The Missing Entrepreneurs 2014

Chapter 7

Policy support for entrepreneurship by ethnic minority groups[1, 2]

Ethnic minority groups are very active in entrepreneurship in many EU countries. This chapter reports on the level of entrepreneurship activities by ethnic minority groups and some of the key characteristics of these businesses. It also presents the main barriers to business start-up for potential ethnic minority entrepreneurs and actions that policy makers can take to support ethnic minority groups in overcoming these barriers. Inspiring practices from across the EU are presented to illustrate these actions.

1. Note by Turkey:

The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

2. Note by all the European Union member states of the OECD and the European Union:

The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Potential for business creation and self-employment by ethnic minority groups

- Ethnic minority or immigrant entrepreneurs are a diverse group with substantial differences across ethnicities, by gender and by duration of settlement in the host country (i.e. newly arrived, first-, second-generation, etc.).
- The self-employment rate for foreign-born people is higher than it is for native-born people in 9 EU member states, highlighting the entrepreneurship potential of this group.
- There is limited evidence on the survival rates of businesses operated by foreign-born people, but evidence from France indicates that businesses operated by foreign-born entrepreneurs have lower survival rates than those operated by native-born people.

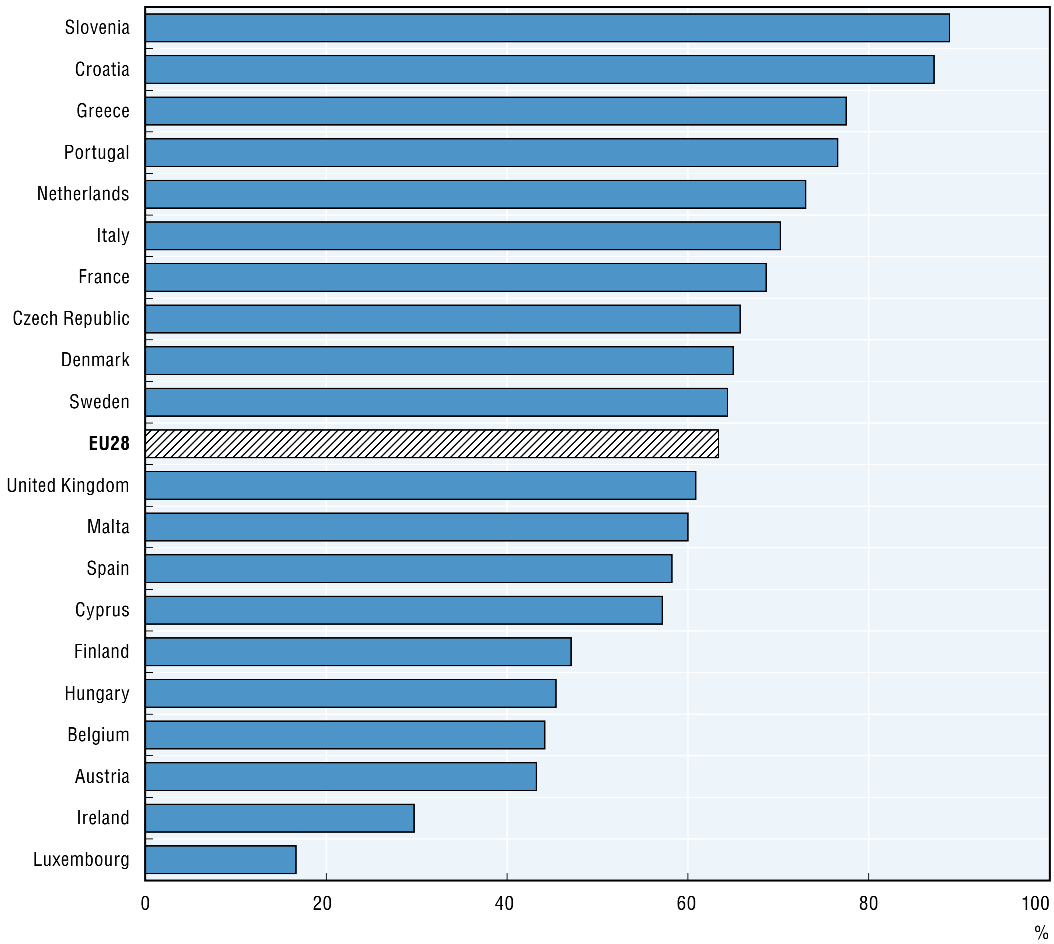
Entrepreneurship by ethnic minority groups refers to business start-up and self-employment activities by people that belong to an ethnic minority group and by people who were born in a different country than the one in which they reside. It must be recognised that this is not a homogenous group as there are differences across ethnicities, by gender and by whether the individual is a new immigrant or 1st or 2nd generation ethnic minority (Pécoud, 2012). The concept also applies differently within different contexts and can vary between cities and regions and the national level (Rath et al., 2011).

Self-employment rates

It is difficult to accurately measure the scale and scope of self-employment activities of ethnic minority groups in a comparable way across EU member states for several reasons. First, national labour force surveys do not ask questions related to the ethnicity of an individual. Second, an individual's self-identification as belonging to an ethnic minority group varies depending on self-perception and context. Despite belonging to an ethnic minority group, individuals may not view themselves as belonging to an ethnic minority group and therefore may not self-identify. Third, an ethnic minority group in one city or region is not necessarily a minority group in another city or region within the same country.

One way to approximate self-employment rates for ethnic minority groups is to look at a narrower segment of the population, namely those who are foreign-born. For statistical purposes, this concept is more easily defined. However, it must be recognised that this is not conceptually the same as the ethnic minority population because people from ethnic minority groups can be native-born, and conversely non-ethnic minority populations can be foreign-born. Further, the profile of foreign-born people varies across member states. In 2012, at the EU-level, 63.3% of foreign-born self-employed people were born outside of the EU (Figure 7.1). Luxembourg had the lowest proportion of foreign-born self-employed people who were born outside of the EU, while Slovenia and Croatia had the highest proportions at 87.2% and 88.9%, respectively. A further consideration is that the population born outside of the EU will also vary greatly across countries, reflecting historical patterns, macroeconomic and labour market conditions, immigration laws and social policies.

Figure 7.1. **Proportion of foreign-born self-employed who were born outside of the EU, 2012**



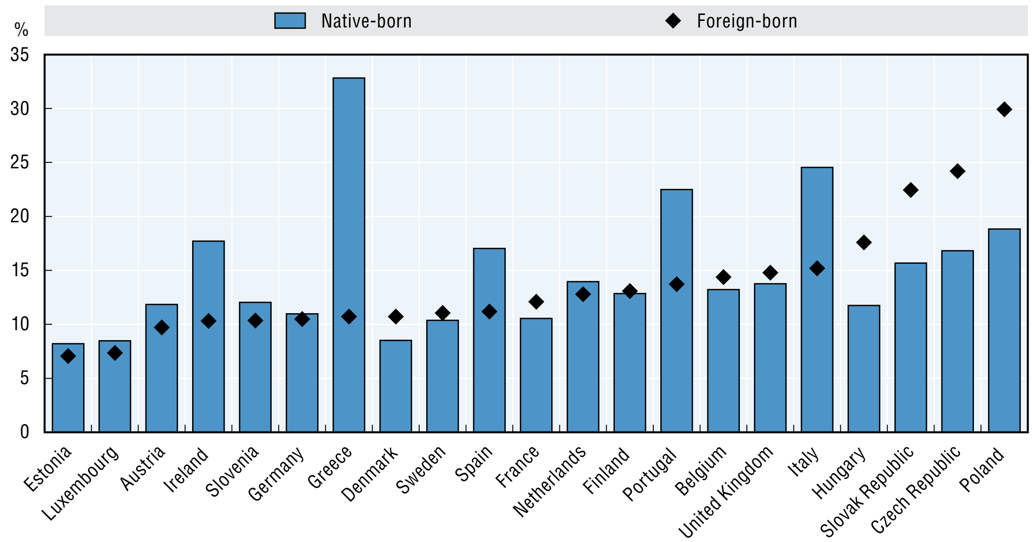
Source: Eurostat, Labour Force Survey 2012.

StatLink http://dx.doi.org/10.1787/888933154687

In many EU member states, those who are foreign-born were more likely to be self-employed than native-born people (see Figure 7.2). In 2012, these countries were Belgium, the Czech Republic Denmark, France, Germany, Hungary, and the United Kingdom. However in half of the EU countries, foreign-born people were less likely to be self-employed than the native-born population. The figure shows that the biggest gap in self-employment rates between native-born and foreign-born people was in Greece, where foreign-born people were one-third as likely as those born in Greece to be self-employed. However, differences across ethnic minority groups are often greater than the differences between the native-born and foreign-born populations.

The proportion of self-employed people in the EU that is foreign-born has changed little since 2004 (Figure 7.3). It has only changed significantly in Estonia and Denmark. In Estonia, the proportion increased approximately 7 percentage points while in Demark in declined by nearly 5 percentage points. At the same time, marginal changes can be observed in France (slight increase) and the United Kingdom (slight decrease).

Figure 7.2. **Self-employment rates for by location of birth by member state, 2012**



Source: Eurostat, Labour Force Survey 2012

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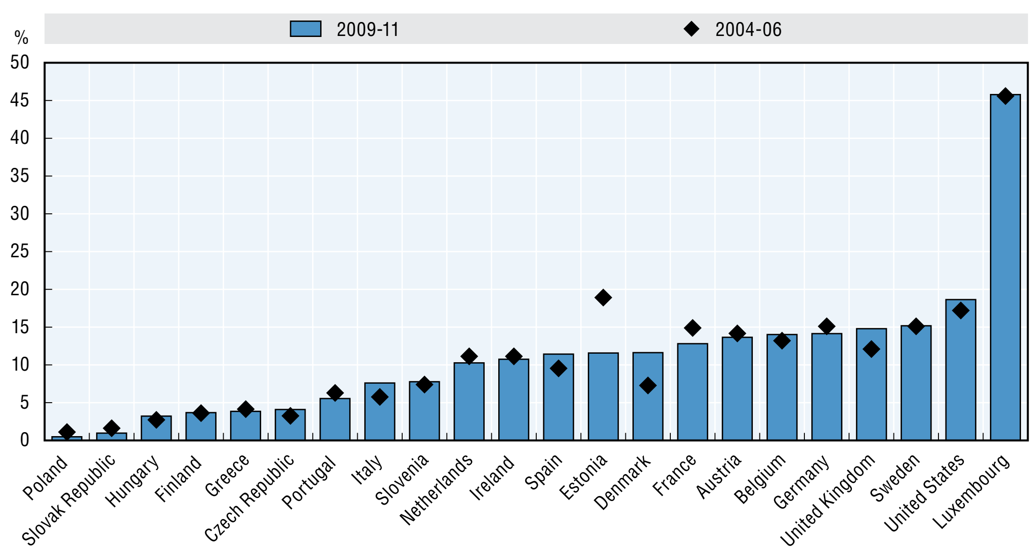
Figure 7.3. **Proportion of self-employed who are foreign-born, 2004-06 vs. 2009-11**



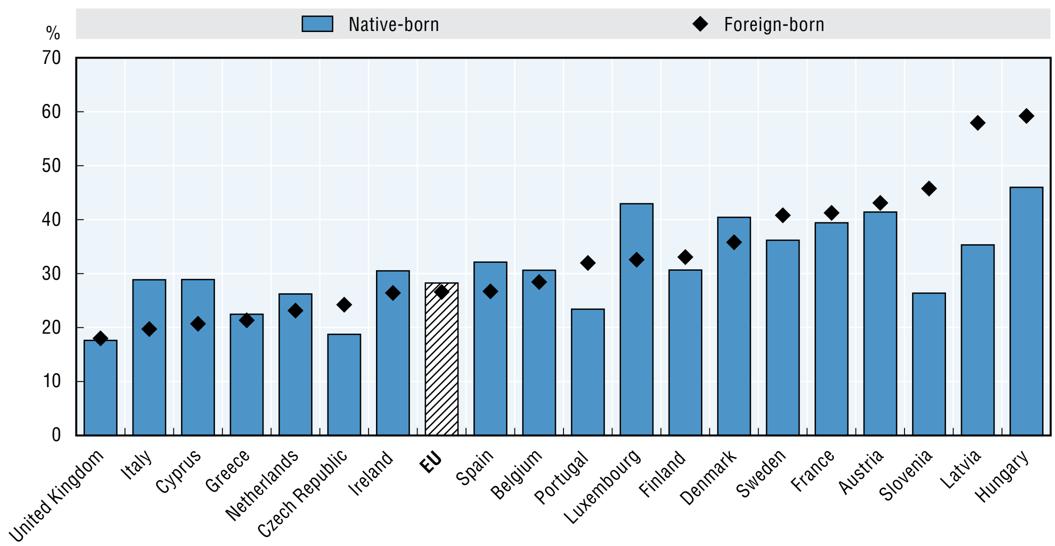
Note. This figure excludes self-employed people that work in agricultural sectors.
Source: Adapted from OECD (2013), Entrepreneurship at a glance.

StatLink http://dx.doi.org/10.1787/888933154705

At the EU-level, self-employed people who are foreign-born are as likely as those who are native-born to have employees (see Figure 7.4). However, there is variation across the member states. Self-employed foreign-born people were less likely to have employees in

9 member states, with the greatest differences in Italy (32%), Cyprus (28%) and Luxembourg (24%). In the other 9 member states (for which data are available), self-employed people that are foreign-born are more likely to have employees. For example, foreign-born self-employed people were much more likely to have employees in Slovenia (73%), Latvia (64%) and Portugal (36%).

Figure 7.4. **Proportion of self-employed with employees by location of birth, 2012**



Source: Eurostat, Labour Force Survey 2012.

StatLink http://dx.doi.org/10.1787/888933154710

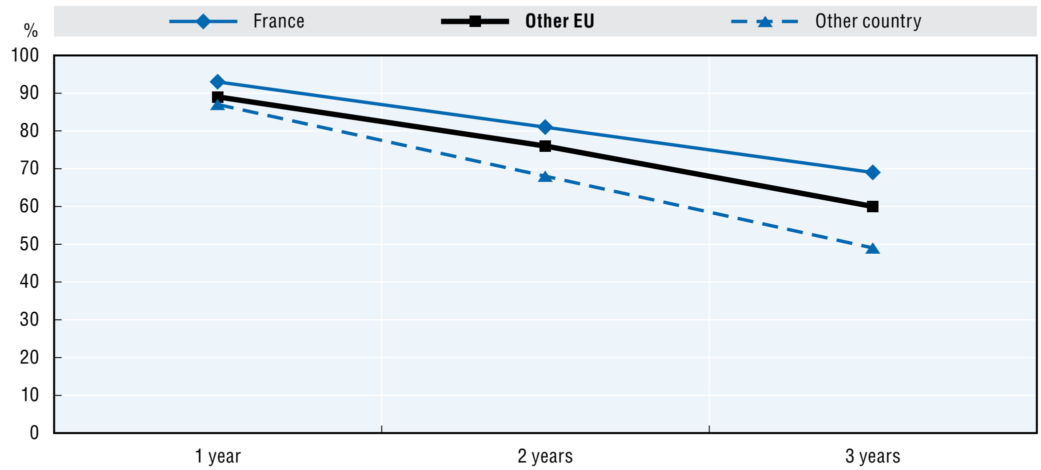
Survival rates

Entrepreneurs from ethnic minority and immigrant groups frequently operate in highly competitive industries with low barriers to entry and low skill requirements (Kloosterman and Rath, 2003; APCE, 2013). For example, this includes restaurants, retail shops and the textile industry. These businesses often compete on price (Rezaei and Goli, 2006; Kloosterman and Rath, 2003; Rath et al., 2011) and are frequently labour intensive and usually do not generate enough earnings to fuel firm development and growth (McKay et al., 2009).

Given these business characteristics, it is not surprising to find that self-employed people that are foreign-born operate businesses that have lower survival rates than those who are native-born. Evidence from France shows that foreign-born self-employed people have lower survival rates than native-born self-employed (see Figure 7.5). Moreover, those born outside of the EU had lower survival rates than those born inside the EU. After the first year of operation the difference is only a few percentage points, but this gap increases to 20 percentage points after 3 years.

Figure 7.5. **Survival rates of migrant enterprises (France)**

Average of 2006-09 cohorts



Note. This figure excludes self-employed people that work in agricultural sectors.
Source: Adapted from OECD (2013), *Entrepreneurship at a Glance*.

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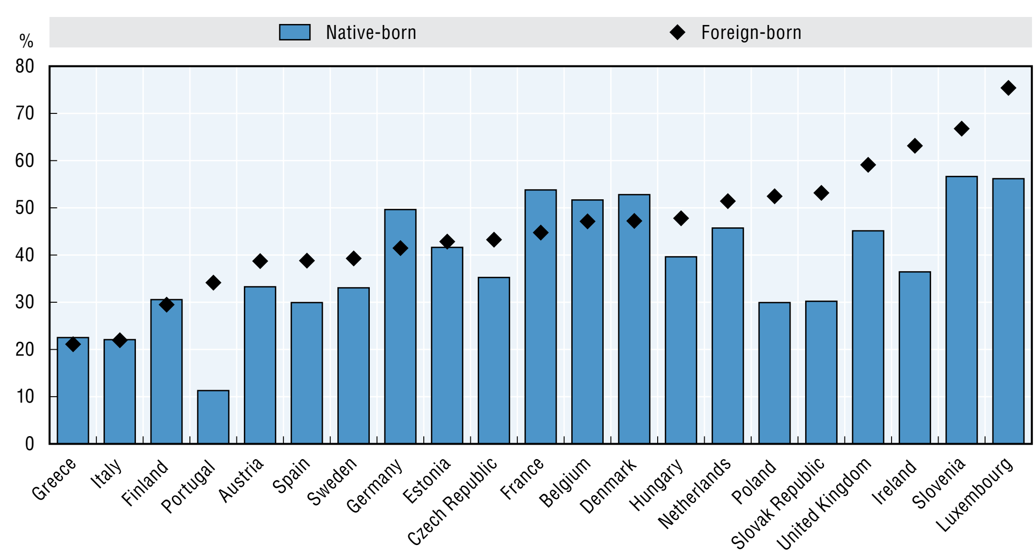
Skill levels

Figure 7.6 provides some evidence on the educational attainment of self-employed people. While this is not the same as skill level, the two are frequently correlated. At the EU-level, self-employed people that are foreign-born are more likely to have achieved a tertiary education than self-employed people who are native-born. This finding holds in

Figure 7.6. **Proportion of the self-employed with a tertiary education by place of birth, 2012**



Notes 1. Tertiary education is measured as the proportion of those who attain level 5 or higher on International Standard Classification of Education (ISCED). 2. This figure excludes self-employed people that work in agricultural sectors.
Source: Adapted from OECD (2013), *Entrepreneurship at a Glance*.

StatLink http://dx.doi.org/10.1787/888933154735 the vast majority of member states, with the exceptions being Germany, France, Belgium and Denmark where the native-born self-employed people are more likely to have attained a tertiary education. The proportion of native-born and foreign-born self-employed people who have attained a tertiary education is roughly equal in Greece, Italy, Finland and Estonia.

An issue not picked up in this data is the recognition of qualifications earned by foreign-born people. Often qualifications that are earned in a foreign country are not recognised in the host country (Rezaei and Goli, 2006). This presents an additional barrier for ethnic minority entrepreneurs because they may not be able to acquire the necessary licenses and certifications to start their business.

Barriers to business start-up for ethnic minority groups

- Entrepreneurs from ethnic minority groups face the same barriers to business start-up as native-born entrepreneurs but are typically held back to a greater extent by these barriers.
- Both formal and informal institutions can negatively influence business start-up and self-employment activities by immigrants because they are typically unfamiliar with the business and regulatory environment. This is especially true when immigrants seek to set-up business in highly regulated sectors.
- Access to finance can be a barrier to business start-up, particularly for recent immigrants who cannot demonstrate a credit history or have never participated in the formal banking system.
- As with all entrepreneurs, a lack of entrepreneurship skills can hinder business creation. Particular challenges for ethnic minority and immigrant entrepreneurs are often related to business management skills and ability to speak the language used in the business environment.
- Ethnic minority and immigrant entrepreneurs benefit from some competitive advantages. They can access their ethnic community for clients and suppliers, and may be able to exploit linkages to their home country for international trade.

Entrepreneurs from ethnic minority and migrant groups face similar barriers to business creation as the population as a whole. However, these barriers are typically greater for many ethnic minority entrepreneurs than for mainstream entrepreneurs. There is some evidence to suggest that ethnic minority women face even greater barriers than ethnic minority men (*Agentur fur Gleichstellung*, 2010).

One set of barriers often discussed in relation to entrepreneurs from ethnic minority groups are sector specific, rather than being related to ethnicity. However, these challenges may be identified more frequently for enterprises operated by ethnic minority entrepreneurs since these entrepreneurs tend to cluster more in particular sectors (Ram and Smallbone, 2003). For example, many ethnic entrepreneurs operate in the textile and retail sectors, both of which are highly competitive sectors that are characterised by dominant large chains that are able to operate on small margins to undercut competitors.

Institutional barriers

Institutions refer to specific structures such as regulatory bodies and/or the business support infrastructure. These can be further divided into formal and informal institutions, both of which are relevant when considering institutional barriers for entrepreneurs from ethnic minority groups because together they make up the broader institutional structures of a society. Institutions may be both enabling and constraining forces with respect to business creation. As enabling forces, institutions can reduce transaction costs and generally facilitate the operation of market economies. At the same time, institutions can present constraints to entrepreneurs because they define the scope for action, which do not affect all entrepreneurs, or ethnic groups, in a similar fashion (OECD/EC, 2013).

Formal institutions

Formal institutions include laws and regulations, including any rules that directly affect the cost of setting-up a business, conducting business activity and closing a business. This includes regulations for market entry and exit, and laws governing commercial transactions. It also includes regulatory institutions and policies that influence the desirability and feasibility of entrepreneurship (e.g. labour market and business development policies) and those that influence the costs and opportunity costs of setting-up a business (e.g. the legal framework).

Government regulation is often cited as a barrier to entrepreneurship but laws and regulations can also open-up opportunities for entrepreneurship by creating a favourable environment for entrepreneurship. Regulatory processes are wide ranging, with some being constraining (e.g. health and safety legislation) while others are enabling (e.g. financial incentives). Both enabling and constraining processes impact all entrepreneurs, but ethnic minority entrepreneurs tend to perceive government regulation as a major negative influence. Entrepreneurs from ethnic minority groups can have difficulties understanding of the laws, administrative requirements and regulations, especially when immigrant entrepreneurs come from a context with different regulatory requirements.

While there is little evidence to suggest that regulatory institutions are a greater barrier for entrepreneurs from ethnic minority groups than for the general population (Welter, 2012), the effects of regulatory institutions are likely to be greater in the case of recently-arrived migrants. Their attitudes may be more affected by the environment in the country that they have moved out of than those of the country they are moving into. Unlike ethnic minority entrepreneurs who are born in their country and are familiar with its rules, cultures and institutions, immigrants lack the experience, knowledge and skills to cope with an unfamiliar institution or environment, which might be aggravated by low levels of education (Welter, 2012). Immigrants have been shown to face considerable problems in setting-up businesses, particularly in highly regulated industries and professions (Kay and Schneck, 2012). This is corroborated by evidence from Italy which demonstrates that migrant entrepreneurs have difficulty understanding business start-up procedures and legal obligations (De Luca, 2011). Responses to these challenges can result in ethnic minority businesses starting and operating in the informal sector. Evidence from Sweden shows that some Asian immigrants forego Swedish immigration rules and enter the country on a tourist visa to set-up unregistered businesses (Alund, 2003).

One of the major institution-related barriers is access to business support services. Ethnic minority entrepreneurs are under-represented as clients of business support agencies (Ram and Smallbone, 2003). While some evidence from the United Kingdom suggests that take-up of business support services by ethnic minority entrepreneurs is improving, this varies considerably between different ethnic groups (Ram and Smallbone, 2003). This also tends to vary between recent immigrants and native-born ethnic minority groups (Tisserant, 2003).

Many argue that public and private business support services are alternatives to one another, suggesting that lack of access to public sector business support is compensated for by the use of friends, family and professionals within their own network. However, this is not true. Most successful entrepreneurs make use of friends, family and business associates in addition to the services and supports that are available from the public sector. This is important because evidence from the United Kingdom suggests that the most successful ethnic minority entrepreneurs were Chinese, who showed the highest propensity to take in business advice at start-up, although this was mainly Chinese accountants and professionals (Ram et al., 2002). A further caution on this issue is that evidence often captures entrepreneurs' perceptions rather than their experiences and actions (Law, 2007).

Normative institutions

Normative institutions are the values that influence preferences in a society or the social standards of what is considered preferable and desirable. They have been shown to affect the value that society generally places on entrepreneurship (Davidsson and Wiklund, 1997). A key question is how these institutions affect the nature and extent of entrepreneurship activities for ethnic minority and migrant groups relative to the rest of the business population.

Normative institutional barriers include role models and entrepreneurship culture. In both cases, it has been shown that African and Caribbean entrepreneurs in the United Kingdom are affected by a lower level of acceptance of entrepreneurship and a lower value placed on entrepreneurship in their communities than is the case in, for example, the South Asian communities (Ram and Smallbone, 2003). In contrast with African and Caribbean entrepreneurs, Asian entrepreneurs from China or India are much more likely to have been exposed to successful entrepreneurial role models, which is less likely in the case of Pakistani or Bangladeshi entrepreneurs (Ram and Smallbone, 2003).

Alongside within-group norms and attitudes, which might either foster or hinder entrepreneurship, ethnic minority entrepreneurs are also exposed to the attitudes that prevail in their country of residence. This may reinforce a prevailing positive attitude towards entrepreneurship within their culture, or work against it through negative stereotyping and discriminatory attitudes. There is a limited body of evidence that indicates that discrimination against ethnic minority groups from society and business communities exists and some evidence from Denmark suggests that discrimination goes both directions, i.e. ethnic minority groups discriminate against the native-born population (Serden Özcan, 2013). Subsequent generations of ethnic communities are likely more resilient and less affected by the negative impact of normative institutions (i.e. stereotypes and prejudices) than earlier generations and educational attainment can also affect this perception (Welter, 2012).

Social capital has an important role to help ethnic minority and migrant entrepreneurs cope with normative institutions. If there is a positive attitude towards entrepreneurship within their community, social capital can help members of the minority communities to cope with negative attitudes and discrimination. For example, entrepreneurs within South Asian communities act as guarantors when new entrepreneurs are seeking bank loans (Ram and Smallbone, 2003). Social capital is especially important for first generation immigrants, who have not had a chance to become acquainted with the social and regulatory systems of the host country. Social capital is typically based on family and social relations within ethnic communities and rarely involves cross-ethnic relations, including with the native population. This kind of social capital reinforces existing ties (Granovetter, 1983; Coleman, 1987) and is more bounding than bridging since it is based on trust and loyalty (Putnam et al., 1993). Thus social capital can be used to help ethnic minority entrepreneurs establish a business but is not likely to have a significant impact in terms of supporting survival and growth (Hegedahl and Rosenmeier, 2007).

Access to finance

Access to start-up capital is one of the most frequently cited barriers to business creation for all entrepreneurs. This is often true for entrepreneurs from ethnic minority groups as well. Evidence from France indicates that foreign-born entrepreneurs are more likely than native-born entrepreneurs to start a business without start-up capital (73% vs. 62% in 2006) (APCE, 2012). Similar evidence can be found in other EU countries such as Germany (Kay and Schneck, 2012).

Some entrepreneurs from ethnic minority groups are able to securing financing from family members and acquaintances who live abroad through informal or community-based funding mechanisms such as Hawalah and rotating capital systems (Rezaei and Goli, 2006). However, these funding mechanisms are often limited to relatively low values since they are essentially cash-based systems. Thus the majority of ethnic entrepreneurs who access these informal financing systems when starting a business are often forced to downsize their business plans.

When considering challenges to accessing start-up financing, ethnic minority entrepreneurs can face market barriers, cultural barriers, skills barriers and institutional barriers.

Market barriers

A central characteristic of credit markets is that information asymmetries exist between lenders and borrowers. For example, lenders often lack information on borrowers and the viability of their projects. Therefore it is difficult for lenders to evaluate loan proposals and they often require collateral that can be seized in the event of a loan default (i.e. asset-based lending).

Businesses operated by entrepreneurs from ethnic minority and migrant groups are often viewed by the market as being high-risk clients. They are more likely to have fewer collateral assets than the mainstream population (e.g. real estate, vehicles) and are less likely to be able to demonstrate a good credit history, or in some cases, any banking or credit history (Heelsum, 2012). As a result, their loan requests are more likely to be turned down (Kay and Schneck, 2012).

While lenders could charge higher interest rates for those who lack collateral to compensate for the higher risk-profile, this would attract risk-prone borrowers and lead to adverse selection. Additionally, borrowers may be induced into riskier projects to pay back larger loan instalments, which would also result in higher chances of loan defaults (i.e. moral hazard). The result of these market failures is to prevent equal access to finance by entrepreneurs from ethnic minority and migrant groups.

Cultural barriers

Cultural barriers stem from stereotypes and expectations and can occur on both the supply side and demand side of credit markets. On the supply side, cultural barriers typically arise from lending officers and formal lending procedures. Lending officers are trained to deal with self-employed people who operate one business, on a full-time basis. This of course is not always the case. Moreover, migrant entrepreneurs who manage multiple businesses at the same time may be credit-rationed because they fall outside of the standard client profile. Cases of social discrimination towards ethnic minority are also possible, although there is no strong evidence of this in EU credit markets (OECD/EC, 2013).

On the demand side of credit markets, ethnic minority entrepreneurs may face language and social barriers to building a close and confident relationship with banks and other lenders. They may also be unwilling to share full information on personal revenues and indebtedness with loan officers, who are perceived as outsiders (Leicht et al., 2012). Therefore they may be less successful at accessing external financing.

Another barrier is that entrepreneurs from ethnic minority and immigrant groups may not apply for loans because they believe that they are less likely to receive a loan than native-born entrepreneurs. This could be due to perceived discrimination or a lack of knowledge about how financial markets operate. Evidence from the United Kingdom shows that entrepreneurs from ethnic minority groups who operate fully or partially informal business believed that private lenders were obligated to share borrower information with the tax authorities and therefore they did not seek loans (Ram et al., 2002). Moreover, some Muslim entrepreneurs do not accept to pay interests on loans and therefore will never seek them (Rezaei and Goli, 2006).

Skills barriers

In credit markets, the bulk of loan applications are denied because the information submitted is incomplete or incorrect. This happens more often for entrepreneurs that do not belong to the male white mainstream group and one contributing factor is a skills gap between ethnic minority and immigrant groups and mainstream entrepreneurs. Common skills barriers involve business planning and management, and financial literacy. First, many entrepreneurs from ethnic minority and immigrant groups lack experience with formal business plans and have not managed an enterprise before. As a result, they often have poor financial records, which makes it difficult to obtain a loan as these are required by formal lending institutions. Second, entrepreneurs from ethnic minority and immigrant groups may not have a good grasp of business finance concepts that are key to understanding the risks and opportunities associated with an entrepreneurial venture (e.g. interest rates, time value of money). Third, ethnic minority entrepreneurs also often have little knowledge about where financing can be obtained (Rath et al., 2012).

Institutional barriers

The structure of financial institutions and their operating procedures can also cause a number of problems for entrepreneurs from ethnic minority and immigrant groups. One example is that some forms of microcredit do not allow borrowers to build a credit history, which could be used to help them obtain loans from formal lending institutions at lower interest rates. Building credit can also be important for those who do not have a formal banking history.

Another example is a lack of legislation and regulations in Islamic financing and emerging financial sectors such as peer-to-peer lending and crowdfunding.

Lack of entrepreneurship skills

Entrepreneurs need a variety of skills to increase their chances of launching a successful business venture. These skills include technical skills (e.g. written and oral communication, problem solving, environmental monitoring), business management skills (e.g. goal setting, decision making, finance, negotiation, customer relations) and personal entrepreneurial skills (e.g. risk management, change management, strategic thinking, leadership) (OECD/EC, 2013). Entrepreneurs from ethnic minority and migrant groups often lack many of these skills, particularly competences related to management (Rath et al., 2011). This can be especially true for women from ethnic minority groups.

One area where ethnic minority and immigrant groups can be particularly challenged is in language abilities, which creates a barrier when navigating new regulatory and institutional regimes to launch a business (Rath et al., 2011). Similarly, language difficulties can make it more difficult to apply for loans and start-up capital and to look for business partners. Moreover, the development of customer and supplier relations is more challenging. One way for entrepreneurs from ethnic minority and immigrant groups to get around this challenge is to set-up a business that focuses on customers from the same ethnic group and to seek suppliers that also speak the same language (Rezaei and Goli, 2007; Nkakleu and Levy-Tadjine, 2005). This of course, can be restrictive for the business in terms of growth potential.

Box 7.1. **Competitive advantages for entrepreneurs from ethnic minority groups**

While entrepreneurs from ethnic minority groups face challenges, they also benefit from several competitive advantages. There are certain market opportunities that are closed to indigenous business, particularly where the city, region or country is large enough to allow for markets that can sustain ethnicity-related goods or services. Examples of this phenomenon are observed in several areas of immigrant concentration in large urban areas (Andersen, 2008; Rezaei and Goli, 2007).

The concentration of people from the same ethnic group in certain areas creates some advantages in terms of availability of ethnic customers, employees and community support. Ethnic minority entrepreneurs often have a relatively strong reliance on ethnic resources and especially on co-ethnic employees and often on family members. This is can be advantageous for managing the business because common language and customers among employees can reduce the need for formal management structures. This can allow for more flexibility in dealing with staff and suppliers, often reducing transaction costs.

Migrant businesses also have the advantage of knowing more than one culture. This can be beneficial when internationalising and growing the business in international markets. Often this is most easily accomplished by first generation ethnic minority entrepreneurs who have an intimate knowledge of their parents' culture and the culture of their native country (Light, 2010).

Policy actions to support entrepreneurs from ethnic minority groups

- Policy makers can take actions to address institutional barriers by either directly reducing the institutional burden, or by helping the entrepreneur to better operate within the business environment. Many actions at the local, national and EU-levels are aimed at reducing the regulatory burden for businesses and making services more accessible (e.g. one stop shops). In addition, governments can provide training and facilitate access to business development services to better navigate the institutional environment.
- Loan guarantees and microcredit are common approaches to assisting entrepreneurs from ethnic minority groups in access financing for start-up. A key element of these approaches is to leverage the expertise of the financial sector in the design and implementation of public schemes.
- Training and business development schemes improve the chances of success of entrepreneurs from ethnic minority groups by increasing the entrepreneurship skills and helping them adjust to a new business culture. Language courses can be incorporated to improve the entrepreneurs' integration into society.
- Outreach is one of the greatest challenges when supporting entrepreneurs from ethnic minority groups since many do not trust public delivery agencies. It is therefore critical to partner with community organisations to reach these groups.

Public policy interventions that promote and support ethnic minority entrepreneurship tend to be justified by one or both of the following arguments. First, businesses operated by ethnic minority entrepreneurs make an economic contribution and public policy has a role in mobilising entrepreneurship in all sections of the society, including ethnic minority groups. Second, entrepreneurship by ethnic minority groups can address challenges related to social inclusion and this is sometimes seen as the main rationale for public policy action in this area (Jaegers, 2008).

Public policy that promotes and supports ethnic minority entrepreneurship can take place at different levels: national, regional and local levels. There is considerable variation across EU member states in the extent to which public policy measures have been taken to promote ethnic minority entrepreneurship, reflecting the relative size of ethnic minority populations and differences in attitude regarding the potential contributions of these entrepreneurs to the economy. Most North West EU countries have a national minority policy or integration policy for newly arrived immigrants, as well as policies to support SMEs (Triodos Facet, 2008). But the way in which various countries combine the two, in other words promote ethnic minority and migrant entrepreneurship, is highly variable. In some countries national policies do not distinguish between immigrants and nationals, including France, Greece and Slovenia.

Address institutional barriers

Public policy interventions related to institutions fall into two broad categories. First, policy actions aim to address structural constraints such as regulatory frameworks and the institutional environment. These regulatory and structural interventions need to be considered in the wider context of immigration and integration policies because in many cases the issues are not specific to business, but can nevertheless have a significant impact on entrepreneurship. The issues have more to do with settling and becoming part of a new society, which includes understanding and responding to institutional requirements (e.g. acquiring a business license and registering with the tax authorities). For some ethnic minority entrepreneurs this may be a new experience despite the fact that, in their home country, they may have experience of running a business for some years.

The European Union has taken several broad actions to address some of the challenges faced in the institutional and regulatory environment. One example is the Small Business Act for Europe (SBA), which is designed to "make life easier" for small businesses in the EU. Entrepreneurs from ethnic minority and migrant groups stand to benefit from such actions as the "Think Small First" principle aims to reduce administrative burdens and make them more competitive (EC, 2008). Specific actions under the SBA that are relevant for entrepreneurs from ethnic minority and migrant groups include improved access to finance through strengthened loan guarantee schemes and improved access to venture capital, as well as "credit ombudsman"-type solutions that aim to facilitate the dialogue between SMEs and credit institutions. One-stop shops have also been created to help SMEs apply for European, national and local grants. The SBA also aims to improve networking and competition rules so that SMEs can better compete in global markets and improve cross-border payment systems and increase access to public procurement so that SMEs can better compete within the EU (EC, 2013).

In addition, many relevant policy actions to address institutional barriers for ethnic minority and migrant groups are taken at the local-level. The majority of public policy interventions at this level take the form of information provision, business advice and increasing the supply of business property, there are some examples of cities where public bodies are active in seeking to reduce institutional barriers. Where this occurs it tends to take the form of reducing regulations, reducing urban planning restrictions, and encouraging and facilitating the formation of ethnic minority business associations, which can be a strong influence on increasing the ability of ethnic minority entrepreneurs to respond to institutional deficiencies.

The second set of measures to address institutional challenges aims to improve the personal capabilities of ethnic minority entrepreneurs, allowing them to better understand and operate within their institutional environment. Such public policy actions are more common at a city-level as local authorities have more freedom to offer support and take an active role in this area. In Dortmund, Germany, for example, the city has a number of support offerings including *Förderung ethnischer Ökonomie*, which provides consulting and exporting support for ethnic minority entrepreneurs (Fischer-Krapohl, 2010).

One important policy action is to increase awareness about entrepreneurship within ethnic communities. Certain ethnic minority groups have a long history of commerce in their culture, but others do not and targeted promotional campaigns can make a positive impact. Another important awareness raising effort for governments is to promote ethnic minority entrepreneurs within their city, region or country, to highlight their value to the economy and to raise awareness about their contributions to society. An example of one approach that can be used is an awards ceremony. For instance, in Nottingham, United Kingdom, the First Enterprise Business Agency, a non-profit organisation, operates an annual award ceremony for ethnic minority businesses. The event has an annual budget of GBP 25 000 (approximately EUR 29 300) and is held in partnership with local authorities and private sector sponsors. The aim of the ethnic minority business awards is to promote ethnic minority businesses to the community and to motivate ethnic minority entrepreneurs by showcasing role models.

Other policy actions that aim to help ethnic minority entrepreneurs navigate through the institutional environment include training, information services and business advice centres. Training can provide ethnic minority entrepreneurs with skills to help them understand the business and regulatory environment, increasing their chances for success. Local governments can offer targeted training for ethnic minority entrepreneurs, which is typically delivered in partnership with organisations that are embedded in various ethnic communities. This is discussed in greater detail later in this chapter where policies to address skills are covered.

In addition, information services and business advice centres can offer support on a more ad hoc, informal basis. Although many of these services are generic and apply to all entrepreneurs, governments can make efforts to target these services to ethnic minority groups. Business support services are discussed in more detail later in this chapter. Alternatively, policy makers can support business associations to help promote and support ethnic minority entrepreneurship.

Improve access to finance

Loan guarantees

Loan guarantee schemes, also known as credit guarantee schemes, are commonly used to help entrepreneurs from ethnic minority groups to secure financing. These schemes are increasing used in public policy because they leverage private sector expertise and resources through the use of banks. These loans are backed by public guarantees, which lower the credit risk. There are three principle approaches to loan guarantee schemes (EC/OECD, 2014):

- Public schemes, which are either managed directly by the government or implemented in a more decentralised manner through the banking system. The first approach, which is more common of Eastern Europe (e.g. Slovenia and the Slovak Republic), tends to see a stronger involvement of government agencies in the decision-making process about the provision of the loan guarantee. The second approach, used by the United Kingdom and the Netherlands, is implemented through the banking sector with little if any direction on how the guarantee scheme is managed and for which loans the public guarantee is used.
- Public-private schemes, which involve both public and private sector actors. The government's role can be more or less active, for example in facilitating the creation of the programme. Irrespective of the degree of public sector involvement, the management of the programme (e.g. risk assessment and monitoring of the loan) is left to the lending institutions. An example of more active involvement is given by the Hungarian government, which sought the involvement of both lending institutions and SME associations when it launched its national guarantee fund.
- Private schemes generally operate through bottom-up mutual guarantee associations that group entrepreneurs from the same local business community or from the same industry. In this type of scheme, it is the mutual guarantee associations that provide a first assessment of the member who intends to borrow and that are involved in the recovery of losses in case of default. The final lending choice, nonetheless, remains with the bank, which carries out its own full credit risk assessment. The role of the government is limited to setting the regulatory and legal framework and supplying

financial assistance, which can take the form of direct funding or counter-guarantees. An example of private loan guarantee scheme is Italy, where the government provides a sizeable last-resort counter-guarantee to banks on top of first-level guarantees offered by local mutual guarantee associations (i.e. called *confidi* in Italy).

A key characteristic with all three approaches is that the final lending decision is left with banks because they still carry a part of the default risk, which is typically between 20% and 50% of the loan amount. While loan guarantee schemes often target entrepreneurs from ethnic minority and migrant groups, these potential clients still risk being excluded by loan guarantee schemes if the private sector lenders do not deviate from their typical client profile.

Loan guarantee schemes for ethnic minority and migrant groups can be supported by the EU through the Structural Funds. Two examples from the previous programming period are the JEREMIE (Joint European Resources for Small and Medium-sized Enterprises) and JASMINE (Joint Action to Support Micro-finance Institutions in Europe) initiatives. JEREMIE is a joint initiative by the European Commission and the European Investment Fund, which promotes the use of financial engineering instruments to improve access to finance for SMEs with EU Structural Fund interventions. Within this broader initiative, JASMINE was launched by the European Commission, the European Investment Bank and the European Investment Fund. It aims to disseminate good practices in the area of microcredit lending, support the development of microcredit providers and to help these intermediaries become sustainable and viable operators on commercial terms. Originally, JASMINE offered both financial and non-financial services to micro-finance institutions but it now focuses on delivering technical assistance to microcredit providers and financing is made available through the European Progress Microfinance Facility, which is part of the Employment and Social Innovation (EaSI) programme. EaSI is a financing instrument at EU-level that promotes quality and sustainable employment and social protection, and aims to combat social exclusion, poverty and improve working conditions by supporting the modernisation of employment and social policies, job mobility and access to micro-finance and social entrepreneurship.

In designing loan guarantee schemes, national and regional governments should use the expertise of private sector lending institutions for credit risk assessment. Lenders, on their part, should continue to carry a small part of the default risk (e.g. 10-20%), so that they have an incentive to apply due diligence in the assessment of loan applications. Maximum default rates should be set beforehand to make credit guarantee schemes financially sustainable for public finances.

Microcredit

A second policy approach to supporting access to finance for business start-up for entrepreneurs from ethnic minority and immigrant groups is to improve access to microcredit. In the European Union microcredit typically refers to loans of less than EUR 25 000 for micro-enterprises employing less than 10 employees, self-employed or unemployed and inactive people who want to move into self-employment but do not have access to traditional banking services (EIF, 2009).

An example of an area with a successful microcredit scheme for ethnic minority entrepreneurs is in Aarhus, Denmark. The region offers microcredit of up to EUR 7 000 and each municipality can implement and manage the microcredit scheme as it sees fit. The scheme operates with four phases. First, applicants are required to submit business plans and those with potential are selected for an informal consultation meeting, which is the second phase. During this meeting, a business adviser and the client informally discuss their "partnership" and areas where the client could use support and training. The third phase is comprised of training where the client takes courses on financing and business management over 2 to 4 months. The final step is a seminar where the clients and business advisors discuss the preparations for business launch and the business advisors decide which clients are the most ready for business creation and offer them microcredit to help them launch (Goli and Rezaei, 2013). This example illustrates that many microfinance schemes also provide integrated business development services and often entrepreneurs are required to seek this support as a condition for receiving the finance.

In addition to providing financing, more than 70% of microcredit lenders also provide business support and other financial services (e.g. consumer credit, insurances) (EMN, 2010). The business model of microcredit institutions, therefore, relies on a combined product offer and the ability to charge higher-than-market interest rates, and loan application fees to clients that cannot access the formal banking system. However, the sector still largely depends on public support to cover both operational costs and the loan capital, as shown by the 63% average repayment ratio of microfinance institutions surveyed by the European Microfinance Network (EMN, 2010).

Additional examples of microcredit schemes for ethnic minority and migrant entrepreneurs can be found in Boxes 7.2 and 7.3, which describe the *Szechenyi* Entrepreneurial Programme for Roma people in Hungary and the EXZEPT Development Partnership in Germany. The Hungarian demonstrates the effectiveness of using programme monitoring to adjust the approaches taken to identifying and targeting clients. The EXZEPT example relies on a network of one-stop shop model has been successfully implemented in three cities.

While it may seem like microcredit is ideal for entrepreneurs from ethnic minority and immigrant groups, the most recent EMN survey (EMN, 2010) suggests that only 41% of its members have clients who are ethnic minorities and migrants. This underlines the potential for policy makers to do more to support access to microcredit for ethnic minority entrepreneurs.

Islamic finance

Within the EU, the Muslim population is currently 19 million people, or 3.8% of the EU population, and growing (Pew Forum, 2011). This population is not spread evenly throughout the EU. Western and Northern Europe, particularly, the Netherlands, Belgium, France and the United Kingdom tend to attract more Muslim migrants and have larger populations of second-generation Muslim Europeans.

Islamic finance refers to financing tools that comply with Sharia-law, which forbids the charging of interest rates. With a recent surge in the number of Islamic financing institutions worldwide, there is potential for Islamic financing to help promote and facilitate entrepreneurship within the Muslim community.

Box 7.2. *Szechenyi* Entrepreneurial Programme (SEP), Hungary

Description: The *Szechenyi* Entrepreneurial Programme (SEP) aims to encourage the integration of Roma people into Hungarian society. Specifically, it provides financial support to improve the market position of Roma enterprises and to increase the social inclusion of Roma people.

Problem addressed: The Roma people face social exclusion from the mainstream of society in Hungary, but as well as a number of other EU countries. More specifically, Roma people often face discrimination and are not supported by mainstream support providers. This programme has been developed to enable the Hungarian government to provide support dedicated to the needs of Roma people and delivered in a way that is accessible to them.

Approach: The initiative provides financial support, which is delivered through a tendering procedure. It is intended to address the investment needs of Roma businesses and those employing Roma people. The programme is implemented by the Hungarian Ministry of Economy and Transport and covers the whole country. The scheme also offers non-financial support, including information services and networking events.

Impact: The Hungarian Ministry of Economy and Transport report both an increase in self-employment among Roma populations and employment of Roma in non-Roma enterprises. Between 2003 and 2007 a total of 332 grants (worth a total value of EUR 4.6 million) were distributed and an estimated 400 new jobs were created.

Conditions for success: Part of the reason for success of the programme has been the willingness of its managers to be flexible and to redefine eligibility criteria as the programme was implemented. The offer of both financial and non-financial support is advantageous because these two aspects are mutually supportive. Regular monitoring activities have prevented a misappropriation of grants, which has been a problem with other similar schemes.

Some of the major Islamic finance investment vehicles are the following (Molenaar, 2013):

- Profit sharing (i.e. *mudharabah*): The investor supplies the entrepreneur with funds and receives a return, based on an agreed profit-sharing ratio. This principle can apply both to bank deposits and business financing. Any losses are suffered by the provider of capital.
- Cost plus (i.e. *murabahah*): This transaction involves the sale of goods at a price which includes a profit margin agreed by both parties. However, in *murabahah*, sellers must let buyers know the actual cost of the assets at the time of the initial agreement.
- Joint venture (i.e. *musharakah*): This refers to a partnership in which profits will be shared between the borrower and lender based on an agreed ratio which may not be in the same proportion of the invested amounts. Any losses occurred will be shared according to the original ratio invested by each partner.
- Agency (i.e. *wakalah*): This is a contract whereby a person (principal) asks another to act on his/her behalf for a specific task. The person who takes on the task is an agent who will be paid a fee for the service.
- Interest-free financing (i.e. *quard*): financing is given for a fixed period on a goodwill basis and the borrower is only required to repay the amount borrowed. However, borrowers may pay an extra amount as a way to thank the lender if they wish so.

Among EU countries, Islamic finance is the most advanced in the United Kingdom, with the Islamic Bank of Britain standing out as the only fully Sharia-compliant bank in the country. As the number of banks that introduce Sharia-compliant products increases, Box 7.3. **The EXZEPT Development Partnership, Germany**

Description: The EXZEPT Development Partnership, based in the German state of Hessen, is targeted at ethnic minorities and other potential entrepreneurs from disadvantaged groups. The scheme offers better access to microcredit and business advice.

Problem addressed: This initiative recognises that members of disadvantaged groups are under-represented in the client base of business support centres, which affects their ability to raise finance. EXZEPT was established to address this gap. At the outset the Partnership undertook some basic research to identify the gaps faced by ethnic minorities, with regards to business support. Challenges for ethnic minority and migrant entrepreneurs identified were difficulties in raising small sums of finance (less than EUR 25 000) and that existing support structures, such as Chambers of Commerce, prefer to work with entrepreneurs with a track record, which can be difficult for migrants to demonstrate.

Approach: The approach involves two parallel strategies. One for finance and one for business support. The partnership has established a "one-stop shop" which co-operates with the German Micro-Finance Institute and the German quality circle for business support. In addition, EXZEPT is part of the transnational partnership, which enables benchmarking with other EU countries. Staff of business support initiatives working with migrant groups in four large German cities were interviewed to help identify the key success factors among new business start-ups by members of ethnic minority groups. Hence, one of the strengths of the EXZEPT Partnership is the attempt to make the approach evidence-based.

Impact: The EXZEPT one-stop shop model has been successfully implemented in three cities, supporting 2 500 people in 2003-04. Although it has developed a good reputation for start-up support, it is in the field of micro-finance where the experience of EXZEPT makes the strongest impact. EXZEPT has also been involved in benchmarking studies of micro-lending initiatives in Germany and in other countries. The partners designed and implemented a four-point system for assessing the loan application: personality check, concept check, market check, and risk check. Following a successful application there is a clearly defined system of aftercare, consisting of individual and group coaching and self-evaluation.

Conditions for success: The EXZEPT model uses and integrated approach that includes financing as well as business advice, which reinforce each other and increase the chances of success. The approach is supported by one-stop shops that are firmly embedded in the existing networks of regional actors, thereby helping to build acceptance among the traditional support institutions. Moreover, the systematic and documented approach helps others learn from their experience.

government has a role in educating both the supply and demand sides of the market. Muslim entrepreneurs may be unaware of new Sharia-compliant products in the credit market, while financial institutions that offer these products need to be ushered into working with entrepreneurs.

While Islamic finance is growing and offers great potential to Muslim entrepreneurs, policy makers should be aware that recent experiments to introduce Islamic financial products have not always been successful in the EU. A key factor that is often overlooked when governments are considering introducing or supporting Islamic financial products is that they need to be demand-driven. There is no evidence to suggest that the introduction of the products can stimulate entrepreneurship activities (Stressman Foundation, 2012).

Improve entrepreneurship skills

Training

Many cities and regions across the EU offer courses and workshops in business start-up and business management for entrepreneurs from ethnic minority groups. These courses cover the typical issues that would be expected in training for any entrepreneur, including planning, taxation and human resource management. The difference in training for ethnic minority entrepreneurs is that these offerings typically include modules on business culture and societal issues. Often these training sessions are offered in various languages to make them attractive and relevant to ethnic minority entrepreneurs. One unique approach to offering training for ethnic minority groups and migrants is Getting start camps in Denmark (see Box 7.4). This approach uses 2-day camps to deliver training and help with network building.

In addition to training on business start-up and business management, some cities offer language courses that can help ethnic minority entrepreneurs integrate into their community. For example, in Terrassa, Spain, the municipality offers a Catalan language course, which is used by the Chinese Community (Goli and Rezaei, 2013).

Business development services

Business development services cover a wide range of advisory services that address the developmental needs of both entrepreneurs and their businesses. (For a more in-depth discussion of business development services, please refer to Chapter 8). Examples of such services include consultancy and business advisory services, coaching and mentoring. See Box 7.5 for a description of *Cre'Action* in France which was a mentoring programme for young migrant entrepreneurs from North Africa. The ESF-funded programme used entrepreneurship as a mechanism to support the integration of these young migrants into French society. Other examples are described in Part III of this book, including Stebo in Belgium and Best Form – Boosting Entrepreneurship Tools for Migrants in Portugal which offer coaching and training for migrant entrepreneurs.

Policy makers also need to be aware of particular issues rather related to delivery of these support services to ethnic minority entrepreneurs. Evidence from Germany shows that two barriers to accessing business development services by ethnic entrepreneurs are cost and lack of trust in business consultants (Leicht et al., 2012). The cost issue can be overcome by providing free or low-cost services and this approach is common in the EU. The second issue, trust, is more complex because it takes time to establish trust between service providers and the community. There is often a gap in the ethnicity of business advisors relative to their target clients in that business advisors do not reflect the ethnic make-up of their client groups, which contributes to low levels of take-up by ethnic minority entrepreneurs. These issues are even greater for women entrepreneurs from ethnic minority groups. Evidence from Germany suggests that ethnic minority women prefer specialised consultancy services (Leicht et al., 2009) but caution is needed on this point. Policy makers always run the risk of reinforcing exclusion by providing targeted support services.

Box 7.4. **Getting started camps, Denmark**

Description: The goal of Getting started camps for ethnic women entrepreneurs (January 2009-April 2010) was to make refugee and immigrant women aware of the possibility of becoming self-employed. The project was conducted with the support of the Ministry of Refugees and Immigration, and Integration and Copenhagen Municipality. The project targeted two groups: 1) the more resourceful women, for example, immigrants from Western countries that lack the final push to realise their entrepreneurial skills, and 2) the less resourceful women, including from disadvantaged areas, lacking both confidence and formal skills.

Approach: The project relied on a co-operation between municipal and national governments, and key private sector companies who provided some funding for competitions prizes. Outreach was an important first activity of the project. Efforts were made to disseminate information about opportunities for self-employment and the available assistance in Copenhagen. Information sessions were held in housing areas with a high concentration of ethnic minority and migrant groups. In addition, the printed material was distributed to relevant clubs, associations and community groups.

The camps were used to deliver an intensive 2-day course on developing creative ideas, solutions, as well as entrepreneurial concepts. The first camp with 45 participants from the first target group, females who were skilled and motivated. The focus was on the development of participants' concepts and business ideas. The second camp was held with 5 participants over 2.5 days and targeted the second target group, i.e. females who were relatively far from becoming economically independent. The training provided in this camp was more basic.

Following the camps, participants who had developed a complete business plan had the opportunity to participate in a business idea competition for a prize of DKK 20 000 (approximately EUR 2 680). Judges were selected from business associations, business consultants and financial institutions. They provided detailed feedback to participants and awarded one prize.

Impact: According to the evaluation of this project, 16% of participating women became self-employed, compared with 3% who were self-employed at the start of the project. While 34% of participants abandoned their plans to become self-employed during the project, 44% indicated that they still intend to do so.

Conditions for success: The project's strong focus on collective activities, including camps, has contributed to creating networks, commitment and confidence among the participating women. Evaluations find that the camp approach to training and the competitive element for financing are effective and should be incorporated into other projects (EVU, 2007; Rezaei and Goli, 2006).

Reaching clients in ethnic minority groups

The most significant challenge for policy makers in assisting ethnic minority entrepreneurs is that there are a number of barriers related to the take-up of business support among ethnic minority entrepreneurs (Ram and Smallbone, 2003). Business support agencies often have difficulty identifying potential clients from ethnic minority groups for several reasons. First, few business support agencies record the ethnicity of business owners that are supported so existing databases are inadequate for follow-up and learning from past experiences. Second, the product-oriented approaches taken by the vast majority of mainstream business support agencies are inadequate for culturally-specific

Box 7.5. *Cre'Action*, France

Description: The French programme *Cre'Action* ("From migration to business creation") aims to support unemployed North African immigrants between the ages of 18 and 30 in business creation by matching them with experienced business owners from their ethnic community. The mentorship programme started in 2002 and was modified in 2005 before it ended in 2007.

Problem addressed: Youth with immigrant backgrounds or immigrants are under-represented among the business start-ups in France. The *Cre'Action* Programme aimed to help young immigrants integrate into French society and create employment for themselves.

Approach: This mentoring programme developed a network of entrepreneurs from North Africa. The use of entrepreneurs from the same ethnic group aimed to make the project attractive to the youth and to build on social capital that exists within the community. The programme had a total budget of EUR 775 000 over 3 years (2002-05). In 2005, *Cre' Action* was replaced by the programme "From migration to creation", which had a budget of EUR 368 400 over the 2005-07 period. Half of the funds of each programme came from the European Social Fund through the EQUAL programme and 40% of the funding came from local governments the remaining 10% from private investors.

Impact: Between 2002 and 2006, 223 potential entrepreneurs applied to the programme. Applicants were generally well-educated, with 76% having at least a bachelor's degree. Among the 225 applicants, 48 were selected into the programme and 25 went on to start businesses. Even though 23 did not create businesses, the mentorship resulted in a positive outcome for many who were able to find a job in paid employment.

Condition of success: Support to business creation provided to youths with immigrant backgrounds relied on relationships built on trust. This allowed for high quality services to be delivered in a face-to-face manner. The managing organisation had more than 30 years of experience working with this community, providing it with an in-depth knowledge of the challenges faced by the youth within this community.

issues which can include language, religion and in some cases, gender. Similarly, a third challenge is that the offerings of mainstream agencies can be irrelevant for businesses operated by ethnic minority entrepreneurs. Fourth, there is plenty of evidence that suggests that there are trust issues related to those delivering support on the part of ethnic minority business owners (e.g. Ram and Smallbone, 2003; Leicht et al., 2012).

The emphasis in terms of the policy response to this challenge must be placed on the development of engagement strategies, which itself defines the role for outreach. By implication, this means that it is not outreach per se, but rather the way that mainstream organisations go about developing the outreach activity. It is important that business support agencies are well-connected with other intermediaries that are dealing with migrant and ethnic minority people since many of the barriers are related to institutions and rooted in legislation.

Therefore, a community-based approach is needed where support and advice is delivered through community networks and mechanisms. A key strength of this approach is that the needs of the community are likely better identified when relevant stakeholders are involved. A "joined-up" community-based approach that emphasises engagement is also important because it provides a basis for improving the trust-base relations. Establishing trust is essential for gaining acceptance in the community and is a necessary first step to attract individual business people. See Box 7.6 for an example from the United Kingdom of how local partnerships were effectively used to reach ethnic minority groups.

Additional evidence about the potential of a community-based approach may be drawn from the experience of the Phoenix Fund in the United Kingdom. Many black and ethnic minority businesses and members of refugee groups do not readily access mainstream support, therefore the approach take relied on intermediaries who had an established trust within the community (Ramsden, 2005). This proved to be successful but this approach is not the most efficient and requires a cost premium because support for clients who are hard-to-reach needs to be intensive, flexible and delivered locally. Flexibility may mean out-of-hours delivery and by advisors with special skills who have been specially trained for working with these clients. Ideally, these advisors have been recruited and trained from within the communities themselves.

Box 7.6. **Community-based business advisors, United Kingdom**

Description: SIED/REFLEX is a partnership led by a local authority. The partners are a group of business support providers. The target group for the initiative is difficult-to-reach entrepreneurs and potential entrepreneurs. In the case of London, the difficult-to-reach groups include Muslim women, recently arrived immigrants and asylum seekers. The common link between these groups is that they are all difficult to reach from the point of view of mainstream business support agencies.

Problem addressed: The SIED/REFLEX partnership is seeking to plug a major gap in support delivery by targeting difficult-to-reach groups which are largely outside the mainstream business support system. The main issue is a lack of trust in the mainstream agencies, associated with a wariness of mainstream business support. While the explanation for these groups lying outside the mainstream has mainly to do with trust and identity, in some cases their support needs go beyond narrowly defined business support. This particularly applies to newly arrived migrants and asylum seekers, who may need more basic help in dealing with institutions within their new environment. How to open a bank account would be one example.

Approach: Advisors within the partnership provide information, consultancy and advice, and assist firms and potential firms in accessing finance. A key goal is to lay the basis for trust-based relationships between business advisors and their clients. This is achieved because the advisors who deliver the business advice and support are recruited from within the communities. At the same time, a key element in the approach is that these advisors are fully trained and accredited on the basis of national criteria.

The community-based business advisors are attached to community institutions which in the minority of cases may be business-related, such as a business club or association. Most of these institutions are community centres or similar institutions which are used regularly by members of a community. As a result, attending a community centre to obtain business advice does not present the psychological barrier that many potential clients face in relation to some mainstream support agencies such as Business Link, perceived very much as a part of the establishment.

Box 7.6. **Community-based business advisors, United Kingdom** *(cont.)*

Resources are distributed to the community organisations which are intended to be a source of stability within the system since individual business advisors may change their job and move on. So it is important that there is an institutional base. The SIED/REFLEX partnership received two sets of EQUAL funding, enabling it to develop over an 8-year period. The second tranche of funding enabled geographical extension of the project to include new boroughs in London.

Impact: The scheme has not been formally evaluated, although monitoring data had to be provided as part of the EQUAL programme. In addition, at the Small Business Research Centre at Kingston University, one of the partners in the SIED/REFLEX partnership was tasked with undertaking some evaluation which was intended to feedback into the programme. Another key institution underpinning the operation of the initiative was the Association of Community Based Business Advice (ACBBA) which was actually created as part of the initial funding. This is important because ACBBA provides the organisation which cuts across the partnership and which, in the period after the funding ended, has been the main organisation looking for additional contracts and to develop the partnership further.

It is an umbrella networking organisation which facilitates sharing of good practice and professional development of business advisors. In making an assessment of impact it is important to keep in mind that the area which the project covered is among the most deprived in the country. Clearly this scheme had impact on client businesses, which numbered more than 1 000 during the funding period, but in addition it has also had some impact on policy and practice.

Conditions for success: Any consortium of networks partners requires strong leadership which in this case was provided by the London borough of Islington, who initiated the project. They were also responsible for drafting the initial application as well as the required monitoring reports. The second condition for success is to secure on-going core funding because institutions like ACBBA have very limited resources of their own and yet they perform a key role in the project, particularly in terms of dissemination of results.

Conclusions and policy recommendations

Members of ethnic minority and migrant groups face a number challenges when setting-up in business. There is evidence to suggest that the institutional environment, in terms of laws and regulations as well as culture and social attitudes, can have a negative influence on entrepreneurship activities because of an unfamiliarity with the institutional environment and also because many migrants to the EU come from low regulation environments. There are also challenges related to accessing finance for start-up and a lack of entrepreneurship skills. There are numerous examples of policy actions at local, national and EU-level that are designed to assist entrepreneurs from ethnic minority groups in each of these areas.

However, the challenge for EU policy makers is often one of effective engagement with members of ethnic minority groups and facilitating access to existing support. Clearly in a situation of low ethnic population density, it is not cost effective to provide dedicated specialist advice. It therefore becomes necessary to consider other options, such as the recruitment of ethnic minority advisors to provide specialist support as part of the offer of mainstream agencies. Agencies dedicated to the needs of minority groups may not be an option in these cases, whereas they are an option in urban areas where the density of minority people is much higher.

Many of the support needs of ethnic minority and migrant entrepreneurs are not specifically related to business. Therefore strong linkages are needed between entrepreneurship support schemes and programmes that are designed to equip newly arrived migrants with the knowledge and skills that make them eligible for citizenship. Similarly, linkages with integration policies are needed to support the inclusion of ethnic minority groups in society.

Key policy recommendations

- Promote awareness about entrepreneurial opportunities and existing entrepreneurship support schemes set up to ethnic minority and immigrant groups. It is important to use local community-based media such as radio stations, newsletters and newspapers and not to promote exclusively through mainstream media.
- Aim to have business support providers that are as ethnically diverse as the demand side (i.e. entrepreneurs). This is important because trust is a key factor influencing the level of take-up of mainstream business support by ethnic minority and immigrant groups. An effective approach is to partner with community organisations.
- Design public policy actions to build on and enhance existing social capital and networks rather than imposing new infrastructures. For example, support the formation of ethnic minority and immigrant business associations which can help to provide a trust-based environment for the provision of business support. In other words, any attempt to strengthen formal institutions would benefit from the enhancement of informal ones.
- Actively proof new regulations that are introduced which have a potential impact on business development to ensure that they do not discriminate against ethnic minority groups or immigrants. In particular, vet regulations for the creation of barriers related to language abilities.
- Ensure that ethnic minority and immigrant groups can access loan guarantees and microcredit programmes by either setting up special sections in mainstream schemes, or by launching new targeted schemes.
- Provide training to improve financial literacy skills among ethnic minority and immigrant entrepreneurs to enhance their chances of obtaining finance in credit markets.
- Provide language training as part of the suite of entrepreneurship training to help ethnic minority and immigrant groups integrate into society and better be able to navigate the institutional environment.
- Improve systematic and comprehensive monitoring and evaluation of policy interventions. It is important to monitor take-up of business support, considering the gender, ethnicity, and migrant status of the client base of public business support agencies at local, regional and national levels.

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