

UC Berkeley

Cal-in-Sac Undergraduate Research on Diversity and Entrepreneurship

Title

Supporting Undocumented Entrepreneurship

Permalink

<https://escholarship.org/uc/item/3725014j>

Author

Velez, Allyson

Publication Date

2022-09-29

CAL-IN-SACRAMENTO FELLOWSHIP PROGRAM, FALL 2022

DIVERSITY AND ENTREPRENEURSHIP IN CALIFORNIA

Title: Supporting Undocumented Entrepreneurship

Author: Allyson Velez



In the spring of 2021, IGS launched a two-year Diversity and Entrepreneurship Fellowship as part of the Cal-in-Sacramento Fellowship program. Now in year two, IGS and the Matsui Center are proud to showcase students' original research on the challenges and opportunities facing women- and POC-owned small businesses and diverse entrepreneurs in California. This series includes op-eds, blog posts, policy briefs and other research products. Learn more at <https://igs.berkeley.edu/matsui-center/fellowships/cal-in-sacramento>.

Institute of Governmental Studies, University of California, Berkeley
109 Moses Hall, Berkeley, CA 94720-2370



Supporting Undocumented Entrepreneurship

A Policy Brief by Allyson Velez
2022 Diversity and Entrepreneurship Fellow

The Small Business Landscape in California

Small businesses can be difficult to sustain despite their importance. Small businesses—which the federal Small Business Administration defines as having 500 or fewer employees—power local economies. In 2016, sole proprietorships made up 3.2 million of California’s 4.2 million firms and generated over \$162 billion in revenue. However, the stability of small businesses can be highly uncertain. Of the 400,000 California small businesses formed in 2016, estimates suggest only 80% survived after a year and only half survived after five years.

Historically disadvantaged groups face heightened challenges. Before the COVID-19 Pandemic, women-owned startups received only 2% of all venture capital funding. Similarly, 2019 data on profitability, credit scores, and other indicators of business health suggested that minority-owned businesses were twice as likely to be “at-risk” or “distressed” than other businesses. The pandemic worsened conditions and resulted in 26% of women-owned businesses, 19% of Black-owned businesses, and 10% of Latinx-owned businesses closing permanently.

Challenges Growing and Maintaining a Business

Startup capital can be hard to access, especially for women, BIPOC, and undocumented entrepreneurs. From the perspective of an active or prospective entrepreneur, creating businesses often requires finding startup capital. But finding a community bank, government agency, or other financial resource can be difficult. Many factors have to align to result in a loan, grant, or other form of support: the entity has to be identifiable, the financial information has to be understandable, and the interest rates or grant terms must align with a particular business idea. In this context, minority-owned startups have an especially hard time accessing capital because something as basic but structural as English-dominated outreach materials can prevent potential businesses from connecting with financial entities.

Challenges Unique to Undocumented Entrepreneurs

There are approximately 2.3 million undocumented immigrants in California, about 22% of the immigrant population in the state. These 2.3 million individuals face a multitude of challenges in their daily life due to their immigration status; for instance, without a social security number, undocumented immigrants can be denied financial aid from a university, their housing applications may be denied, and they may be unable to open a bank account without an ITIN number. Given the barriers to economic opportunity, many undocumented immigrants have turned to entrepreneurship. Research from the bipartisan nonprofit, New American Economy, states that in 2016, there were 770,000 undocumented entrepreneurs in America. Today, there are more than 815,000.

However, this growing population of undocumented business owners still face logistical challenges. Without a social security number, businesses can be denied loans or be forced into taking high-interest loans. Without the ability to access loans, many undocumented entrepreneurs may not be able to fulfill their business aspirations. To further complicate matters, without a social security number, undocumented entrepreneurs are not able to build upon a credit score, creating barriers for these individuals to further pursue economic opportunities.

And perhaps most impactful is the stigma against undocumented immigrants creating a sense of distrust towards the government. Despite monumental legislation such as SB 1159 and AB 2184 which allowed individuals to apply for professional licensing using an ITIN as opposed to a SSN, there still exists a deep sense of distrust amongst the undocumented community when seeking support from the government. Immigration policies adopted during the Trump administration further solidified a sense of fear and distrust which in turn has impaired undocumented entrepreneurship by decreasing the utilization of government resources supporting small businesses.

State Government Resources

To support the growth and innovation of small businesses, the federal government established the Small Business Administration (SBA) in order to help Americans grow businesses and create jobs by providing resources and tools, including access to capital. Likewise, California established the Office of the Small Business Advocate (CalOSBA) to support economic growth and innovation for all California small businesses and innovative startups. Since their inception, SBA and CalOSBA have become vital resources to small businesses however, undocumented entrepreneurs are frequently cited as underutilizing these government resources.

Government funding became critical amidst the COVID-19 pandemic as the state implemented various grant and loan programs directed toward small businesses. Among the various funding opportunities, the state made available during the pandemic was the California Rebuilding Fund. This loan program appropriated \$25 million to small and microbusinesses to help mitigate the COVID-19 health and safety restrictions; the Rebuilding Fund focused on historically

under-resourced communities. The Loan Guarantee Program assisted small businesses with 1-750 employees, especially in low-to-moderate-income communities. The Loan Guarantee Program created and retained approximately 430,000 jobs. The Disaster Relief Loan Guarantees Program targeted small businesses that are not eligible for federal disaster funds, as well as immigrant and low-wealth communities. The California Capital Access Program (CalCAP) for Small Business encouraged financial institutions to make loans to small businesses facing barriers in obtaining financing. CalCAP facilitated loan disbursements of up to \$5 million for small businesses across the state. Despite these grant and loan programs being focused on marginalized business owners, male and white women were more likely to apply for government aid.

A Policy Solution: Small Business Development Centers

Both SBA and CalOSBA appropriate state and federal funds to create support networks for technical and economic concerns small businesses may have. CalOSBA specifically established the Small Business Technical Assistance Program (TEAP) which provides local one-on-one consulting services, training, and various business and economic support tools. The TEAP program operates at a local level, allowing community members to support small business owners and cater to their own specific needs. These local support centers are referred to as Small Business Development Centers (SBDCs). There are 35 SBDCs in California that provide counseling and technical assistance to small businesses at all stages of their business development.

SBDCs present a unique opportunity to better support undocumented entrepreneurs. Given that SBDCs operate on a local level, establishing systems of trust between undocumented business owners and these support centers may incentivize undocumented entrepreneurs to utilize the government resources available to them. As such, further investment into SBDCs and increased publicity is essential to mitigating the disparities witnessed across small businesses and addressing the multitude of challenges undocumented business owners face.