



The Emerging Immigrant Market and Microenterprise

“Emerging markets” and the “bottom of the pyramid” are hot topics in the corporate sector, as business increasingly becomes aware that there are both investment opportunities and buying power in communities across the globe that are being overlooked. More recently, there's been a growing recognition that U.S. business doesn't have to look far to find these markets. Many are located within our own shores. But just what do these terms mean? While the “bottom of the pyramid” recognizes the strong, aggregate buying power among consumers in very poor and underserved markets, “emerging markets” refers to the economic potential found in many of these same places. When looking at the U.S., the Milken Institute says: “Emerging Domestic Markets refers to people, places or enterprises with growth potential that face capital constraints due to systematic undervaluation as a result of imperfect market information. These markets include ethnic- and women-owned firms, urban and rural communities, companies serving low-to-moderate-income populations, and other small- and medium-sized businesses.”¹

While the corporate sector may find these markets new, they long have been the focus of microenterprise development programs. Microenterprise programs have always tapped into overlooked markets and today, as the demographic face of our nation changes and as informal economies grow, they remain well placed to both connect with these communities, and offer opportunities for funders to connect with these markets as well.

This guide focuses on one important component of the emerging domestic market – the immigrant market, which has created fundamental changes in the U.S. demographic profile and economy over the last decade. Hispanics, for example, currently comprise 13 percent of the U.S. population and are expected to reach 18 percent by 2025.²

Other immigrant populations are growing as well, making the total increase 57 percent across the nation in the 1990s, “bringing the share of the U.S. population that is foreign-born to a higher level than anytime since 1930.”³ Moreover, these immigrants, like those who preceded them, have proven to be more entrepreneurial than native-born residents. The Ewing Marion Kauffman Foundation reports that they create more businesses than their native peers: On average 0.35 percent of adult immigrants create new businesses monthly, compared to 0.28 percent among the native-born population in 2005.⁴

In FY 2005, U.S. microenterprise development programs reported to FIELD (using MicroTest, the industry's performance management database) that their clients were:

- 57% women
- 61.5% persons of color/ethnic minorities
- 66% low to moderate income

(Reporting organizations numbered between 53 and 69 depending on the datapoint. Low- to moderate-income clients are defined as those whose incomes are at or below 80% of the HUD median income for their communities.)

¹ Betsy Zeidman, “Changing the Contours of Capital,” August 1, 2005, available from <http://www.milkeninstitute.org/publications/publications.taf?function=detail&ID=457&cat=Arts>; Internet.

² <http://www.census.gov>, reported in Katy Jacob and Melissa Koide, *Accessing the American Dream: Affinity Marketing Partnership Strategies for Financial Institutions and Nonprofits* (Chicago: The Center for Financial Services Innovation, July 2006); available from <http://www.cfsinnovation.com/publications.php>; Internet.

³ Jonathan Bowles and Tara Colton, *A World of Opportunity* (New York: Center for an Urban Future, February 2007), 4, citing Anna Paulson, Audrey Singer, Robin Newberger and Jeremy Smith, “Financial Access for Immigrants: Lessons from Diverse Perspectives” (Federal Reserve Bank of Chicago and The Brookings Institution Metropolitan Policy Program, May 2006).

⁴ Robert W. Fairlie, *Kauffman Index of Entrepreneurial Activity, National Report 1996-2005* (Kansas City: Ewing Marion Kauffman Foundation, 2006), 4.

The Center for an Urban Future notes that small businesses are fueling much of the economic growth in major American cities, including New York, Los Angeles, Houston and Boston, in part due to the increase in immigrant businesses. In New York, for example, the number of businesses citywide increased by 9.6 percent between 1994 and 2004, but the increases in immigrant communities grew at much larger rates: by 54.6 percent in Flushing, 47.3 percent in Sunset Park, and 17.8 percent in Washington Heights, to name a few. Yet the center reports that none of the major cities have yet to incorporate these firms into their economic development planning in any significant way. And they face many barriers that other small businesses do not, limiting the contributions that they can make.⁵

But microenterprise development programs are ahead of the curve. Here's how they've responded to these high potential, emerging business markets:

Programs engage in special outreach, using institutional and personal bridges to this market.

This includes reaching out to such trusted community organizations as churches, cultural and ethnic organizations, immigration rights institutions, social service agencies, English as a Second Language programs and others. It also means hiring staff with the language and cultural skills of the target market, and encouraging clients to serve as program ambassadors. Where possible, programs offer their services as close to the community as possible, reducing the barriers of distance, culture and language.

Training incorporates content that introduces immigrants to business practice and financial practice in the U.S.

Financial literacy undergirds, and precedes, business training. Organizations like Women's Initiative for Self Employment in Oakland, Calif. and ACCION New York in New York City introduce clients to the financial system, overcoming fears and distrust that immigrants have brought with them from their home countries, and which in many cases, have been reinforced as a consequence of bank stringency in response to the USA Patriot Act. Courses cover personal finances and home budgeting, how to establish credit, open checking and savings accounts, and the importance of formal savings, and asset building. Clients also learn that being successful in business in the U.S. requires that they understand: any required licenses and permits, the taxes they must pay, how to navigate a different business culture, and how to market their business.

Training is offered in relevant languages, uses participatory methods that support adult learning, and addresses important personal and cultural issues.

Participatory, adult learning methodology recognizes the experience, skills and knowledge of all class participants, no matter their formal education. Women's Initiative, for example, has found that educational levels vary strongly in its Spanish language classes. Participatory methods enable all to share their experiences, and practical, hands-on exercises support learning despite a lack of formal preparation. Personal empowerment components offer an additional support for clients who have struggled with the challenges of building lives and businesses in a new country. Women's Initiative also has found that addressing family issues, including violence, is essential. While the program has always acknowledged and addressed these topics in its traditional work with a broader population, such discussions seem especially important among its Latina clients.⁶

Programs offer safe environments for undocumented entrepreneurs.

While recognizing that clients may be undocumented and their businesses may be informal, microenterprise programs nevertheless try to create environments that are welcoming, yet encourage compliance with U.S. laws and regulations. Conexión Américas in Nashville, Tenn., for example, uses its “Negocio Próspero” course to help these individuals establish their businesses as sole proprietorships, get EIN numbers, open checking accounts, separate business and personal finances, and learn how to buy business insurance. While the businesses aren't totally legal if they employ “out of status” workers (including the owner), Conexión believes that the separation of the business from the individual creates some protections for clients, and enables them to demonstrate their interest in respecting U.S. laws and living as “good citizens.”

⁵ Bowles and Colton, 5-6.

⁶ Karuna Jaggur and Sandra Murillo, Women's Initiative, interview by Tamra Thetford of FIELD, February 15, 2007.

Financial products that help clients build credit serve as a stepping stone to business credit.

ACCION New York offers a “Credit Start-up” product to immigrant customers that incorporates financing and technical assistance. The product includes a loan up to \$1,000 with a flat interest rate of 14.99 percent, and technical assistance addressing financial literacy issues, such as how to build credit using a secured credit card and how to maintain a good credit rating, among others. The loans are extended to clients on the basis of tax identification numbers, and loan performance is reported to the major credit bureaus. Other programs offer similar credit-builder loans.

Business credit is offered, drawing on alternative underwriting and addressing risk.

Business credit is offered in restricted amounts to informal businesses and informal owners. Loans are stepped up for those who meet formalization requirements and demonstrate good payment performance. Underwriting criteria incorporate character assessments; collateral and co-signers; assessments of performance within training (where that is a portal to lending); alternative methods to verify identity, place and length of residence; and business feasibility and cash flow analyses. ACCION New York also incorporates risk-based pricing as an incentive to formalize, when possible.

What funders can do

Funders interested in accelerating the contribution of immigrant enterprise to local communities should consider:

Targeting funding for these programs

Programs interviewed for this guide report scarce funding for services dedicated to these communities. Most have developed new curricula, services and outreach, and hired culturally competent staff, drawing on general program resources or limited, designated funding. In particular, some have found that resources to serve informal, undocumented clients are scarce.

Investing in product development and translation of materials for specific communities, and fostering their adaptation by a growing number of microenterprise programs

Some microenterprise programs have invested funds in the development of curricula specifically targeting segments of this new market, while others, like REAP in Nebraska and AnewAmerica in Berkeley, Calif. have adapted a standard curriculum, NxLevel, to their classes. Identifying best practices, and standardizing and sharing some training products could accelerate the ability of other programs to serve immigrant entrepreneurs in various parts of the country. This is important because the number of microenterprise programs with an understanding of these practices, relevant materials and program offerings currently is limited.

Helping programs address capital gaps

More programs are reporting scarcity of capital to serve this market, while demands for both credit-builder loans and enterprise loans are growing. The Milken Institute further has reported “critical capital gaps” for ethnic-owned firms, noting that this could lead to brakes on the overall, national economy since these firms grew more than twice as fast as all firms in the 1990s, and since they are the most likely employers of the country’s emerging workforce. (Minorities are expected to represent 70 percent of workforce growth over the next 20 years, and “research demonstrates that minority- and women-owned firms are most likely to hire this emerging workforce.”)⁷

Fostering connections between microenterprise organizations and mainstream financial service providers and economic development agencies

Microenterprise development organizations could do more with greater linkages to and support from mainstream financial institutions, and city and state economic development entities. In New York, for example, a “second look” program initiated by the State Banking Superintendent has networked banks with microenterprise programs in a number of city neighborhoods, and has begun to increase loan referrals to microlenders. In some instances, city programs also have partnered with microenterprise programs to deliver entry-level training and technical assistance.⁸ However, these incipient efforts and others like it need to be expanded dramatically in major immigrant markets, if

⁷ Glenn Yago, Betsy Zeidman and Bill Schmidt, *Creating Capital, Jobs And Wealth In Emerging Domestic Markets: Financial Technology Transfer To Low-Income Communities* (Santa Monica, Calif.: The Milken Institute, January 2003), Policy Brief 34.

⁸ Bowles and Colton, 39-43.

substantial numbers of entrepreneurs are to be served and served well. Creating opportunities for dialogue and partnership will lead to greater understanding of the array of barriers that immigrant entrepreneurs face and, hopefully, to solutions that:

- in terms of policy, will recognize and foster immigrant entrepreneurship as a vital piece of a community's economic development;
- in terms of regulation and enforcement, will positively support integration, rather than encourage isolation and avoidance; and
- in terms of services, will connect more closely with accepted community institutions and leadership, increase the number of outlets providing services, and invest in them more substantially.

Helping Immigrant Entrepreneurs Achieve Success – Funding A Holistic Approach

AnewAmerica Community Corporation, based in Berkeley, Calif. and serving entrepreneurs through offices there as well as in San Francisco and San Jose, takes pride in its intensive “virtual incubator” that offers a three-year program to immigrant entrepreneurs. Executive Director Sylvia Rosales-Fike, says that its development and the growth of the organization would not have been possible without multiyear funding from donors, general support, and support that increased visibility in the community. AnewAmerica's program emphasizes business development, asset development and social responsibility training focused on volunteerism and civic engagement. Based on an examination of both international and U.S. microenterprise models, and on focus group research with immigrant entrepreneurs indicating that many were seeking long-term guidance and a relationship, the organization's methodology goes beyond minimalist models with the goal of achieving strong business growth for its clients and enhanced household security. Core program elements are: group training, one-on-one technical assistance, an Individual Development Account program that clients can apply to their business or to a home purchase, and access to markets assistance. Clients also gain: a business certificate from a partner university where they take classes; access to mentoring and coaching from established business owners (the organization calls this bridging “old” Americans with “new” Americans); and an introduction to the U.S. democratic system.

Funding this program and other less intensive services (AnewAmerica is a Women's Business Center and offers an array of short-term courses and technical assistance and served 1,487 participants in 2006) requires funders that believe in the organization's mission and are willing to back its integrated approach. In its early years, AnewAmerica found that the SBA's PRIME program provided not only substantial funding that allowed it to hire key staff, upgrade offices and expand services, but also gave it important recognition that created a breakthrough to other funders. Now its SBA award to serve as a Women's Business Center has further increased its stability and visibility in the community. Private funders also have both sustained it and promoted its cause. In particular, the Walter and Elise Haas Fund has provided multiyear grants for general support and opened doors to other funders in the community. These grants, along with those from others in the community, have given the organization the flexibility needed to develop and fine tune its program. Now the organization gets calls from others seeking to replicate its service model.

For more information

Microenterprise organizations that contributed to this guide and have strong immigrant program services include: ACCION New York (<http://www.accionnewyork.org/>); AnewAmerica (<http://www.anewamerica.org/>); Conexión Américas (<http://conamericas.com/>); REAP at the Center for Rural Affairs (<http://www2.cfra.org/reap/>); and Women's Initiative for Self Employment (<http://www.womensinitiative.org/index.htm>).

For past funder guides, please see <http://fieldus.org/Projects/donorResources.html>. Information on a donors' group on microenterprise development is also available at that site.

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The Aspen Institute | One Dupont Circle, NW | Suite 700 | Washington, DC 20036

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