

# The Growth of Latino Small Businesses

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## In Providence



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Providence was hit hard in the Great Recession. By June 2011, the city's unemployment rate was over 15 percent, above the national average and the highest in New England.<sup>1</sup> But a positive trend recorded before the financial crisis—when the city's Latino-owned businesses grew in number from 731 in 1997 to 2,999 in 2007—may hold promise for the future.<sup>2</sup>

That change—substantial both in absolute terms and in comparison with other small and mid-sized cities in the region—led researchers from the Boston Fed to investigate. Their conversations with business owners, technical-assistance providers, and microlenders from the nonprofit and government sectors offer a better understanding of the Providence phenomenon.

### What Has Changed?

According to the census, the Latino population in Providence has been growing for decades. In 2010, 67,835 Latinos were counted (up 30 percent from 2000), comprising 38 percent of Providence's total population of 178,042. Among the largest groups today are Dominicans, Puerto Ricans, Guatemalans, Mexicans, Salvadorans, Bolivians, and Colombians.<sup>3</sup>

Originally, Latinos found employment

in textile and jewelry manufacturing. But with such jobs scarce today, nearly every interviewee mentioned the decline of manufacturing as a reason for the increase in self-employment. One business owner, who had lost her job in the jewelry industry, cited herself as an example. (See “Share of Latino Population that Own Businesses.”)

The loss of manufacturing and a lack of in-demand skills have led to the increase in Latino small businesses, especially among first-generation immigrants, but others have suffered from the same issues. By themselves, these reasons do not explain the high growth in Latino businesses.

### Is It Clout?

No one group dominates Providence's Latino population, which sets it apart from otherwise comparable cities. In Springfield, Massachusetts, for example, 86 percent of the Latino population is Puerto Rican. There is more diversity in Providence, and the pan-Latino community has a history of organizing to demand services.

The Rhode Island Latino Political Action Committee, founded in 1998, has contributed to the ascent of several Latino political leaders, including Providence Mayor Angel Taveras. But when asked about the correlation between increased political representation and the growth of Latino small businesses, most interviewees say that Latinos may feel empowered to make greater demands but they have not seen additional resources.

One owner commented, “The only connection I see is more personal. Not businesswise. I mean, what's happening is [that] as Latinos, we're getting a little more guts.”

Another said, “While we still don't have the power to make decisions and bring a direct benefit, [representation] generates more confidence. ... We have people that can help us and represent us at the right moment.”

### Is It Resources?

The researchers talked to business owners who varied greatly in their education, English-language competence, and business skills, with the second generation often being stronger in those areas than the first generation. But that was not always the case. Several first-generation immigrants had extensive advanced degrees.

Nevertheless, second-generation Latinos were more likely to open “professional” businesses—for example, in web design or insurance. One owner whose family came to Providence to work in the textile mills before his birth reported, “A lot of my peers ... went to college. We're all professionals now.” In fact, according to the census, the share of the Latino population in Providence with a bachelor's degree or higher increased from 7 percent in 2000 to 11 percent in 2009.

Even with the increased educational attainment of many Latinos, a third of Providence households live below the poverty line, 44 percent over the age of 25 have less than a high school diploma, and 35 percent don't speak English or speak English “not well.”

The entrepreneurship service that bilingual business owners most often reported using was the mentoring offered by the Small Business Development Center at Johnson and Wales University. SBDC links entrepreneurs with experienced faculty, professionals, and students, who assist people on a one-on-one basis. Such services were seen as being instrumental in forming business plans and developing websites.

The business owners who used SBDC were first-generation immigrants. Most of the interviewees expressed a feeling that, in general, small-business services such as those offered by the city and local nonprofits were not for them. Some interviewees were not even aware of the services. A lack of English may have been a reason.

With regard to financing, nearly all said they relied on family or personal assets, an approach they found preferable to trying to access money from the government. Said one owner, “It has been more costly [in terms of higher interest rates] but certainly faster and more effective.”

Only a few reported receiving loans or lines of credit from a bank, and no interviewee had participated in the city’s micro-loan or storefront-improvement program. A few owners had approached the city or the Small Business Administration about obtaining loans, but the lending requirements were perceived as “too complicated” and the process for seeking assistance or applying for funds as “too lengthy.”

After being denied an SBA loan, one owner reported using the equity in her house: “I got discouraged . . . so I did my own thing.” A few owners, especially those who were not bilingual, reported using *prestamistas* who charge very high interest rates (essentially loan sharks). Mainstream Providence institutions have not played a big role. As one business owner said, “There are organizations that are doing a great job, but on average, they can assist eight to 10 people. There are 2,000—3,000—of us. The programs are very good, but what’s needed is scale. . . . There is a lack of vision, perhaps, on the potential that Latinos represent.”

## Elusive Lessons

The relatively small size of Providence and its role as a cultural hub and state capital appear to have supported the development of a cohort of professional Latino leaders who hold networking events that bring the community together. One prominent group grew out of the small business development class Primer Paso, a 12-week class funded by a grant from the Kauffman Foundation and based on Kauffman’s curriculum. The sessions, conducted in Spanish, were held at the SBDC and were offered several years in a row.

One thing people loved about the classes was the chance to learn from peers and to network. As one participant said, “It was there that I understood that opening a business was not about having a store and opening the doors, but rather things associated with marketing, with having your accounts in good standing. The program gave me the opportunity to meet people [who] have been able to help me move forward.”

Business owners and technical-assistance providers continued to attend the monthly networking events after the class ended. “The networking has been critical to developing my business,” the participant adds. He liked “the opportunity . . . to know what’s out in the marketplace. You can see globally what’s happening not only in the area in which you have your business but other related areas as well.”

In sum, the growth of Latino small

businesses in Providence has occurred organically. There is no one program or institution that explains why so many Latinos decided to start businesses—not political clout, not training programs, not networking. Many threads comprise the whole.

The researchers believe that there is untapped potential in Providence that could help business owners more while boosting economic growth. Nationally, Latinos are experiencing more entrepreneurial activity than other groups.<sup>4</sup> Providence would be well advised to make Latino entrepreneurship a priority, leveraging its past success and embracing the potential. City government, technical-assistance providers, and lenders should capitalize on the Latino community’s strengths and try to broaden the availability of services to bilingual and Spanish-speaking entrepreneurs. Just improving public safety and streamlining the permitting process would be beneficial, as several owners indicated.

Of course, expanding services can be a challenge in tough times. And small business owners frequently do not see value in closing their businesses to attend an event or a class. Overcoming the challenges will require outreach that is culturally sensitive and language specific. A coordinated, strategic, and collaborative effort by all service providers would be a good place to start.

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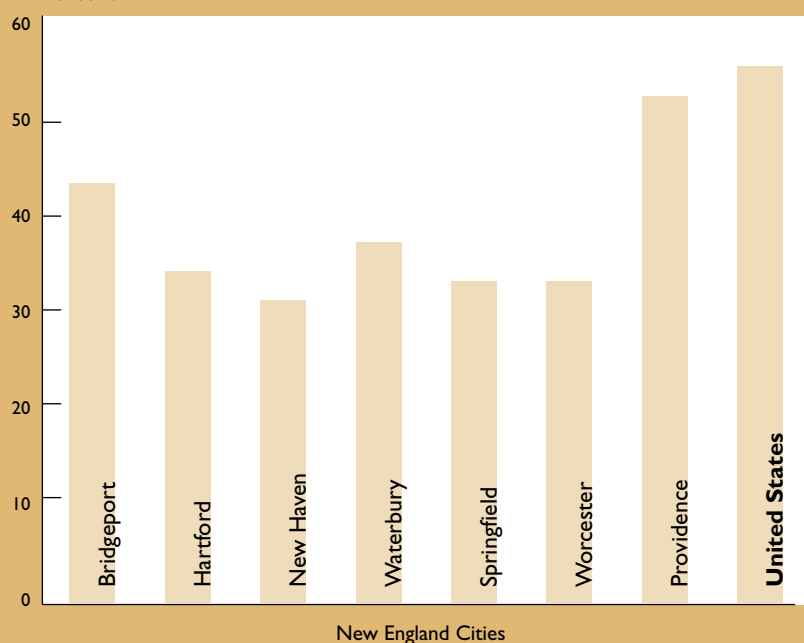
## Endnotes

- <sup>1</sup> “New England Economic Snapshot” (white paper, Federal Reserve Bank of Boston, August 2011), <http://www.bos.frb.org/bankinfo/firo/publications/economicssnapshot/2011/EconomicSnapshot-Aug2011.pdf>.
- <sup>2</sup> Ana Patricia Muñoz et al., “Small Businesses in Springfield, Massachusetts: A Look at Latino Entrepreneurship” (Public and Community Affairs discussion paper no. 2011-2, Federal Reserve Bank of Boston), <http://www.bostonfed.org/commdev/pcadp/2011/pcadp1102.pdf>.
- <sup>3</sup> U.S. Census Bureau, 2010 Census.
- <sup>4</sup> See <http://www.kauffman.org/newsroom/jobless-entrepreneurship-tarnishes-steady-rate-of-startup-activity.aspx>.

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## Share of Latino-Owned Businesses Relative to the Share of Latino Population

Percent



Source: American Community Survey (3-year estimates 2005-2008), Survey of Business Owners (2007).