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Latino Immigrant Entrepreneurs

How to Capitalize on Their Economic Potential

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Introduction

Latino immigrant entrepreneurs are making important contributions to the U.S. economy. They have founded highly successful companies in the frozen food, construction, financial services, and high-tech industries. Many of these companies owe their success to cultural connections with Latin American markets abroad and U.S. Latino consumers at home—markets that are set to grow rapidly in the coming years. Small-scale Latino immigrant entrepreneurs, meanwhile, have helped revitalize city commercial strips and small-town Main Streets across the country.

But roadblocks are preventing the United States from capitalizing on the entrepreneurial potential of Latino immigrants. Visa issues can make it difficult for even promising and well-funded entrepreneurs to establish themselves in the United States. Isolation from mainstream business networks and lack of access to credit can undercut business growth for some companies. More should be done to foster the connections of U.S. Latino–owned companies with growing Latin American economies.

Policy changes can help. Skilled immigrants who complete U.S. start-up incubator programs or graduate from U.S. universities should be given a grace period to reside in the country after their studies to prove their entrepreneurial mettle. The investment and job creation thresholds to enter the country on the "investor" EB5 visa should be reduced. Once in the country, proven immigrant entrepreneurs should be able to qualify and plan for long-term or permanent residency. A more ambitious trade agenda with large Latin American markets, and support for U.S.-based Latino companies seeking those opportunities, should be pursued to help create jobs in the United States. Local governments should encourage closer collaboration between business organizations and immigrant entrepreneurs and also promote nonprofit lenders and financial literacy organizations.

Latino Immigrant Entrepreneurs: Advantages and Challenges

Latino immigrant entrepreneurs have a huge potential to benefit the U.S. economy, yet they remain largely overlooked. Indian, Chinese, and Taiwanese immigrant entrepreneurs attract the lion's share of attention. This may be because Latino immigrants start businesses at lower rates than other immigrant groups and continue to have a low rate of business ownership. But Mexicans are in fact the immigrants who launch the greatest number of new companies in the United States every year. While most of these businesses are small, one-person operations or mom-and-pop retail stores and restaurants, Latino-run enterprises are major players in the frozen food, construction, and financial sectors. They are also a growing presence in the high-tech and telecommunications sectors. Given demographic trends, their influence across the U.S. economy will likely expand significantly. Latinos are by far the largest immigrant group in the United States. Of the forty million who are foreign born, roughly half are Latino.[1] Increasing entrepreneurialism among U.S. Latino immigrants would pay large dividends by creating jobs, raising Latino incomes, and boosting the larger economy.

The benefits of entrepreneurialism are well documented. Start-up firms are responsible for nearly all net U.S. job growth and a disproportionate share of breakthrough innovations.[2] Between 1990 and 2001, the U.S. regions with the most entrepreneurial activity experienced, on average, 125 percent higher employment growth, 109 percent higher productivity growth, and 58 percent higher wage growth than regions with the least entrepreneurial activity.[3] Low-income business owners have higher saving rates and experience faster earnings growth than low-income employees in salaried jobs.[4] The benefits are intergenerational, since the children of business owners are more likely than those of non–business owners to become entrepreneurs themselves.

Latino immigrant entrepreneurs benefit from the same features that make the United States attractive to both domestic and foreign-born entrepreneurs. The U.S. market remains the largest and most dynamic in the world. There is an ecosystem to support start-ups. Universities not only mentor budding student entrepreneurs, but often offer free advice to members of the community intending to start their own company. Venture capitalists provide investment and guidance. "Incubator" programs help by selecting promising entrepreneurs, providing cheap office space, and mentoring them through round-the-clock workdays. Profiting from start-ups through stock market offerings or selling businesses to larger competitors is easier than in many other countries. Recent policy changes, such as the Jumpstart Our Business Startups Act, are likely to benefit new start-ups by reducing regulatory burdens and increasing financing flexibility for young companies.

The success of immigrant entrepreneurs in the United States, especially in Silicon Valley, has sparked growing interest in the role that immigrants can play in business formation, job creation, and innovation. A landmark 1999 study by AnnaLee Saxenian found that nearly one-quarter of the new technology companies created in California over the previous two decades was led by an immigrant.[5] Subsequent research with Vivek Wadhwa and others expanded on those findings, demonstrating a growing role for immigrants in patent filings and technology start-ups.[6] This research has focused primarily on highly skilled Asian immigrants, especially from India and China, who have played leading roles in many of these new companies.

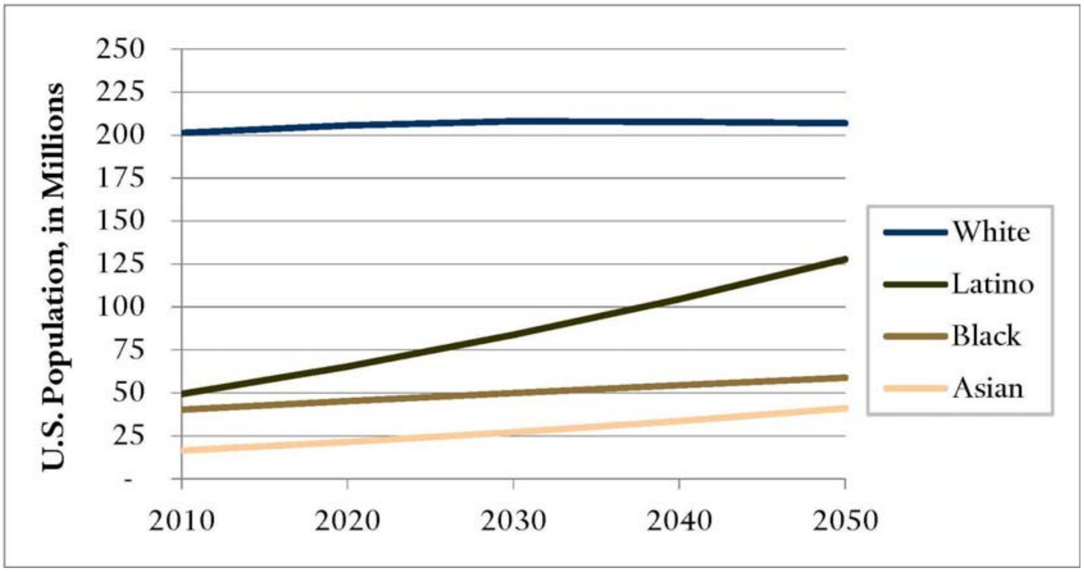
The literature on Latino immigrant entrepreneurs is still sparse, in part because business ownership is relatively less widespread in the Latino immigrant community. Mexicans—who make up the largest share of Latino immigrants—have especially low rates of business ownership. Including self-employment, just 6.5 percent of Mexicans own a business, compared to 9.5 percent and 9.7 percent of the U.S.-born and immigrant population, respectively.[7] In contrast, Asians generally demonstrate high rates of business ownership. Nearly a quarter of Korean immigrants and a tenth of Indian immigrants own a business. And the income of Latino-owned businesses is generally lower than for other immigrant-owned businesses. Latino immigrant–owned businesses have an average sales level of $257,000, compared with $465,000 for Asian immigrant–owned businesses.[8] The income per business owner for Mexicans is just over half that of Korean business owners, and less than a third of Indian-owned businesses. But the overall number of Latino immigrant entrepreneurs dwarfs that of other immigrant groups. Mexican immigrants, the country's largest immigrant group, also accounts for the largest share, or 12 percent, of all incorporated small business owners.[9]

Latino immigrant entrepreneurs face a range of challenges that put them at a disadvantage compared to other immigrant entrepreneurs. The term "Latino" itself encompasses a diverse population with different national, cultural, and ethnic backgrounds. As a consequence, the networks that have supported entrepreneurialism among, for example, Indian, Chinese, and Taiwanese immigrants are less developed. Latino immigrants also tend to be poorer. The median earnings of immigrants to the United States from Latin America is just over half that of immigrants from Asia and Europe. Access to the financing necessary for business start-ups is often a greater hurdle for Latino entrepreneurs. And although visa and immigration issues are a challenge for entrepreneurs in all immigrant communities, they are especially so in the Latino community because of the large number of undocumented immigrants.

Nonetheless, Latino immigrant entrepreneurs also enjoy some significant advantages over other immigrant groups. In particular, they are uniquely poised to take advantage of the large Latino consumer market in the United States and the proximity of the United States to Spanish-speaking consumer markets in Latin America. Proponents of immigration often point to the fact that no culture has a monopoly on talent—a Uruguayan can be a superb programmer or an Indian a top-notch medical researcher. But a snapshot of the businesses Latino immigrant entrepreneurs have created suggests that rationale is incomplete. Their Latino heritage is in many cases a bonus, from spotting market niches in their home countries and knowing how to navigate the bumpy regulatory terrain to developing products that appeal to U.S. Latinos who have more and more money to spend. And geography still matters. The proximity of and ease of travel between the United States and Latin America offer business advantages that U.S.-based entrepreneurs can exploit.

There are significant opportunities for expanding entrepreneurialism among Latino immigrants. The Latin American economic outlook is better now than it has been in decades, and a growing number of U.S.-based firms run by Latino immigrants are seizing these opportunities. At home, demographic trends, combined with rising Latino purchasing power, offer a growing U.S. consumer market for Latino products. Today there are 49 million U.S. Latinos (see Figure 1); by mid-century, the number of U.S. Latinos is projected to more than double, to 127 million.[10] The buying power of Latinos in the United States is forecast to grow by 42 percent to $1.7 trillion by 2017, a growth rate twice the national average.[11] While second- and third-generation Latinos do not represent the same captive market as first-generation Spanish-speaking immigrants, there is no other ethnic group that has anything close to the same ethnic market potential.

Figure 1. U.S. Population, by Race (2010–2050)



Source: Pew Research Center.

In nurturing Latino immigrant entrepreneurship, there is more at stake for the United States than high-value market opportunities. Low-income Latino immigrant entrepreneurs have given new life to moribund rural and inner-city communities. Mexican-American business owners hire a disproportionate share of ethnic minorities, a group that tends to suffer higher rates of unemployment during economic recessions.[12] And entrepreneurialism can be a path of economic integration for the millions of Latinos who now make up the country's largest minority group. Policies that help nurture Latino immigrant entrepreneurialism will pay big dividends for the U.S. economy as a whole.

U.S. LATINO COMPANIES EXPANDING ABROAD

Much of Latin America is booming. Brazil, Chile, Mexico, and Peru all experienced gross domestic product (GDP) growth rates of at least 5 percent in 2010.[13] Though its economy slowed in 2011, Brazil recently surpassed the United Kingdom to become the world's sixth-largest economy, and it is on track to overtake France in the next few years if current growth trends continue. Mexico is rising in the ranks as well, with an economy already larger than South Korea's and closely rivaling Spain's. With per capita incomes steadily rising, more Latin Americans are entering the middle class. Over half of the populations of Mexico, Uruguay, Argentina, and Costa Rica fall into that category.[14] They will continue to drive up demand for products such as financial services, electronics, toys, and clothing.

Trade flows are a testament to strong U.S.-Latin America commercial ties. U.S. trade with Latin America has grown faster than trade with virtually any other region, reaching more than $800 billion annually.[15] Nearly a quarter of U.S. exports go to Latin America, totaling approximately $360 billion annually. Although much focus has been on China, the United States exports more than three times as much south as it does to the Asian giant.[16]

Latin Americans can be more than consumers for U.S. products—they can also make contributions to U.S. companies. U.S.-based firms have long outsourced tasks like payroll, accounting, and call center support to lower-wage employees in countries like India and China. Outsourcing to Latin America offers advantages over far-flung Asian countries. Travel times are shorter, and shipping and transportation costs tend to be lower. Time-zone differences are much less pronounced, if they exist at all.

Yet obstacles to doing business in Latin America persist. With the exception of Chile, Latin American countries are not known for transparency or reliable legal systems. In countries like Venezuela and Argentina, currency controls and threats of nationalization can be obstacles to doing business. Navigating such an environment can be difficult for foreigners. Latino immigrants are uniquely positioned to help the United States capitalize on such business opportunities. Robert Guest, business editor at the *Economist*, explains the advantage that immigrants from these countries have in doing business with their countries of origin: "They know whom to trust. In [countries] where the rule of law is, to put it mildly, uncertain, that knowledge can be the difference between success and failure."[17] Immigrants who retain cultural and personal ties can often figure out ways to do business in places where explicitly articulated standards of conduct—or at least standards that are regularly followed and enforced—are weaker. This phenomenon has been noted with respect to Chinese immigrants in the United States doing business in China, and the same advantages exist for Latino immigrants doing business in their home countries.

These insider perspectives can be invaluable for U.S. firms looking to take advantage of growing Latin American opportunities. The Austin, Texas–based strategic consultancy firm Vianovo, for example, advises companies on political and regulatory environments in Mexico and the United States. Cofounder James Taylor spent his childhood hopscotching between the two countries. With clients like Western Union, a Denver-based financial services company, and Cemex, a Monterrey-based cement producer, Taylor has helped business executives grasp different public relations and business environments in the United States and Mexico.[18]

In many cases, Latino entrepreneurs use their insider perspective to manufacture and market products themselves. Marcelo Claure, for example, built his company Brightstar into one of the most successful Latino-owned corporations in the United States, in part by capitalizing on his understanding of Latin America. The Miami-based company now produces, adapts, insures, and retails phones around the globe, but Claure got his start handling cell phone distribution for companies like Motorola in Latin America. Brightstar now employs 750 people in the United States, out of its 3,500-person global workforce. Born in Bolivia, Claure spent formative years in the Dominican Republic before attending college in Massachusetts and starting his first cell phone business in Boston in 1995. The business grew quickly, and Claure launched Brightstar two years later. Because of Claure's intimate understanding of Latin America, government fiats that tend to repel international companies—like currency and price controls—are in his eyes a potential boon. "What's maybe unique to us at Brightstar," he says, "is that we see circumstances like that as an opportunity."

A Claure hallmark is making protectionist government policies work in his favor. When Argentinean president Cristina Kirchner demanded that technology products be produced in-country, Claure seized on the chance to build a manufacturing plant in the southern Tierra del Fuego province. Producing a phone in Argentina costs much more than outsourcing to Asian factories, and the government's heavy hand scared off many of Claure's competitors. But acceding to the Kirchner administration's demands allowed Brightstar to own the domestic market. According to Claure, his company now lays claim to 65 percent of it.[19]

Brightstar's business model involves high-end work in the United States mixed with more labor-intensive manufacturing at plants across South America, a model similar to the one that many U.S. businesses have used with regard to Asia. Other Latino immigrant entrepreneurs are looking to Latin Americans to perform higher-end tasks. In 2008, Dallas-based Andres Ruzo, who moved to the United States from Peru when he was nineteen to study engineering, launched ITS Infocom, a multinational Internet technology company. In addition to its Dallas head office, the company employs locals in eleven countries across Central and South America, and provides IT and customer service support for companies like AT&T, Citibank, Best Western, and McDonald's. Since its inception, the company has gone from taking in $4 million in annual sales to more than $200 million.[20]

Critical to that expansion, Ruzo says, was forging partnerships with business leaders who can provide existing platforms in Latin American countries. "It's about collaboration," he explains. "I don't have the time to lease a building, find a manager, and hire locals with appropriate skills. I need strategic partners, and I know how to find that." The main reason he opted to grow his business in Latin America was because of the comparative advantage he had doing business there, but he noted it helps that Costa Rica is a mere three and a half hours from Dallas—a less arduous trip than a flight to China or India.

One reason Asian countries have emerged as outsource hubs for the United States is because of the strong presence of Chinese and Indian expatriates, particularly in science and technology sectors. As of yet, no Latino has shaped the high-tech sector in the manner of Taiwanese-native Jerry Yang, a founder of Yahoo. But a nascent Latino immigrant presence has emerged in Silicon Valley. Like their Indian and Chinese colleagues, these entrepreneurs are connecting technology hubs in the United States to those in countries like Chile and Argentina.

Esteban Sosnik, an immigrant from Argentina and president of the Silicon Valley–based Atakama Labs, designs video games. Sosnik employs engineers in Santiago, Chile, and has found that the benefits of a multicity footprint go beyond accessing talent at a discounted rate. One of his company's games took off in Brazil, he says, because he has a strong presence in the southern cone. "It's the same thing you've seen in China," he explains. "When companies outsource, the next logical question is, 'How can we take our products to those regions?'"[21]

Though export markets still represent a small fraction of overall Latino entrepreneurial activity, immigrant-owned firms are more likely to export than nonimmigrant-owned firms. Some 3 percent of Latino-owned firms generate more than half their revenue from exports. That is a slightly higher percentage than for Asian-owned firms and much higher than for American-owned firms, of which just 0.5 percent rely primarily on exports.[22]And the proximity of Latin America to the United States makes it a particularly fertile export opportunity, in which Latino entrepreneurs are playing a leading role. The emerging market opportunities in Latin America, and the unique abilities of U.S.-based Latino entrepreneurs to seize those opportunities, should lead those numbers to rise in the future.

LATINO BUSINESSES OPERATING DOMESTICALLY

The U.S. Latino population is reshaping the U.S. consumer market for goods and services. Though Latino incomes continue to lag the national average, their purchasing power, now estimated to be about $1.2 trillion, has more than doubled since 2000 (see Table 1).[23] That is a higher rate of growth than for any other major ethnic group and twice that for the country as a whole. By 2017, Latino purchasing power is projected to hit $1.7 trillion. The U.S. Latino consumer market is bigger than the economies of Mexico and Canada.[24]

Table 1. U.S. Purchasing Power Trends, by Race (2000–2017)

		Latino	Asian	Black	White	Total
Purchasing power, in billions	2000	$488	$273	$600	$6,353	$7,324
	2012	$1,179	$718	$1,038	$10,177	$12,191
	2017	$1,677	$1,023	$1,307	$12,361	$15,084
Change in purchasing power	2000–2012	142%	164%	73%	60%	66%
	2012–2017	42%	42%	26%	21%	24%
	2000–2017	244%	275%	118%	95%	106%

Source: Selig Center for Economic Growth.

Latino immigrant–owned businesses are well positioned to serve this big U.S. Latino market. Their shared heritage often gives them a head start in producing products that appeal to Latino customers. Take the food sector. Two of *Hispanic Business* magazine's top ten Hispanic-owned companies of 2011—Quirch Foods of Miami and Ruiz Foods of Dinuba, California—started marketing Latino foodstuffs on a small scale in the 1960s and, as the U.S. Latino population grew, reaped the benefit of an expanding market.

The same strategy worked for Mexican native Maria de Lourdes Sobrino and her Lulu's Desserts brand. After opening a seven-hundred-square-foot storefront in an Anglo part of Los Angeles in 1982 and failing to attract customers for her gelatin desserts, she began selling them on consignment to Mexican supermarkets. Lulu's Desserts has since grown into a business with $8 million in annual revenue, and there are plans to build a second manufacturing plant in Texas.

There are many other examples of Latino immigrant–owned firms successfully riding the Latino market wave. Cuban American Jose Villa founded the media company Sensis in 1998 in Los Angeles, with a focus on reaching a multicultural audience. Its clients now include the U.S. Army, which turned to Villa's team to reach Latinos through a digital media campaign. Similarly, Brazilian native Bruno Almeida launched U.S. Media Consulting in 2003 with a remit to reach Latino consumers, both in the United States and in Latin America, through print media, Internet, and television advertising. His company went from taking in $1 million in sales in its inaugural year to $12 million by 2009.

In much of Latin America, subsistence entrepreneurship is the norm. Deeply stratified societies and low levels of postsecondary education mean many residents are compelled to resort to jobs like selling fruit on the roadside or cleaning homes. Nearly 60 percent of jobs in Latin America and the Caribbean are in this "informal" sector and do not provide benefits or labor protections.[25]

Though this is an inequitable and unproductive social structure, the omnipresent commercial activity can help foment an entrepreneurial mindset. Luis Reyes, the El Salvadoran owner of two highly successful Tex-Mex restaurants in Washington, DC, did not own a pair of shoes until he was seven years old. But he saw family members operating small businesses; a cousin sold merchandise in Costa Rica and an uncle ran a small farm. "I saw what they did, and I imitated it," he says. He moved to the United States as a teenager, and he credits his family's example as one reason he decided to use the savings he cobbled together working as a dishwasher to go into a restaurant partnership rather than to buy a house.[26]

The Latino-run New York private equity firm Palladium Equity Partners invests primarily in companies with a focus on the Latino market. Some companies in its portfolio, such as the money transfer firm DolEx Dollar Express, are narrowly targeted to the Latino immigrant population. Other Palladium-owned companies, like the Mexican fast-food chain Taco Bueno, draw a more diverse clientele. Palladium has profited handsomely with this portfolio mix. The firm has $1 billion under management and, according to *Crain's Business News*, is the second-largest minority-owned business in the New York region.[27]

The fact that the Palladium management team is composed almost exclusively of Latinos has helped the firm capture more business, especially when a company it wants to buy is still run by a Latino founder. "In those cases, it's the opposite of an eBay auction, where the highest bidder automatically wins," says David Perez, Palladium's managing director, who was born in Cuba and moved to the United States in 1990. "They tend to care a lot more about the noneconomic terms." He points to Palladium's acquisition of the Castro Cheese Company in 2007 from a Mexican immigrant who had started the business in her garage in Texas. She spurned the offer of a European food goods company, but was swayed by the Palladium partner who came from a background similar to hers. Palladium subsequently installed a more professional management team, marketed the company's product to retail warehouses like Sam's Club and Costco, and then resold Castro Cheese at a substantial profit.[28]

Some of the most established U.S. companies have taken notice. According to the Association of Hispanic Advertising Agencies, the five hundred companies that spend the most on advertising allocated $4.3 billion to reach Latinos in 2010. Wal-Mart and Sears Holding Company each spend in excess of $50 million annually marketing to Latinos. But Latino entrepreneurs who understand the consumer tastes of the domestic Latino market have significant advantages in what promises to be one of the best market opportunities of the next generation.

REVITALIZING REGIONAL ECONOMIES

In Los Angeles, first-generation immigrants created at least twenty-two of the city's one hundred fastest-growing companies in 2005.[29] In New York, immigrants make up almost half of small business owners.[30]

They tend to found businesses even in tough economic climates as a form of self-employment when jobs are scarce. This can be a positive counterweight during recessions. At the same time that New York City's financial, legal, and advertising sectors were laying off tens of thousands of people in the most recent recession, business creation spiked in the immigrant-rich outer boroughs, providing modest but much-needed pockets of growth.[31] The business potential of initially small, single-employee enterprises should not be discounted. One of New York's most successful Latino immigrant entrepreneurs, Hector Delgado, proprietor of Delgado Travel of Queens, New York, parlayed a storefront travel agency into a multipurpose business with tens of millions of dollars in annual revenue.[32]

Recognizing the positive contribution of immigrant entrepreneurs, New York City is one of the few major American cities taking steps to offer support services to immigrant businesses. In 2011, the mayor's office partnered with community-based immigrant advocacy organizations to make sure immigrant entrepreneurs had access to critical regulatory guidelines, such as for filing taxes, proper display design, and recycling. The city is relying on the comparative strength of dozens of existing aid and advocacy organizations serving populations ranging from Haitians to Chinese. The groups are better at gaining the trust and participation of immigrants than are the city's small business centers.[33] As part of the initiative, the city launched a competition for advocacy groups to find ways to target and help immigrant entrepreneurs—prodding some advocacy groups, for the first time, to include small business owners more directly in their mission and programming. Make the Road, a community-based organization working predominantly with Latinos, is forming a group of "roving educators" to train and gather feedback from the heads of small retail establishments.[34] It is also bringing restaurants and shops together to do bulk orders on supplies of napkins, plates, and plastic bags. New York City's efforts are in the early stages, but they are a first step in addressing a previously unmet need.

Few cities have the same density of immigrant advocacy groups as New York. But most have business organizations, and immigrants often create at least informal networks once there is a critical mass of foreign-born entrepreneurs in the same geographical region. Connecting immigrant groups with the local Chamber of Commerce can benefit members of both organizations. The Asociación de Empresarios Mexicanos (AEM) in San Antonio, for example, has forged ties with the local chamber. Past AEM president Alfonso Tomita, a Mexican-Japanese entrepreneur who has built a chain of sushi restaurants across Texas, says those introductions can be vital. "It's important not to stay just in your immediate circle," he says. "That's the only way to learn how business is done in the United States."[35]

An example of San Antonio's approach to attracting immigrant entrepreneurs is the Free Trade Alliance, which recruits business owners abroad to expand their businesses in the United States. Funded by a combination of city money and dues from corporate members, two prominent local businessmen established the alliance to ensure that the city leveraged the full potential of the North American Free Trade Agreement (NAFTA). It hosts seminars in Mexico alerting residents to business opportunities in San Antonio, and then helps interested Mexican businesses develop a plan to enter the U.S. market, almost always via San Antonio.

A recent Free Trade Alliance success story is the Mexican Continental Green Produce Company. President Jesus Sebastian has owned an avocado plantation in Mexico since the 1970s. He sold his produce to various consumers on a wholesale basis, but he also wanted to develop his own retail brand. After connecting with the alliance, he moved to San Antonio and was given access to a fully equipped office. Sebastian developed a packaged guacamole product called Ole Avocado, and with an alliance-facilitated introduction to the Texas grocery giant HEB, he was able to place it in several hundred stores across the state.

Alliance president and CEO Kyle Burns describes his role as a matchmaker. He is well versed in the profile of his corporate members and the priorities of the city, and he homes in on those foreign companies whose products will serve the needs of and complement the alliance's network. The introduction of Ole Avocado to HEB is a perfect example: it gave Sebastian a market and allowed HEB to increase its product offerings.

Struggling U.S. cities, particularly in the Rust Belt, are considering ways to attract immigrants to revitalize their local economies. Detroit, Dayton, Cleveland, and Pittsburgh have all launched such efforts. Immigrants have a history of leading initial waves of inner-city gentrification, drawn by inexpensive rent and armed with a willingness to take on risk. The first businesses to open shop are usually service oriented—cafes or grocery stores—that cater to the immigrants who are moving in. Because of the sheer size of the Latino immigrant population, such gentrification often takes a Latino flavor. Latinos are already revitalizing southwestern Detroit, now called "Mexico Town" and one of the few neighborhoods in the city experiencing population and business growth.[36] New York City mayor Michael R. Bloomberg has an ambitious idea for Detroit that he believes would solve the city's economic problems "overnight": give visas to qualified immigrants who agree to live there for seven years, start businesses, employ locals, and receive no government benefits.[37] No city has explicitly endorsed Bloomberg's idea, which would require federal reform of visa laws first. In the meantime, Cleveland, Pittsburgh, and Detroit are discussing partnering to create a regional center for pooling immigrant investment money through the existing EB5 "investor" visa program.[38] But as of yet, Rust Belt cities have not managed to become major immigrant destinations; all have populations that are less than 7 percent foreign born.[39] The national average for U.S. cities is 21 percent.

An immigrant influx, along with immigrant-owned entrepreneurs, may also be the saving grace of rural small towns in the Midwest. Struck by severe depopulation as the young move away in search of jobs elsewhere, small towns with boarded-up Main Streets are battling, literally, to stay on the map. In 2000, Iowa governor Thomas J. Vilsack proclaimed his state to be "a new Ellis Island" and floated the possibility of establishing "immigrant enterprise zones."[40] Some of the Midwest's booming small towns, including Perry and Storm Lake in Iowa and Beardstown in Illinois, are home to large numbers of immigrants who work at local meatpacking or agricultural processing plants.

Small-town residents are often wary of a sudden immigrant influx. The social adjustment of communities like Storm Lake—which shifted from being 1 percent foreign born to over 30 percent foreign born in less than two decades—can be uncomfortable. Some immigrants are undocumented, impoverished, or tax local services.

But immigrants may also secure a long-term economic future for listless rural towns. As with inner-city communities, where immigrants settle, businesses tend to cater to their needs and tastes. A Latino entrepreneur in Perry, for example, recently opened a 3,500-square-foot Mexican restaurant in a formerly vacant early-twentieth-century building on the main business strip.[41] In a hopeful sign, Latino immigrant business owners appear to be in it for the long haul. A 2011 survey of three hundred business owners and managers in eighteen towns across Iowa, Kansas, and Nebraska found that Latino immigrant business owners were more likely than their white male counterparts to plan to grow their business.[42] In a region that is hard pressed to keep the next generation rooted, the survey also found that Latino immigrant entrepreneurs were more likely to be motivated by the desire to leave their businesses to their children. These Latino entrepreneurs are intending to stay.

Obstacles and Policy Recommendations

Latino immigrant entrepreneurs face many of the same challenges that confront any entrepreneur—finding good business ideas, identifying markets, raising capital, navigating complex regulations, and scaling small start-ups into larger businesses. Policies that would help entrepreneurs generally by increasing the flexibility of financing options or reducing regulatory burdens on small start-ups would benefit immigrant entrepreneurs as well. But immigrant entrepreneurs face some unique challenges. Even those with impeccable academic credentials and modest funding often cannot qualify for a long-term visa. Foreigners who are able to stay can have greater difficulty obtaining the financing to start and sustain their enterprises. Many do not have established credit histories or sufficient collateral to qualify.[43] Small business owners of any ethnic background can find local rules and regulations confusing—but the confusion is exacerbated when the would-be entrepreneur is grappling with additional language and cultural barriers.

Government policies can make a positive difference. Some of these efforts, such as trade policies that expand market opportunities and visa policies that allow more Latino entrepreneurs to establish themselves in the United States, would need to happen at the federal level. State and local governments, however, can also create an environment conducive to Latino immigrant entrepreneurship.

Academics and public policy organizations can also play a role in providing more statistical studies on Latino entrepreneurs. A more comprehensive portrait of Latino immigrant business activity along the lines of what Saxenian and Wadhwa have conducted in Silicon Valley would provide a better sense of the state and growth of Latino business activity and better inform what public policy could most help these entrepreneurs.

VISA ISSUES

Latino immigrants must, of course, first enter the United States before they can start businesses here. Some start businesses even without legal residency, but they are unable to obtain commercial loans or confidently engage in long-term planning—imposing severe constraints on their businesses and ability to hire staff. The large undocumented population, especially among Mexicans, is almost certainly one reason that business ownership rates among Latino immigrants remain so low. For these individuals, comprehensive immigration reform that offered many the permission to live, work, and start businesses legally in the United States could be transformative. The Obama administration's recent move to use executive authority to grant residence and work permits to young people who were brought to the United States as children offers a temporary fix for nearly one million immigrants. More comprehensive reform, however, is unlikely until at least after the 2012 election. Any further federal action before then will most likely involve incremental changes to U.S. visa policies for skilled foreigners.

Even for highly successful entrepreneurs who came to the United States legally, however, the options for obtaining permanent residence and eventually citizenship are limited. Several of the entrepreneurs mentioned in this report became residents through marriage. Ruzo and Claure—like 55 percent of immigrants who at one point held student visas—were able to remain in the United States long term through marriage.[44] Others were able to build businesses in the United States because of their parentage; Taylor was born a U.S. citizen and Perez's mother was American.[45]

Not every talented entrepreneur finds an American spouse, and instead takes his business elsewhere—like Pablo Ambram. Originally from Argentina, Ambram was selected to participate in the prestigious Founder Institute incubator in San Diego. He spent six months tapping the organization's contacts to create a board of directors. But there was no way for him to obtain residency as an entrepreneur. He left the United States to participate in StartUp Chile, an incubator in Santiago that provides visas to participants. Since arriving, he and his Ecuadorian business partner Maritza Lanas have hired three employees and are partnering with local banks and telecom companies to expand their firm.[46]

Skilled foreigners who have not created a successful company abroad that can be "transferred" to the United States face enormous obstacles qualifying for long-term residency. The major visa options are the E2, the EB2, and the EB5, or the so-called investor visa.

The E2 is a temporary (usually one to two years) but renewable visa, with an attached requirement that the recipient make a "substantial" investment in a U.S.-based enterprise.[47] What constitutes substantial depends on the scale of the business and its proposed location.[48] Most apply for the visa from abroad. Anecdotally, immigration attorneys say their clients must offer sums higher than a realistic investment would actually require to hedge against the uncertainty of what qualifies as a substantial investment. To obtain an E2, petitioners must also come from a country that has a treaty of commerce with the United States. Mexicans and Colombians would qualify; Venezuelans and Brazilians would not.[49]

The EB2 visa is popular because it allows for permanent residency, but it is hard to obtain. It is reserved for individuals of "exceptional ability." If the petitioner does not have a job offer in hand, she will need to demonstrate that her work will substantially benefit the U.S. national interest. The requirement that the impact be national is a tough hurdle to overcome. For example, Alfonso Tomita, the restaurant entrepreneur in Texas, has helped create more than five hundred jobs through his sushi chain. He is currently on an E2 visa, hoping to convert it to an EB2, but because his business is (for now) limited to one state, it is unclear if he will meet the requirement.[50]

The last major option is the EB5 employment-creation investor visa. The petitioner must invest $1 million in a new business that will create and sustain at least ten full-time jobs for American workers.[51] The investment requirement drops to $500,000 if the investment is located in an area of high unemployment or in a rural area. Talented entrepreneurs with a good idea—but without hundreds of thousands of dollars—are shut out. Even those who *have* invested large sums can find themselves ineligible. Consider Tomita again: because the money he could put toward the $1 million has been invested in growing his restaurant chain, it may not qualify as meeting the narrow EB5 investment criteria.[52]

A common way for a high-net-worth individual to qualify for an EB5 is by putting $500,000 in a regional center that pools investments in major construction projects like the building of hotels, resort communities, or stadiums.[53] Few bona fide entrepreneurs would want to sink so much money into projects where they have little control over how their investments are spent. The proliferation of these regional centers—where wealthy people abroad write checks and then receive a provisional green card—has led many to dub the EB5 as a "visas for cash" scheme.[54]

Alter U.S. visa requirements. The most selective U.S. universities and incubators attract the best talent. One way to keep promising entrepreneurs in the United States would be to give graduating students who hope to start their own companies twenty-seven months to prove they can do it. That grace period is already provided to graduates in the science, technology, engineering, and mathematics fields who have been unable to obtain an employer-sponsored visa but have an offer to work for a U.S.-based company. Graduates hoping to start their own companies should have a similar opportunity.

The most prestigious incubator programs, like Y Combinator and TechStars, have become a credential analogous to an MBA from Stanford or Harvard. But foreigners who manage to gain access to the best incubators often have to leave after their six-month tourist visas are up. Creating a two-to-three-year visa for the graduates of the most selective incubators makes a great deal of sense. Such a policy carries an additional bonus: the pool of high-quality foreign applicants to the incubator programs—and of high-quality immigrant entrepreneurs—would increase if successful business ideas were rewarded with long-term residency. Those agreeing to locate their start-up in more economically disadvantaged cities could receive special visa provisions. They could, for example, be permitted to stay for longer periods. Or, if a visa were to require entrepreneurs to garner a minimum level of investment in their companies, the original capital requirement could be reduced.

To attract promising entrepreneurs who are not already in a U.S. university or incubator program, changes to the EB5 would be a good place to start. Senators John Kerry (D-MA) and Richard Lugar (R-IN) have proposed legislation lowering the initial requirement for the investor visa from $1 million or $500,000 to $100,000 and reducing the job-generation component from ten positions to between three and five.[55] The Startup Visa Act is a step in the right direction and should be made into law. However, many talented entrepreneurs will still not be able to reach the threshold.

Making the E2 visa convertible to an EB2 would also help immigrant entrepreneurs. If an entrepreneur can demonstrate that she has operated a small business successfully for five years, creating a minimum of half a dozen positions, for example, the E2 holder should then be able to petition for permanent residency. The current approach curbs the potential job growth immigrant entrepreneurs could offer. Without guarantees of long-term residency, business owners will be more conservative about taking risks and expanding their enterprises. In addition, the current requirements for the EB2 visa do not match the profile of a small business owner. The requirement of "exceptional ability" is more easily demonstrated for a medical researcher who has published numerous medical articles than for an entrepreneur managing employees. Particularly in the current economic climate, it would be smart policy to make it easier for proven job creators to remain in the country on a permanent basis.

FINANCIAL LITERACY AND ACCESS TO CREDIT

Isolation from mainstream networks and a lack of information undercut many small immigrant-owned businesses before they can become profitable and consider expansion. Tax and permit requirements can befuddle even native entrepreneurs. Foreigners may be ignorant of the requirements and lack trustworthy sources of advice. Moreover, it can be difficult to access traditional sources of credit. In many Latin American countries, low-income residents never open a bank account, and they bring that practice with them when they move to the United States.[56] Those who do have a credit history are less likely to have the necessary collateral to make a successful application.

When they seek out advice and loans, many immigrants go to providers in their communities. This can be detrimental. These attorneys and accountants may speak the same language as their clients, but it is not uncommon for them to be ill informed and, in some cases, unethical. Predatory money lenders in immigrant communities often charge exorbitant rates. *Presimistas* in the predominantly Dominican Washington Heights neighborhood of New York have been known to demand monthly interest rates of 25 percent.[57] It is in part for these reasons that immigrant businesses are more likely than other firms to shutter within forty-two months.

Governments at all levels should ensure that nontraditional lenders are sufficiently funded and well advertised. Latino immigrant entrepreneurs often lack sufficient start-up capital. More than a quarter start their businesses with no funding at all.[58] Only 10 percent launch with $50,000 or more, compared to 29 percent of Asian immigrant business owners.[59] Given that firms with higher start-up capital are less likely to fail and have higher profits and sales, increasing access to credit in the Latino community eases the path for start-ups and would improve the likelihood that more of these businesses would succeed.

Nontraditional, nonprofit lenders are essential for addressing the need for credit. The best-known nonprofit in this field is Accion USA, which specializes in lending to small-scale entrepreneurs who have run an enterprise for six months or more but who are not in a position to secure a commercial loan. Accion charges annual interest rates between 8.99 and 15.99 percent, a significantly lower cost than using informal lenders or assuming credit card debt.[60]

Accion also teaches financial literacy. Poor record keeping is a frequent problem among immigrant entrepreneurs, as they often fail to keep separate business and personal accounts. When Accion encounters this practice, they take a carrot approach. “We’ll tell them, because you weren’t able to provide proper documentation, we can only lend you X amount,” says Accion CEO Paul Quintero. “But if you do the proper record keeping, we’ll be able to boost the loan.”

Action can be taken at the federal, state, and local levels to ensure that nontraditional lenders are available for immigrant entrepreneurs. The Treasury Department’s Community Development Financial Institutions (CDFI) Fund, for instance, supports financial institutions working in poorer communities. The 2012 budget for the CDFI Fund is $221 million, more than a fourfold increase over 2006. The influx of cash benefits Latinos. According to a report released by the fund, Latinos are the fastest-growing minority group served by CDFI Credit Unions. The fund also recently announced that, in conjunction with the Department of Housing and Urban Development and the U.S. Department of Agriculture, it will increase access to capital in the predominately Latino U.S.-Mexico border region, which has historically struggled with severe poverty.

Funding is just part of the equation, however. Raising awareness about nontraditional lenders is vital, because the vast majority of immigrant entrepreneurs do not know they exist. One way to do this is to forge connections between traditional banks, where immigrants are more likely to apply for loans, and microcredit organizations. New York State has pioneered a model that could be replicated more broadly. More than a decade ago, the New York State Banking Department began convening lending officers from banks and microloan officers, with the aim of promoting “second look” referrals; when an immigrant entrepreneur applies for and is denied a loan from a traditional bank, the loan officer can make a subsequent introduction to a community-based organization that has more flexibility to provide the funding. There are obvious benefits to this collaboration. When more entrepreneurs are funded, nontraditional lenders increase their client base, and banks reap the loyalty of business owners who can become clients once their collateral base and track record have grown.

Cities have a role to play as well. Through small business centers and contacts at local universities and community organizations, city leaders can also help spread the word about nontraditional lenders. They can also help ensure these services are available even when microlenders do not have a full-time physical presence in their geographical region. Accion USA, for example, now has an online loan application. Advocacy groups and business centers at local universities can alert eligible clients to the service and help them through the application process.

Increase municipal outreach to immigrant entrepreneurs. When municipalities provide regulations in multiple languages and conduct outreach among immigrant communities, they can save businesses from incurring fines and penalties, including forced closure. Following New York City's example, cities should partner with community-based organizations and ethnic business associations to reach the foreign-born population. When these organizations are not available, municipal governments can create those connections by recruiting and then dispatching immigrant "roving ambassadors" to educate immigrant business leaders.

TRADE WITH LATIN AMERICA

Trade agreements can open new markets for U.S. exports and bring less-expensive products to the United States. In the case of Latin America, such agreements can open doors for Latino immigrant entrepreneurs who can leverage their connections with the region. Currently, the United States has implemented bilateral or plurilateral trade agreements with Mexico, Chile, Colombia, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, Panama, and Peru. This still excludes some of the larger economies in South America, such as Argentina and Brazil.

Maintain an active trade agenda with Latin America. With the collapse a decade ago of talks to create a Free Trade Area of the Americas (FTAA) and the current U.S. focus on the Trans-Pacific Partnership (TPP) negotiations, Latin America has fallen as a priority for U.S. trade negotiations. Additional free trade agreements in the region should be pursued, particularly with Brazil. The recent decision by the Obama administration to support adding Mexico to the TPP negotiations was a positive development. An immediate step should be the negotiation of a bilateral tax treaty with Brazil to prevent double taxation on U.S. investments in the country, as was recommended by the recent CFR-sponsored Independent Task Force on Brazil.[61] Brazil is the largest economy with which the United States does not have a bilateral tax treaty. Expanded trade ties with Latin America can help foster new businesses and expand investment in the United States. There is enormous latent potential in the U.S. Latino population. Trade accords can be a catalyst to help expand Latino-owned businesses.

Increase federal and local government assistance to help entrepreneurs take advantage of export opportunities. Governments at both the federal and local levels can help businesses take advantage of lower trade barriers. A promising recent initiative at the U.S. Department of State is the International Diaspora Engagement Alliance, or IDEA, program for Latin America. IDEA is a business competition, designed to spur more U.S.-based Latino entrepreneurs to partner with Latin American counterparts to start businesses. The State Department will be soliciting applications in partnership with the Inter-American Development Bank (IDB), Univision Networks, the Overseas Private Investment Corporation (OPIC), and m-Via, a financial services company that allows customers to send remittances through mobile phones.[62]

In order to qualify for the competition, U.S.-based entrepreneurs must demonstrate that they have a partner in Latin America. For example, a Salvadoran American interested in starting a consumer support center in San Salvador must have a locally based counterpart. According to a State Department official, winners will receive a matching grant of approximately $100,000 once they are selected in November 2012.[63] The State Department has already orchestrated similar competitions for members of the African and Caribbean diasporas. One benefit has been that some applicants who did not win grants have nonetheless pushed ahead with their projects. Conceptualizing and defending their idea was sufficient to spur the creation of business.

The Department of Commerce's U.S. Commercial Service offers valuable counsel to both U.S.-based corporations seeking to export abroad and companies abroad with aspirations to invest in the U.S. market. It has local personnel at U.S. embassies and consulates across Latin America with contacts in their countries' business communities, which can be helpful to U.S. firms seeking export markets. In particular, for a fee, U.S. Commercial Service officers can provide a so-called Gold Key Matching Service, through which they will set up appointments for visiting U.S. delegations as they explore new markets. To make sure that Latino-led businesses are aware of these existing resources, Commerce may want to forge untraditional partnerships with entities like Accion USA and other groups that are more intimately linked with start-up Latino companies.

This kind of partnering can and should be done at the local level as well. Municipal governments can ensure they reap the commercial opportunities that come from trade treaties by establishing private-public partnerships. Miami, along with other U.S. cities with large Latino populations, should consider creating organizations like San Antonio's Free Trade Alliance to capitalize on recently ratified treaties with Panama and Colombia.

Conclusion

Latino immigrants are creating companies that expand the tax base, create jobs, and breathe new life into depressed commercial districts. At a time when the United States needs new consumer markets to drive economic growth, Latino immigrant–owned businesses will be indispensible for capturing growing Latino markets at home and abroad. Entrepreneurship can promote economic advancement. Helping both smaller and larger Latino-owned firms thrive will not only improve the U.S. economy, but will also help strengthen the fabric of U.S. society.

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