



# **Opportunity and Change:**

## **Policy Options to Enhance Rural Development in the Upper Midwest through Immigrant Entrepreneurship**

Policy  
**BRIEF**

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## Abstract

Immigrant entrepreneurs are an important part of the United States economy and, despite some slowing in immigration recently, the number and size of immigrant-owned businesses has increased rapidly. Because the majority of immigrants are Latinos, this paper focuses on Latino immigrant entrepreneurship. The paper explores possible future scenarios for Latino immigrants in the Upper Midwestern portion of the United States, based on historical examples. Potential outcomes given policy status quo are (1) development of high poverty enclaves, (2) rigid social stratification, and (3) assimilation with concomitant loss of potential trade enhancing links. Each of these outcomes has potentially serious long-term consequences not only for the immigrants themselves, but the broader population. An alternative is to (4) work towards social incorporation of these new Americans, such that they maintain their cultural identity while attaining equal status in terms of economic outcomes. The next section discusses policy options that might promote the fourth outcome, such as English, Spanish, and business classes at the local level, providing driver's licenses to undocumented immigrants at the state level, and providing visas to entrepreneurs who invest a certain amount in a particular area of the country. The conclusion summarizes the importance of incorporation of immigrants into the economy and includes suggestions for future research.

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## Introduction

The growth in the rate of immigration to Western countries post World War II and changes in the nature of the economy that foster an increased rate of small and medium size enterprise formation<sup>1</sup> combine to provide an opportunity for rural America. Small businesses and microenterprises (defined as firms with less than five employees) are very important to the United States economy. They account for approximately 18 percent of employment and create 900,000 jobs per year in the United States (Ramirez de Miess 2006). This paper pays particular attention to immigrant entrepreneurship in rural areas where, in 1999 for example, immigrants created over half of all new businesses (Nexo 2011). Similar trends are noted in other developed countries (Countryside Agency 1999; Centre for Rural Economy 2000). Furthermore, rural areas have higher per capita levels of entrepreneurship than urban ones (Harding et al. 2005).

In the United States, the increased importance of small and medium size enterprises is occurring in the context of a rapidly growing Latino population. The demographic changes are particularly pronounced in rural areas where, in aggregate, the Latino population is increasing and the non-Latino population is decreasing (Carpenter 2013a). Further, we know Latino immigrants are younger and less educated on average (Carpenter 2013a), and that these trends are mostly the same in the North Central Region (Carpenter 2013b). With record unemployment in recent years, the possible employment benefits of helping members of the Latino community expand their business operations in rural areas could be substantial. The paper thus proceeds with the purpose of assisting immigrant entrepreneurs as a catalyst for rural economic development. Hence, the paper describes the potential benefits of helping immigrant entrepreneurs for both rural immigrants and rural communities.

Successful initiatives break down mistrust that is often prevalent among Latino immigrants by taking advantage of immigrant networks. For all immigrants, a component of incorporation includes developing pathways to move from unskilled to other types of work that enable entrepreneurship. In developing these pathways, note that average immigrant educational level is lower in rural areas than in urbanized areas of the US (Carpenter 2013a). The more highly educated gravitate towards urban markets and hence, for rural areas, policies need to focus on how to help the uneducated immigrant start businesses and obtain skills needed to sustain and expand businesses in the US. These initiatives could help declining rural areas maintain the critical mass of population needed for efficient provision of private and public services, fill current gaps in local rural economies, and ultimately create job growth. By creating a pathway out of low-skilled, low paying jobs typically taken by uneducated immigrants in rural areas, entrepreneurship policies can help assure successful transition to the new country, creating better places to live and minimizing some of the social issues (such as youth crime), that might arise without visible pathways out of poverty.

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<sup>1</sup> Light and Rosenstein (1995) showed the number of self-employed in the USA increased for the first time in more than a century in the 1972–1988 period.

*“With record unemployment in recent years, the possible employment benefits of helping members of the Latino community expand their business operations in rural areas could be substantial.”*

## Future Scenarios for Latinos in the Rural Midwest

Latinos are not the first group to migrate in large numbers quickly to the United States. The following sections use historical and current examples to elaborate on possible scenarios for the future of Latino immigrants and the implications thereof. Beginning with an explanation of the development of immigrant enclaves and their repercussions, current trends as well as historical examples highlight the importance of the incorporation of immigrants as a means to avoid assimilation, stratification, and depopulation. Hence the potential policy options presented later have incorporation as the goal.

### Enclaves

Around the world, a common result of immigration – in particular, immigration of a large number of people from the same country-of-origin over a relatively short time span – is the development of immigrant (ethnic) enclaves. Recent mapping of race by census tract strikingly illustrates self-segregation in the United States (Cable 2013). An ethnic enclave is a geographic location with high ethnic concentration, which is culturally and economically distinct from the larger receiving society. This section details the causes and results of the development of ethnic enclaves. While in some cases, an enclave can produce economic benefits (e.g. as a tourist destination), there are also strong disadvantages of enclaves arising from their lack of diversity and limited potential for economic growth.

Because immigrant networks drive immigrant destination (Mora and Taylor 2005), we can infer that immigrant enclaves typically result in part from immigrant networks. Immigrant networks reinforced the movement of immigrants away from agriculture in the United States during the recent recession (Taylor, Charlton, and Yúnez-Naude 2012). Carpenter (2013a) elaborates on reasons for the decline in immigrant agricultural labor abundance in the United States. Not only are immigrant networks powerful tools that help already-migrated entrepreneurs, networks of those who migrated previously also drive migration more generally (Massey et al. 2005), both in terms of destination and industry (Mora and Taylor 2005; Richter and Taylor 2008).

Enclaves, which are typically sub-communities in regions where the majority population is descended from West Europeans, are rich in bonding social capital within the enclave, but lack bridging and linking<sup>1</sup> social capital with the majority population. Unsurprisingly some research finds that ethnic enclaves have negative effects in terms of economic opportunities, poverty, and social and environmental conditions (Massey and Denton 1993). Kariv et al. (2010) point out that less co-ethnic involvement and networking leads to better financial performance (Aldrich and Zimmer 1986; Dyer and Ross 2000; Iyer and Shapiro 1999; Nee and Nee 1986; Portes and Bach 1985; Wilson and Portes 1980). It seems that co-ethnic involvement may enhance the success of businesses owned by ethnic immigrants within their communities (Portes and Bach 1985; Sanders and Nee 1987), but not in the mainstream market, which would typically be larger and therefore have more room for growth. It may also be that enclaves produce higher operating costs, for example if a business relies on high cost credit from co-ethnics when bank rate credit might be feasible. Indeed, the development of ethnic enclave businesses or those based on exchanges with the country of origin may be a logical reaction to barriers that immigrants face in their entrepreneurship (Portes and Rumbaut 2006).

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1 Bonding social capital is the value of social networks (e.g. trusting and cooperative relations) between socio-demographically homogeneous groups of people. Bridging social capital is the value of social networks between socially heterogeneous groups. And linking social capital is the value of social networks between those with varying degrees of power (either politically or financially) in society.

*“... ethnic enclaves have negative effects in terms of economic opportunities, poverty, and social and environmental conditions”*

It seems that a moderate use of the (ethnic) network may lead to optimal results (Flap et al. 1998; van Delft, Gorter, and Nijkamp 1999), but without some integration into the destination economy, enclaves can experience severe economic hardship.

To help elucidate potential outcomes that may be associated with enclaves, take for example, colonias. Colonias, Rochín et al. (1998) write, are “typically rural, located in the Southwest [United States], and characteristically ‘Chicano’ or ‘Mexican.’” Other residents are numeric minorities within colonias. There are over one thousand colonias, with over a half million residents. Colonias “tend to range from lower middle class to Third World communities with few amenities and local jobs” (Rochín et al. 1998). Saenz (2000) finds the limited options in the labor market in colonias have the statistically significant impact of increasing the amount of entrepreneurship there. Nonetheless, it seems that extreme colonia deprivation limits the upward trajectory of businesses formed within their boundaries. In the long run, isolation from the majority population and intergenerationally diminished ties with the sending country could result in an area that is unable to cope with changes in the global economy and an immobile workforce, creating a quasi-permanent zone of poverty and its associated consequences.

### **Rigid Socioeconomic Stratification**

In the past, immigration and enclaves sometimes resulted in the development of a type of permanent economic underclass or rigid social stratification. Recall that enclaves do not inherently consist of immigrants; an enclave is a geographic location with high ethnic concentration, which is culturally and economically distinct from the larger society. Beyond enclaves, in which most are poor, the United States has areas in which there is rigid socioeconomic stratification. This section uses ongoing examples of stratification to highlight the downside of this potential outcome in terms of how it is associated with persistent economic stagnation.

An extreme example of this stratification is the formation of the so-called “black belt,” also known as the “plantation belt” (Loveridge, Yi, and Bokemeier, 2009). The “plantation belt” is a term used to describe a broad agricultural region in the American South characterized by a history of plantation agriculture in the 18th and 19th centuries and a high percentage of African Americans in the population. The Plantation Belt is arguably the most underdeveloped part of the United States economy. It contains almost half of the nation’s rural poverty. The rural communities in the plantation belt often experience rural exodus, limited education funding and attainment (Stanley and Peevely 2009), poor healthcare (Gibbs 2003), substandard housing (Kanyi et al. 2007), and high levels of unemployment (Gyawali et al. 2009). Black residents are disproportionately affected.

Extreme socioeconomic stratification persists in the plantation belt. For example, black home ownership is concentrated in the lower value range homes, while white home ownership is concentrated in the high value home range in the plantation belt (Kanyi et al. 2007). Furthermore, unless the plantation belt increases the human capital among most of its residents, it will continue to attract low-wage labor intensive industries, which means that many of the more highly educated will migrate out to find jobs, and economic inequality will remain among groups living in these areas (Bellamy and Parks 1994). Although there has been income growth overall in the plantation belt, Gyawali et al. (2009) show that over the past twenty years, this growth has gone predominantly to the white population, who are a minority in the region.

Another example of economic stratification comes from the automotive industry in Detroit. In the early 20th century, many low-skilled people moved to Detroit looking for

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employment in the then-booming automotive industry due to high wages for jobs that did not require advanced training or majority-language skills. With so many people dependent on the industry and without many other options for employment in Detroit, as big three auto company sales slowed and as production processes became more automated, extreme economic deprivation followed in areas populated by low-skilled line workers. Nearby suburban communities, home to industry managers, engineers, and designers, continued to be among the most affluent in the nation. High Detroit unemployment rates contributed to poverty, crime, and ultimately, an unprecedented exodus of nearly 60% of the city’s population after 1950 (US Census), culminating in state takeover of the city and the nation’s largest-ever municipal bankruptcy in 2013.

Analogously, many people (mostly Latinos) are today following meatpacking industries into rural areas. Since the 1990s, Latinos have flocked to places such as Dalton, Georgia, to work in the carpet mills, and to the Piedmont section of North Carolina to work in furniture manufacturing (Jordan 2012). Many Latinos work in the hotels and golf courses of Hilton Head, S.C. Diversification of employment opportunities through stronger entrepreneurship programs could lower the risks inherent in employment concentration in single industries, which would help protect both rural immigrants and stabilize rural areas in general. A visible economic ladder for co-ethnics could also prevent despair among immigrant descendants that may have fostered gang formation and other anti-social behavior in the past (Vigil 1988), and produce leaders within the immigrant community.

## **Re-depopulation**

Many rural counties were experiencing depopulation before the recent influx of immigrants. These counties risk re-depopulation and a return to a shrinking tax-base and limited prospects for economic growth without incorporation of immigrants into their economies. For example, in 2010, voters in Fremont, Nebraska, approved a measure that banned landlords from renting to illegal immigrants and mandated businesses to use a federal program to ensure potential hires are not undocumented, which unsurprisingly led to some immigrants moving elsewhere (Jordan 2012).

Due to the distances between sending countries and the region, most Latino immigrants to rural areas of the upper Midwest have probably lived elsewhere in the US, at least briefly. They may have passed through land border areas of Texas, California, New Mexico, or Arizona. They may also have stayed in the region’s larger cities, such as Chicago, where large populations of Latinos are present or large cities elsewhere in the US such as Miami. Having some experience and possibly family connections in these areas makes it more feasible for them to relocate elsewhere in the US. A visible route out of poverty or physically demanding jobs via entrepreneurship might reduce the odds of rural Latino outmigration. While a more complete analysis would describe the impact on wages of immigrants vis-à-vis the impact of factory location decisions, the city of, Ottumwa, Iowa, (discussed more in the incorporation section) is an a good example to show that supporting immigrants does not need to occur at the expense of factory jobs. Indeed, Ottumwa and the Cargill meat-packing factory work hard to support immigrants and their families to reduce turnover and thereby lower costs (Jordan 2012).

## **Assimilation**

Another possible outcome is assimilation, or the loss of immigrants’ former culture while adopting the customs and manners of the new society. While assimilation has advantages over rigid socioeconomic stratification or re-depopulation, it has several shortcomings. Not only do immigrants and localities lose the ability to celebrate and learn from different heritages, but also lost are ties back to the sending country, with the

associated loss of potential trade linkages (Rauch 2001, Rauch and Trindade 2002). Furthermore, there is some evidence that assimilation may increase conflict between newcomers and the majority population (Guimond et al. 2010, Thomsen, Green, and Sidanius 2008).

Polish immigration and assimilation in the United States provide a historical example. The massive immigration between 1870 and 1914 was overwhelmingly comprised of low-income immigrants seeking economic benefits rather than political asylum (Kleeman 1985). Mainstream America's reluctance to embrace the Poles was rooted in three discriminatory stances: religious prejudice (Protestant America versus Catholicism), racism (Anglo-Saxon/Teutonic America versus the Slavic Poles), and general resentment of immigrants as alien and as competitors in the job market (Kleeman 1985). The first generation of Polish immigrants resisted assimilation in hopes of returning to Poland, but the focus on the plight of other minority groups in the United States, beginning with the civil rights movement during which much of the United States began thinking of itself in terms of black and white, combined with mass media, accelerated the assimilation of the second and third generations of Polish immigrants (Kleeman 1985). Today, few US citizens descended from late 19th early 20th century Polish immigrants speak the Polish language or have active ties back to their ancestral homeland (Kleeman 1985). Potential business opportunities coming from the collapse of communism may have been lost.

Today, similar to the experience of the Poles, we see forces of intolerance driving reluctance to embrace Latino immigrants. While political pressures and distance kept many Polish immigrants in the United States, these pressures do not exist to the same extent on Latino immigrants today. If the only option is assimilation, rising wages in Latino immigrants' countries of origin combined with the prospect of losing their culture in the United States can lead them to return home, leading to re-depopulation and a return for rural towns to a shrinking tax base and limited prospects for economic growth. Hence the mere pressure to assimilate could lead to undesirable outcomes. Alternatively, some Latinos may succumb to the pressure to assimilate, reducing the odds of bilateral trade and business development between the immigrant's host region and the ancestral homeland as Latin American continues to develop.

## **Incorporation**

Incorporation of immigrants into local economies has the greatest prospects for helping not only immigrants, but also the local population. Incorporation integrates immigrants into the local economy and the local networks, while simultaneously avoiding the inherent downsides of assimilation explained above: the loss of ties back to the sending country; the associated loss of potential trade linkages through contacts and cultural skills that could be maintained if the immigrant population is comfortable in both countries; and the increased conflict between newcomers and the majority population that may arise if the immigrants feel their culture is devalued (Guimond et al. 2010, Thomsen, Green, and Sidanius 2008). Ottumwa, Iowa, a city of 30,000 people, is an example of a city with successful incorporation policies. The city was recently highlighted in the Wall Street Journal (Jordan 2012). Prior to the recent influx of immigrants, a railroad hub and a large meatpacking plant shut down resulting depopulation and economic hardship. At the time the population was about 1% Latino. Latinos now account for about 11% of the population, and the recent Latino influx and incorporation has helped to turn the local economy around. Previously boarded up storefronts on Main Street are now occupied by Latino-owned groceries and restaurants; taxable property valuation reached \$700 million last year, almost double the 2000 value, and city administrator Joe Helfenberger credits Latino home buyers (Jordan 2012).

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The turnaround began when Cargill decided to ramp up production at its Ottumwa pork plant and needed more workers. When Latinos responded to the new employment opportunity, the city started working immediately to incorporate them into its economy: The mayor of the city organized town officials, business leaders, and the sheriff into a “diversity taskforce.” The taskforce convenes each month to address community concerns and challenges related to the incorporation of immigrants. The taskforce accomplished simple (but important) needs such as extending bus service to the meat plant and hiring bilingual staff for hospitals and clinics.

Latino entrepreneurs began opening restaurants, dance halls, auto repair shops, and the city’s first tortilla factory. The Iowa State University Extension program helped some entrepreneurs enroll in book keeping and accounting classes at a local college. With the economy expanding, the number of reported crimes in the city dropped for six consecutive years. By 2008, Hispanic students represented about 20% of the student body in the local public school district, and without Latinos, the district would have experienced a dramatic decrease in student population and, in turn, dramatic cuts in enrollment-based state aid. Should the meatpacking plant close now, the economy would certainly be hit hard, but, because the county chose to incorporate Latinos into their economy, they might be able to avoid some of the extreme re-depopulation that would otherwise be a near-certain outcome. A possible next step for Ottumwa would be to explore ways of moving new entrepreneurs into a more diverse set of sectors.

Another example of a city that works to incorporate Latinos is Holland, Michigan. Holland is nationally known for its Tulip Festival. With the recent influx of Latinos, Holland modified its arts and cultural offerings by initiating the “Tulipanes Latino Art & Film Festival,” a fall event (“Tulipanes”). The Holland Area Arts Council and Latin Americans United for Progress collaborate to provide Latino-oriented programs, events, workshops and celebrations. Thousands attend the artistic, cultural, and religious events designed to educate and deepen the understanding of the important role Latino culture plays in the Holland community. Aside from the intended effects of greater cross-cultural acceptance and understanding, the event helps local tourism-oriented businesses generate revenue through the visitors it brings during an off-peak time of year. Another aspect of Holland’s efforts to incorporate Latinos is that many local churches offer bilingual services and English language training.

*“The Holland Area Arts Council and Latin Americans United for Progress collaborate to provide Latino-oriented programs, events, workshops and celebrations.”*

## Role of Entrepreneurship in Incorporation

Despite large body of literature regarding issues involved in immigrant entrepreneurship, many issues remain partially or fully uninvestigated. The following section is a brief examination and presentation of some of the literature relevant to the success of immigrant entrepreneurs and the policy implications thereof. The subsections begin with common challenges immigrant entrepreneurs face, followed by a review of literature on fostering immigrant entrepreneurs. The final sections highlight policy options and implications at the local, state, and national level, respectively.

### Common Entrepreneurial Challenges

Before the discussion of policy options, this section presents common challenges that Latino immigrant entrepreneurs face when starting or running a business. Borich and Mykerezzi (2012) summarize common challenges facing entrepreneurs in three overlapping groups: (1) limited access to credit; (2) impact of immigration issues; and (3) language and cultural barriers. Limited access to credit occurs for several reasons. Although there are often resources available to help entrepreneurs succeed, cultural specific resources are still lacking, and consequently, access to credit remains a major challenge. Other factors limiting access to credit include poor or no credit history, lack of collateral or business history, and a lack of proper immigration documents (Borich and Mykerezzi 2012). To come up with initial/seed capital to cover startup costs, entrepreneurs mostly rely on personal savings and family financing.

The second group of challenges – the impact of immigration issues -- often results in workforce challenges. That is, Latino entrepreneurs find it challenging to hire Latino workers because of immigration issues. This limits the ability of Latino entrepreneurs to take advantage of the potential networking benefits with which they would otherwise have an advantage. The entrepreneurs themselves can also have problems with proper identification documents. Thus, compounding their extant limited access to credit, not all entrepreneurs have the required identifications to open bank accounts or apply for credit products. Immigration issues also put an undue burden on service providers, who are concerned about identity theft and this reflects negatively on the community.

Although there are programs designed to help with the final group of challenges – language and cultural barriers – some of the entrepreneurs do not have the time to attend the classes. They work long hours and prefer to practice their English skills with their children and to interact with English speakers while they work. Communication is extremely important in entrepreneurship and this includes financial lexicon. Business service providers indicate that immigrant entrepreneurs often have a limited understanding of business process in the US and that this poses a major problem (Borich and Mykerezzi 2012). For example, by the time service providers begin working with an entrepreneur, he or she may have already violated a regulation and it is often costly to rectify the situation. Furthermore, because most of the entrepreneurs are challenged with the English language, understanding is often gets lost in translation.

### Fostering Immigrant Entrepreneurs

Even immigrants who become entrepreneurs (out of necessity, from lack of other employment opportunities) may nevertheless become successful (relative to unemployment) due to the “entrepreneurial effect” (Thurik et al. 2008). An immigrant placed in a community with successful “necessity entrepreneurs” might choose entrepreneurship prior to investigating labor market alternatives, because he or she perceives the entrepreneurs in his or her communities as a successful model. This type of opportunity-oriented entrepreneurship minimizes some of the difficulties of necessity entrepreneurship (Kariv et al. 2010). To increase the odds of this kind of demonstration

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effect, immigrant businesses must be visible, so easy procedures for regularization (e.g., licensing, permitting, and signage) might help.

Networks also play an important role in the success of immigrant entrepreneurs. Contact or social networks and relations influence lending, borrowing, and investment behavior among neighbors. Senik and Verdier (2011) argue that three mechanisms operate in co-ethnic employment: (1) close-knit community networking allows for fluid information flows among members, eliminating adverse selection concerning individual productivity; (2) within such networks, reputation concerns and threats of ostracism provide sufficient disciplining devices against problems of moral hazard; and (3) ethnic employers themselves face pressure to hire workers of the same ethnic group. Policy makers who are cognizant of these trends might assist immigrant entrepreneurs by helping them develop standard operating procedures that allow the businesses to resist undue pressure to hire unqualified candidates while fully using the improved information they can gain about potential employees via informal networks, thereby improving the business performance and growth potential.

Calo (1995) finds that rural Chicano entrepreneurs tend to be older (perhaps resulting from the time it takes to build reputation, goodwill, networks, and personal savings), more educated, more likely to be married, have fewer and older children, are more acculturated (including more likely to speak English), more likely to own a home, and wealthier. As such, it is not the immigrants that have both lower human capital and limited employment opportunities that are more likely to pursue self-employment, but rather the sub-group that faces limited employment opportunities due to high levels of unemployment in the local area and that possess favorable human capital endowments (Saenz 2000).

The idea that acculturation positively impacts entrepreneurial success has fairly consistent support (Calo 1995; Saenz 1999, 2000). Furthermore, that resources prior to immigration would impact likelihood of entrepreneurship has empirical support consistent with the assertion that many immigrants have resources that facilitate entrepreneurship (Saenz 2000). While there is fairly incontrovertible evidence of the low personal wealth levels and limited borrowing power among Hispanic and black Americans in general (Cavalluzzo & Wolken, 2005; Fairlie & Robb, 2008), Bates et al. (2011) contradict the argument that more financial capital leads to a higher probability of self-employment by examining business sectors most accessible to adults lacking substantial personal net worth and college credentials (low-skill adults). They find no evidence that financial capital constraints are a significant barrier to self-employment.

Highlighting the paradox of the supposedly binding capital constraints limiting entry into self-employment coexisting with the reality of low demand for microenterprise loans (in the United States), they find that only “high-barrier” industries have significant financial capital constraints and that micro-loans are too small to overcome these financial barriers. Microloan programs typically target low-barrier industries, which tautologically, already have low financial barriers, and hence, microloans fail to ease entry barriers (Bates et al. 2011). Recall that common reasons for limited access to credit include poor or no credit history, lack of collateral or business history, and a lack of proper immigration documents, which microloan programs often fail to address.

That foundations (e.g. The Edwards Lowe Foundation) have found success and much interest in programs that simply offer roundtables for local entrepreneurs to discuss problems and ask questions with each other (an approach called peer-to-peer networking), provides additional evidence that workable business plans and

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management expertise are often what is in short supply, rather than finance. This approach might be adapted to closely-knit immigrant communities. Topics such as the process for international recruitment and exports to the home country might be shared and meetings don't need to be so frequent that they interfere with new entrepreneurs' time-constraints. Further, local non-immigrant entrepreneurs may attend to offer help regarding local resources, red tape, and other common issues. This would also help increase immigrants' bridging social capital.

## Local Initiatives

Many local initiatives are already in place, but cultural unfamiliarity often inhibits service providers to offer adequate help. This section details some extant local initiatives to help immigrant entrepreneurs, which have found success in a support role. Entrepreneurs need basic understanding of business practices in the United States. They may have entrepreneurial talent broadly speaking, but they are in a new society where much is different. Often immigrant entrepreneurs or prospective immigrant entrepreneurs lack knowledge on the rules and regulations in their relevant industries (Borich and Mykerezi 2012). Further, they may not understand the importance of using a bank or where they can obtain financing. Too often, ignoring the importance of finance emboldens some to start and build businesses on unrealistic premises. Outreach programs are thus important; some providers have worked with entrepreneurs even years after the business-opening phase, but service providers frequently lack capacity (i.e., funding or human capital) to deliver the ongoing technical assistance that would most benefit immigrant entrepreneurs. The importance and impact of human capital (in particular, English proficiency, education, and experience) is unsurprisingly positive in terms of entrepreneurial success (Gimeno et al. 1997; Robison and Sexton 1994; Martin 1994).

Many Latino entrepreneurs avoid debt and try to operate in cash, and as a result do not build up a credit history (Borich and Mykerezi 2012). Hence, when they ultimately want a loan, the lack of credit history is a challenge. Often then, Latino immigrants need financial education to help them learn to use credit responsibly and build a credit history. Borich and Mykerezi (2012) outline several examples of local institutions successfully addressing the needs of Latino immigrant entrepreneurs. For example, sometimes FDIC employees partner with the Extension Service to deliver the FDIC Money Smart financial education curriculum and promote the tax assistance available at VITA (the IRS Volunteer Income Tax Assistance program) sites. Credit unions offering a "Directo a Mexico" service to assist with remittances to Mexico can help them reach the Latino market, build trust, and build credit history. Local nonprofits, for example, the local branches of the Chamber of Commerce have found success reaching out at local community colleges. The Chamber helped create a multicultural task force to reach out to new entrepreneurs. The task force did ribbon cuttings for Latino entrepreneurs even if they were not Chamber members, to build relationships and break down reluctance to participate. Other credit unions found success coordinating with other nonprofits (e.g., Lutheran Social Services, Habitat for Humanity) to offer budgeting classes.

Another promising local initiative is occurring through the Minneapolis-based organization Main Street Project, which provides a program to help immigrants interested in owning their own agricultural business, or "agripreneurs." The program teaches prospective entrepreneurs how to raise and sell poultry and other agricultural products as part of an emerging local food network. The agripreneur training program is a cycle divided into three phases: a discovery phase, a development phase, and a launch phase. Interested residents, who are identified through Main Street Project's extensive outreach efforts, can start the training program at no cost (Wascalus 2012). The extension to agriculture-based entrepreneurship is natural for many immigrants

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*“... access to ability to drive provides a pathway to incorporation.”*

who already work hourly jobs in the agriculture sector, or who may have grown up in agricultural households. Further, because none of the phases have time limits, participants who have jobs and other time commitments can advance through the system at rates appropriate for their schedules.

Successful local initiatives leverage the advantages Latino immigrant entrepreneurs experience to address the challenges the immigrants face. For example, the Chamber of Commerce task force mentioned above takes advantage of immigrant networks to build trust (by doing ribbon cutting for nonmembers). This trust will then filter out into local immigrant networks.

Finally, local efforts might include initiatives to help employers and business services providers learn the language of immigrant groups present in the region. Even a smattering of vocabulary can help newcomers feel more welcome. Business service providers may also wish to employ bilingual staff to help bridge across the two cultures. These staff should be tasked with proactively establishing positive linkages with the community through outreach activities. By cultivating prior trust via informal methods, the intimidating process of approaching banks or completing licensing requirements might be more easily accomplished.

## **State Options – Policy and Practice**

States currently face a confusing array of policy options as federal laws and the enforcement thereof become increasingly ambiguous. For example, many states only provide driver’s licenses to legal residents of their state. President Obama’s recent decision to stop deporting children of undocumented immigrants has led to confusion over how to define “legal residents.” New Mexico, Washington, Utah, and Illinois now allow undocumented immigrants to obtain drivers licenses (Botelho 2013), and Michigan and New York are both considering similar measures. Naturally, access to ability to drive provides a pathway to incorporation. There are many other options available for states seeking to encourage immigrant incorporation. Financial incentives to attract residents to depopulating rural areas are not new but could be applied in new ways appropriate to immigrant situations. For example, states could sponsor visa applications for immigrants investing in areas experiencing depopulation. These visa costs could be forgiven after some amount of time spent living and working in those areas, and converted to a loan if the individual decides to relocate. Though the federal government ties states’ hands to a certain extent, simple and logical reforms such as allowing immigrants to obtain drivers’ licenses help the path to incorporation.

Strict immigration policies, conversely, hurt state economies. In Kansas, the contribution of immigrants to the overall economy was studied by Passel (2011). Immigrants overall comprised 8.3% of the state’s workforce in 2010 and unauthorized immigrants comprised roughly 3.3% of the state’s workforce (Passel 2011). Further in 2007, the state’s almost 6,000 Latino-owned businesses had sales and receipts of \$1.3 billion and employed almost 8,000 people (Passel 2011). If all unauthorized immigrants were removed from Kansas, the state would lose \$1.8 billion in economic activity, \$807.2 million in gross state product, approximately 12,000 jobs, \$10.3 million in state income taxes, \$3.9 million in property taxes; and \$43.1 million in sales taxes (The Immigrant Policy Center 2011). Market adjustments take time and thus the impact is clear: if states choose to enact strong policies aimed at curtailing immigration, they do so at the expense of their economies. While niches currently occupied by immigrants might ultimately be filled by locals, these adjustments would take time and the adjustment might entail increased costs or elimination of some services. For example, formerly empty storefronts in small town Kansas that are now home to Latino retailers might become empty once more.



## Federal Policy and Potential Consequences

Immigration reform would encourage immigrant entrepreneurship in the United States and increase immigrant entrepreneurs' ability to invest and plan. Policies that help immigrants will create a "beaten-path" effect, automatically reinforcing the positive impact of the success of immigrants. The EB-5 visa program, created in the Immigration Act of 1990, is a similar concept to the Start-Up Visa Act, but requires individuals to invest at least \$1,000,000, or at least \$500,000 in a "targeted employment area" (high unemployment or rural area). These amounts are far out of reach for most business startups. The Startup Visa act of 2011 had a slightly more realistic investment requirement of either \$100,000 or \$20,000 (if the owner has a college degree from a U.S. university in science, technology, engineering, mathematics, or computer science), though these requirements are still out of reach for most immigrant business startups. The act failed to pass.

National programs already exist to help train new farmers. For example, the USDA "Beginning Farmer and Rancher Program" is similar to the Minneapolis Main Street Project, but on the national scale. Its purpose is to develop, offer education, training, outreach, and mentoring programs to enhance the sustainability of the next generation of farmers. The increasing average age of farmers has led to a renewed interest in training new farmers. Latinos are well-placed to become these new farmers, but limited national reform hinders the ability of Extension and other grant recipients to successfully train new farmers.

The Kansas example above provides insight into the impact of a strict federal immigration policy. Similar to the arguments made for the Kansas example above, the US economy would experience short-run pain and longer term market gaps under a tighter immigration regime. Further, as argued by Carpenter (2013a), rising wages in Mexico make returning there an increasingly attractive option for Mexican immigrants in the United States, especially without federal reform to address the nearly 12 million illegal immigrants living and working in the United States. Any effort to avoid re-depopulation by localities could be overshadowed by ineffective federal policy.

*"... the USDA 'Beginning Farmer and Rancher Program'... Its purpose is to develop, offer education, training, outreach, and mentoring programs to enhance the sustainability of the next generation of farmers."*

## Conclusions and Opportunities for Future Research

With the shifting demographics in the United States, particularly in rural areas, and the position Latino immigrant entrepreneurs hold to substantially impact economic growth, understanding options to capitalize on potential benefits is important. Using other waves of immigration as examples, this paper provided scenarios of potential outcomes for Latino immigrants, and highlighted the importance of incorporation as the best potential outcome.

The paper then examined barriers that immigrant entrepreneurs often face and the policy options for improving the odds of Latino entrepreneurial success at each geographic scale. At the local level, volunteer groups or minor civil division governments can develop culturally appropriate counseling and peer networks, English language programs, and financial education to introduce people to the US credit system. While States are somewhat bound by Federal immigration law, simple and logical reforms such as allowing immigrants to obtain driver's licenses would help pave the road to incorporation. Federal policy should be reassessed in light of the rapid decline in availability of labor from Mexico, which in past years has been the primary source of new Americans that has helped many rural areas counter forces of depopulation. While immigration reform could positively impact immigrant entrepreneurs' planning and investment abilities. Future research should examine the impact of decreasing agriculture labor supply on rural immigrant entrepreneurs.

Georgarakos and Tatsiramos (2009), drawing on Hotz-Eakin et al. (2000) (who find stronger upward mobility in the income distribution among low-income self-employed workers compared to low-income wage and salary workers), argue that Hispanic immigrants are more likely to exit towards employment in the wage sector and argue that thus entrepreneurship represents an intermediate step from non-employment to paid employment. This argument could be examined with census data; in rural towns, we might find a kind of circle, wherein some immigrants begin work self-employed then work in the formal market, and then return to owning a business when they have accumulated more capital.

Senik and Verdier (2011) argue that an immigrant's likelihood of finding a job from someone of the same ethnicity relies on networking, reputation and threats, as well as peer pressure to hire within the ethnicity. Future research may examine if these effects are attenuated if both the sending country and receiving country are large. That is, future research might compare large-large versus small-large (e.g., Jamaica, Rwanda, Vietnam) to see whether immigrant success varies. The theory here would argue that immigrants from small countries would enjoy more success.

Future research should further examine the environment in which immigrant entrepreneurs are most likely to succeed. There are many questions that remain unanswered, such as how can we reduce recent immigrant reliance on high cost financial services, and what is the impact of providing financial education to immigrant entrepreneurs? Answering these and similar questions would have important policy implications by providing a blueprint for localities seeking to incorporate immigrants into their economy and by providing increased pressure at the state and federal level with evidence about the extent to which incorporation of immigrants affects not only the immigrants, but also the economy in which they live.

*"... Hispanic immigrants are more likely to exit towards employment in the wage sector..."*

*"There are many questions that remain unanswered, such as how can we reduce recent immigrant reliance on high cost financial services..."*

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