

Community Development and Immigrant Entrepreneurs

Moderator - Donna Rockin, Director, Duman Microenterprise Center and Loan Fund

Session Five

Financial Access for Immigrants: Learning from Diverse Perspectives

Session five of the conference addressed the immigrant small business entrepreneur, reasons that immigrants gravitate to self-employment, and innovative financing methods illustrating the need for differentiation in products and services to serve specific immigrant groups. Maude Toussaint-Comeau, an economist in the Consumer and Community Affairs division of the Federal Reserve Bank of Chicago, related her study's findings on the rate of immigrant self-employment. Pyong Gap Min, professor of sociology at Queens College and the Graduate Center of the City University of New York, discussed the influence of local, ethnic networks on the decision to seek self-employment opportunities among Asians. Chen Fu Hang, business advisor and loan officer for the Neighborhood Development Center in St. Paul, discussed innovative financing products and technical assistance techniques used successfully in his community. Barbara Robles, assistant professor at the LBJ School of Public Affairs at the University of Texas at Austin, discussed the role of community development organizations in fostering entrepreneurship along the border area of Mexico and the United States.

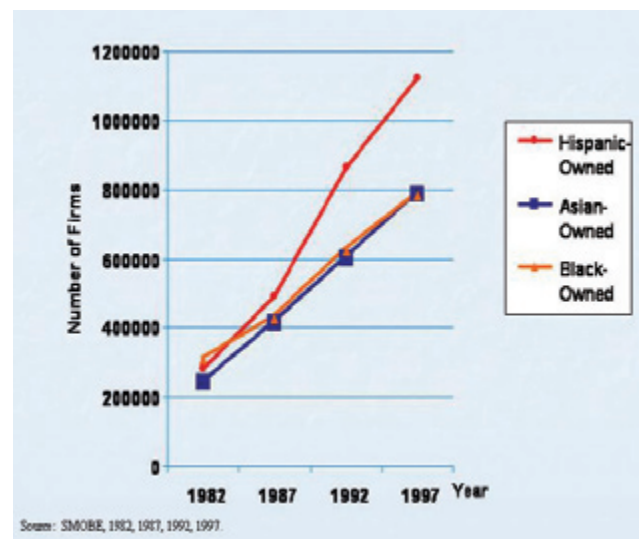
MAUDE TOUSSAINT-COMEAU Federal Reserve Bank of Chicago

Maude Toussaint-Comeau is an economist in the Consumer and Community Affairs division of the Federal Reserve Bank of Chicago. Toussaint-Comeau began by outlining the purpose of researching self-employment among immigrants.¹ She pointed out that self-employment is historically a common means by which immigrants have entered the financial mainstream in the United States. Self-employed immigrants have greater earnings and wealth than those who are not self-employed. As such, self-employment contributes to the socioeconomic progress of immigrants in the country. An important factor, she observed, is that because immigrant groups tend

to have business concentration in specific communities and neighborhoods, "...immigrant businesses are closely intertwined with our interest in community economic development." Therefore, documenting the impact of these businesses in urban ethnic enclaves is important. In that respect, Toussaint-Comeau presented some data that show the relative importance of the immigrant small business sector and its contribution to small business growth in the United States.

She explained that based on statistics available, as of the year 1997, there were already 20.8 million firms in existence. Immigrant-owned firms represented about 13 percent of all firms at the time. Asian- and Hispanic-owned firms represented more than 50 percent of all minority-owned firms. From 1982 to 1997, they increased by 295 percent (see Figure 1); 70 percent of the growth came from immigrant-owned firms, consistent with the increase

Figure 1: Growth of Minority-Owned Businesses, 1982-1997



in population over the period. Black-owned firms during the same period grew by 153 percent.

Despite the high growth in immigrant-owned firms, Toussaint-Comeau noted that there are still challenges for immigrant entrepreneurs that warrant policy consideration. First, Toussaint-Comeau explained that Hispanic and Black immigrants, and immigrants in general, are still underrepresented in the area of small business ownership in relation to their respective populations. One in 12 native born is a business owner, compared to one in 13 immigrants, one in 16 Hispanic immigrants, and one in 20 Black immigrants. Moreover, immigrant entrepreneurs are less likely to have a relationship with a financial institution, potentially limiting access to credit, requiring heavy reliance on personal savings or alternative financing, and potentially negatively affecting the long-term viability of their businesses.

Toussaint-Comeau also discussed differences in rates of self-employment of different immigrant groups and the factors that may explain such differences. They include gender, ethnicity, ethnic geographic concentration, educational attainment, English language proficiency, and tenure (years since migration) in the United States. Based on U.S. Census data, she noted that the self-employment rate of female immigrants is higher compared to that of female native born, but the self-employment rates of U.S.-born and immigrant males are relatively the same at about 10 percent. She pointed to the fact that differences exist in the self-employment rates of immigrants of different regions and country of origin. For example, Hispanic and Caribbean immigrants have relatively lower self-employment rates, whereas immigrants from Northeast Asia and India tend to have higher self-employment rates. Her research shows that the longer an immigrant has been in the country, the greater is the rate of self-employment. Self-employed immigrants have completed slightly more years of schooling and have greater English proficiency. The exceptions with respect to English language proficiency are Southeast Asian, Northeast Asian, and Caribbean immigrants. Ethnic networks within these groups may account for the exceptions.

Toussaint-Comeau concluded by noting that immigrants contribute to the U.S. economy by creating and growing small businesses. She called for initiatives that support immigrants' efforts to succeed in business and gain language proficiency, particularly with respect to underrepresented minorities: Hispanic and Black immigrants. She also stated that ethnic concentration tends to increase employment opportunities for immigrants, and efforts to support business enclaves, including adjacent affordable housing, could further promote entrepreneurship and employment among immigrant populations.

PYONG GAP MIN

Queens College, City University of New York

Pyong Gap Min is a professor of sociology at Queens College and the Graduate Center of the City University of New York. Min's presentation focused on the reasons that immigrants gravitate to self-employment. Min mentioned a book published in 1972, *Ethnic Enterprise in America: Business and Welfare among Chinese, Japanese, and Blacks*.² Essentially the book argued, according to Min, that Chinese and Indian immigrants to the United States were as disadvantaged as native-born Blacks, but had a much higher rate of self-employment thanks to communal associations and networks. Other books and much research focused on the same topic.

Min presented data showing sources of start-up capital for Korean, Japanese, and Taiwanese immigrants at different periods. Though there was variation in all categories, loans from banks were not the predominant source of business capital for any of the groups. Among Koreans and Japanese, the predominant source of funds was savings accumulated in the United States (versus brought from home country); for Taiwanese, it was funds from family.

Min summarized his presentation saying that American banks should take further steps to reach out to immigrants as they have difficulty accessing bank loans for businesses. Many have turned to U.S. branches of banks based in their home country as there is no language barrier, and documentation and credit background checks are closer to the experience in the home country.

CHEN FU HANG

Neighborhood Development Center

Chen Fu Hang is the business advisor and loan officer for the Neighborhood Development Center (NDC) of St. Paul, Minnesota. The organization recently celebrated ten years of serving entrepreneurs and aspiring entrepreneurs in St. Paul, Minneapolis, and more recently other parts of the state of Minnesota, with financing, business incubators, micro-entrepreneurship training, one-on-one technical assistance, and real estate development. The group seeks to develop entrepreneurial talent, particularly, at present, among Somali and Hmong immigrants, to build successful businesses that serve their respective communities. The NDC also helps to redevelop inner-city commercial property to promote community redevelopment.

Hang noted the diverse staff of his organization, a key to the NDC's success. Staff members speak five languages including Somali, Oromo (Eritrea), Hmong (Laos, Cambodia), Spanish, and English. Almost half of the business financing the NDC provides goes to Hispanic, Asian, and Somali immigrants. The NDC developed a

specialized program for Islamic Somali immigrants, as Muslims are prohibited from paying reba, interest on debt, by Islamic law. What others would pay as interest is built into principal payments made by participants in the “Reba Free” program. For example, if a Somali business owner needs to purchase a piece of capital equipment, the NDC buys the equipment on her behalf, marks up the price to reflect the interest cost, and charges the business owner payments based on the increased price, not the price plus interest. In 2003, the NDC received an award recognizing the program from the Association of Enterprise Opportunity.

Hang highlighted the NDC’s efforts in two communities, one in Minneapolis and one in St. Paul. The Minneapolis project took a run-down commercial strip and renovated it into a business incubator that serves primarily Hispanic and Somali entrepreneurs. The St. Paul project is also a business incubator serving primarily Hmong and other Asians who have settled in the central part of the city. A newer, bank-funded initiative finances real estate development in NDC target communities.

BARBARA ROBLES University of Texas

Barbara Robles is an assistant professor at the LBJ School of Public Affairs at the University of Texas at Austin. Robles discussed entrepreneurship in the borderlands of Mexico and the United States, highlighting the role of community development organizations. The border states in Mexico are Nuevo Leon, Coahuila, Chihuahua, Sonora, and Baja, California. The U.S. states are Texas, New Mexico, Arizona, and California.

Robles began by noting that the region along the Mexico – U.S. border is economically depressed, comparing it to the Appalachian region in the United States. Among the U.S. counties that border Mexico, many have more than 70 percent Latino population, according to the 2000 Census. Unemployment runs from 12 to 18 percent in the counties along the border, and per capita income, from \$7,000 to \$18,000. Educational attainment is also very low, particularly in Texas.

Robles stated that three large micro-finance lending organizations – Acción Texas, Acción New Mexico, and Acción San Diego – all community development financial institutions (CDFIs), have supported small businesses in the region since the mid 1990s. Cumulatively they have made loans of more than \$40 million, serving almost 8,300 micro businesses. Given the high unemployment rate, Robles underscored the importance of micro-business development and discussed other key roles of the community based groups that do. “They also provide financial planning, tax preparation, consumer and financial

literacy outreach, and most importantly networking for businesses, opening up their customer base,” she said. Community based organizations also help newly arrived immigrants to acclimate in the United States and serve as translators and mediators in some instances. Community based organizations play an important role in linking businesses in more isolated communities that lack basic amenities, sometimes called colonias, with the mainstream market.

Robles noted that the CDFIs serve as front-line lenders to families and households with irregular income and little or no established credit history. The CDFIs help banks to fulfill Community Reinvestment Act goals by acting, “...as a proxy for the lending institutions.” The banks lend to the CDFIs at reduced rates; the CDFIs in turn provide the technical assistance and the more rigorous loan servicing that the market may require. The CDFIs are attuned to local customs and practices and do not rely on externally developed and imposed models for lending and development.

Robles closed by discussing two policy-related issues. First, referring to the presentation the prior day by National Taxpayer Advocate Nina Olson, she emphasized the importance of training and certifying tax preparation volunteers as an integral part of promoting financial literacy among self-employed immigrants. “It’s a crucial, crucial component for economic development, not only with the earned income tax credit refunds, but also in terms of establishing that immigrants are not wards of the state and will not be wards of the state; they’re actually self-sufficient.” Finally, Robles urged continued funding of the CDFI program and Small Business Administration programs, noting that, “These programs really promote self-sufficiency and community development.”

Notes

1 Toussaint-Comeau’s complete presentation is available at www.chicagofed.org/news_and_conferences/conferences_and_events/files/financial_access_for_immigrants_toussaint.pdf.

2 Light, I. (1972), *Ethnic Enterprise in America: Business and Welfare among Chinese, Japanese, and Blacks*. Berkeley, CA: UC Press.