recipients, and collected after a six-week period.

The survey results show that the typical Los Niños loan recipient is a married female over the age of forty-five, with three to five children. She has a middle school education, and is attending or has participated in a Los Niños Nutrition and Ecology course. Fewer than half of loan recipients were born in Baja California, with a slight majority coming from Jalisco, Sinaloa, Mexico City, and other states (as well as two who came from Central American countries). However, the vast majority of respondents (80%) had lived in Baja California for more than 20 years, and two-thirds had lived in their specific neighborhood for more than 10 years. This finding suggests that there may still be a strong social trust and cohesion element in Los Niños' microcredit lending, which merits further evaluation.

In conjunction with the microcredit program, Los Niños provides supplemental training to each loan recipient. The microcredit loan groups take a different class together each loan cycle. Classes range from basic accounting and computation to self-esteem and assertiveness, providing participants with important business tools and life skills. The fact that Los Niños offers these courses illustrates its prioritization of the development of individual potential in order to increase their self-reliance.

Use of Loans by Recipients



Survey responses also provided a sense of how recipients used microcredit loans borrowed from Los Niños. More than half (58%) indicated that they used their loans towards some sort of business endeavor, such as starting a business, investing or restocking products. The remaining recipients used their loans for various personal expenses, such as paying for their children's education or school supplies, repairing their home, or simply paying for everyday cost of living expenses.

Survey results also suggested that participants experienced improved confidence, greater economic security, and a sense of self-reliance both as individuals and within their communities. In interviews and open-ended comments from the survey, several women mentioned experiencing tensions with their spouse as they began to leave the home more frequently to participate in Los Niños programs and develop their own independent activities. Despite these tensions, there was no reported increase in the rate of divorce among participants, and numerous participants specifically expressed that joining Los Niños helped them feel better about themselves and have more confidence in their capacity to be self-sufficient.

Other intangible benefits of these programs, according to interviews, are that program participants become role models, not only for other participants in the program but for their children as well. Advocates of microcredit lending would argue that such positive examples in families and the community can have a lasting impact for generations to come. However, with only five years of operation, it remains too early to evaluate the long-term impacts of the program.

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Meanwhile, as is the case for many non-profit organizations, a lack of both human and monetary capital presents important challenges for Los Niños. More money as capital for loans, salaries, and organizational development is needed than can easily be attained. Among Los Niños participants there seemed to be some acknowledgement of this issue, as 23% of survey respondents indicated that they wished that Los Niños would lend them more money. Moreover, according to program administrators, Los Niños has had to turn away potential borrowers at times simply because the organization lacked the capital to offer them a loan.

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Additionally, as a small organization of only four full-time staff, Los Niños often struggles to find the time to collect data, survey participants, and monitor the programs in order to assess what is working well, what is in need of improvement, and what challenges borrowers may face. In light of recent difficulties in the financial world, this kind of monitoring and analysis may be of considerable importance to protect the program's balance sheets.

Finally, Los Niños deals with a number of challenges as a non-profit organization that operates in a cross-border capacity. The transitory, sometimes chaotic nature of the border region and the physical, political, and cultural barriers created by the border itself also create their own obstacles for Los Niños. Los Niños must operate in a region with two sovereign governments that have different laws and regulations regarding business, finance, and labor. There are also significant cultural differences and language differences —not only English and Spanish, but native languages spoken by newcomers from Central Mexico— that can complicate operations and interactions with members of the community.

Future Directions

After 30 years of operation, Los Niños continues to evaluate what aspects of its programs are successful, and how to better provide the greatest possible benefits to poor communities. According to members of its Board of Directors, Los Niños is currently in a process of organizational transformation and rebranding. The exact nature and form of this institutional change is still being discussed.

Board members have made assurances that the current programs will continue to operate into the future, as they appear to be having beneficial impacts for the individuals and communities of the border region. However, the Board feels that it is time to expand their operations and redirect the focus of Los Niños. They are even considering changing the name of Los Niños to more accurately reflect their new identity as a path for individuals and communities to achieve greater self-reliance. Los Niños is also exploring opportunities to expand its operations into other countries where its programs could be successfully applied.

Conclusions

This examination of the Los Niños microcredit program offers useful insights into microcredit lending in general, and suggests these programs have significant potential as a tool for improving the lives of their participants. One important innovation developed by Los Niños is a system for fostering the development of social capital networks among community members, so that they are willing to cooperate with and rely on one another. This not only helps to sustain high rates of loan repayment, but also contributes to Los Niños' larger goal of fostering community development.

Still, there are many questions that remain about the ideal microcredit model and its long-term effects. What other supplemental programs are necessary to maximize the benefit of microcredit programs? How can microfinance institutions find the ideal balance between profitability and benefit to the poor? Should microcredit programs prioritize depth or breadth of impact? Further analysis and observation over the longer term will be necessary in order to find satisfactory answers to these questions.

Author Biographies

Elise Vaughan is originally from the Seattle area and authored this brief while a senior at the University of San Diego. She completed her B.A. in International Relations and Economics with a minor in Spanish, and graduated from the USD Honors Program in 2008. Elise is interested in border issues, development economics, conflict prevention, human rights, and international law. Elise also served as a research assistant at TBI, where she worked with data on crime, population, and economic indicators in Mexico and coordinated the TBI-Los Niños microcredit study as part of the TBI Development Project.

Emily Lawrence graduated from the University of San Diego in 2008 with a degree in International Relations and a minor in Spanish. Emily first developed an interest in Latin American studies in high school when she studied abroad in Asunción, Paraguay. Along with an interest in Latin America, Emily is also interested in border issues, human rights and international law. Emily first came to TBI in the spring of 2008 as an intern where she worked on the TBI Development Project, examining the non-profit organization Los Niños and their work with microcredit services in the U.S.-Mexico border region. She is currently a TBI research assistant and coordinator for the 2009 *Migration, Religion, and National Identity* conference.

Analisa Franklin contributed to this study during her senior year at the University of San Diego, while working as a TBI intern, and helping to gather information about the Los Niños microcredit lending program. Analisa helped document the efforts of Los Niños and analyzed its impact in the local U.S. -Mexico border region.