

## Moving Out of the Shadow Economy

Tools and Methods for an Inclusive Entrepreneurship Approach

**EQUAL**

EVU // Knowledge Centre for Ethnic Entrepreneurship // Copenhagen // Denmark

# Moving Out of the Shadow Economy



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Further information on the partnership and the national EQUAL-programs can be found at [www.evu.dk](http://www.evu.dk) or [www.buildingentrepreneurship.com](http://www.buildingentrepreneurship.com).



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## 1. Introduction

Entrepreneurship is increasingly recognised as a possible way for ethnic minority groups to overcome social exclusion and to gain a foothold in the labour market. Becoming self-employed can serve as an alternative to participation in the shadow economy, but in reality many immigrant entrepreneurs, due to social, cultural and economic barriers in the formal economic sector, are funnelled into the informal economy. Once enmeshed in the shadow economy, becoming a successful entrepreneur is not easy. It means a double set of barriers for many ethnic minority groups, who are already experiencing social exclusion and prejudice and who also lack formal qualifications, training and capital. To ensure a greater rate of success among disadvantaged and socially excluded minorities, a more inclusive approach is needed to stimulate entrepreneurship and provide entrepreneurship support.

This publication treats the growing problems of social exclusion experienced by ethnic minority groups participating in the informal economy. It presents some examples of methods and tools aimed at supporting inclusive entrepreneurship among ethnic minorities and other social excluded groups. These methods and tools can ease their integration into formal economy and mainstream business life and society. The publication is based mainly on cases and experiences from the Transnational EQUAL partnership 'Building Entrepreneurship' consisting of four national programs, all working in the field of inclusive entrepreneurship

### 1.1. The growing challenges of the informal economy

A growing informal economy, understood here as economic activities and market incomes not controlled by formal societal institutions, is a complex problem increasingly confronting most EU countries. The informal economy results in lost tax revenues, unfair competition and unregulated, poor working conditions.<sup>1</sup> Minorities and especially migrants and refugees are often accused of playing a major role in the growing informal economy because they have

limited access to mainstream jobs or are unable to start up a formal enterprise due to lack of training, network, language skills, cultural knowledge and/or capital. Though studies in Denmark<sup>2</sup> actually show that the vast majority of informal activities in economic measures are carried out by native majority population, participation in the informal economy often has the most serious and negative consequences for disadvantaged minorities, especially regarding migrants and refugees. Minority participation in the informal economy very often results in further economic and social exclusion from the mainstream labour market or business life, thus hindering their integration and participation in mainstream society. For both employees as well as the self-employed, informal jobs tend to be unskilled, insecure, low paid, and offer few possibilities for advancement or training. For the self-employed, the growth potential of their businesses, if involved mainly in the informal sector, is even more limited. Participation in the shadow economy can also result in moral hazards and in negative coverage in the media, the result being increased prejudice against minority groups.

Participation in the informal economy can provide capital and training sufficient to ascend the first steps on the ladder towards full integration in the mainstream economy. For most disadvantaged minorities, however, the reality is that they become trapped in the shadow economy. Many of these people know they are working on the fringes of society, but they feel they have no alternative but to pursue informal economic activities. The informal economy is often their only way to make ends meet due to the many obstacles to entry into the mainstream labour market or business life. It is thus increasingly important to engage in positive dialogue with groups enmeshed in the informal economy and to develop and disseminate programs, methods and tools specially targeted toward disadvantaged minorities. Strategies such as inclusive entrepreneurship can ease their difficult transition from informal to formal economy and secure their social inclusion.

### 1.2. Building entrepreneurship for all

The Transnational EQUAL partnership Building Entrepreneurship has been established on this background. Its purpose is to open up entrepreneurship to all by sharing and transferring knowledge and the practical working experience of inclusive enterprise development support. The project seeks to reduce social exclusion and open up the enterprise development process to people who are either not participating in the formal economy or not benefiting from it. The partners comprise four national EQUAL funded programs in Denmark, England, Spain and Hungary. In SIED and EVU's Knowledge Centre for Ethnic Entrepreneurship, the English and Danish partners, the focus is on outreach business advice specially targeted to ethnic minorities, Barcelona Activa from Spain is using micro-credit programs to support a diverse target group of potential entrepreneurs, while in Hungary, the Bridge program is helping the discriminated and socially excluded Roma population to gain access to the mainstream economy by helping them to set up social enterprises.

This report takes its point of departure in these three different though related methods of opening up entrepreneurship to all. Using cases from the national EQUAL programs, it explains how these programs function. The first chapter is about outreach business advice. It compares the community-based model used by the English partner, SIED, and the outreach business advice service offered by a mainstream advisory agency, as is the case in EVU, Denmark. The following chapter discusses micro-credit programs combined with professional business advice and monitoring. The fourth chapter demonstrates how social enterprises are not only capable of giving people a formal income and a meaningful job but can also provide the necessary formal training so that workers can enter the ordinary labour market or even become entrepreneurs themselves. In the final chapter a list of policy recommendations on how to build an inclusive and well working entrepreneurship support structure is presented.

<sup>1</sup> *The informal economy threatens to worsen working conditions.* Newsletter no. 3 2005, The National Institute for Working Life SE-113 91 Stockholm, Sweden.  
*Enlarged Europe under threat from the informal economy.* Interview with Zdenek Malek, President of the Central and Eastern European Trade Union Council. ICFTU Online 03-11-2003.

<sup>2</sup> *The Shadow Economy in Germany, Great Britain, and Scandinavia.* Introduction to research about the shadow economy by Claus Larsen from the Rockwool Foundation made at the "Building Entrepreneurship" workshop in Copenhagen February 2006. Presentation available at [www.buildingentrepreneurship.com](http://www.buildingentrepreneurship.com).

*Handelserhvervene og den sorte økonomi. Handelskartellet i Danmark 2004.*



## 2

## Outreach and community based business advice

EVU and SIED are some of the leading agencies/projects offering outreach business advice to immigrants and ethnic minorities. Compared to mainstream business advisory services, the targeted advice has shown itself to be more effective in reaching immigrant entrepreneurs as well as already self-employed immigrants, helping them to enhance their possibilities to set up and develop sound businesses that can compete in the formal sector.

EVU is a non-profit business support agency in Copenhagen, Denmark, offering free publicly-funded advice to entrepreneurs and small and medium-sized enterprises. The special outreach advice carried out by EVU's Knowledge Centre for Ethnic Entrepreneurship is a part of the EQUAL funded project 'Development and Integration of Immigrant Businesses in Odense, Aarhus and Copenhagen', thus covering Denmark's three main cities. SIED, also using the outreach method, is an EQUAL-funded project led by the London Borough of Islington in cooperation with several local authorities across London, Ngo's, private sector business support services and more than 28 minority ethnic community groups. As will be seen, EVU and SIED represent different approaches to the outreach method. SIED's advice services are based on grass-roots community associations, whereas EVU is an integrated part of the mainstream national business support system. Here we will examine the background for setting up projects offering business advice specially targeted to immigrants and ethnic minorities.

### 2.1. The background for offering outreach business advice

In most EU countries, especially in the urban areas, immigrant or ethnic entrepreneurs have played a major role in the post-industrial renaissance of small businesses. In addition, many immigrant entrepreneurs employ co-ethnics or other immigrants and minorities, making the immigrant businesses an important labour market for ethnic minority groups and, hence, a crucial factor for their integration and inclusion in mainstream work life and society. However, it is also the case that immigrant entrepreneurs on average tend to be less successful compared to entrepreneurs from the native majority population. Immigrant businesses face more and greater obstacles to success. Lack of capital, in-

sufficient qualifications and poor knowledge about business culture, market structures and regulations in the host country lead most immigrant entrepreneurs to concentrate in the lower end sectors. These sectors, while they have low entry barriers, are also labour-intensive, their added value is marginal and competition very fierce, often forcing entrepreneurs to carry out business activities in the shadow economy. This hinders consolidation and growth, resulting in the creation of low paid, insecure, dead-end jobs for the entrepreneurs as well as their employees and exacerbating their socioeconomic exclusion.<sup>3</sup>

Even though they are clearly in need of professional business advice, immigrant entrepreneurs rarely use the services offered by mainstream business support systems. Many immigrants are not accustomed to using professional advisors outside their immediate social network, may not be aware of their services, or may lack confidence in public institutions and agencies. Instead, they seek advice from friends and relatives with entrepreneurial experience, resulting in a vicious circle where incorrect or outdated knowledge keep on circulating among immigrant entrepreneurs. EVU's and SIED's projects offering outreach business advice targeted toward immigrants and ethnic minorities should be seen in this light. They are an attempt to fill in the gap between immigrant entrepreneurs' great need for professional, targeted and 'tailor-made' advice and mainstream business support systems lacking capability of delivering these special services.

### 2.2. What is outreach business advice?

Since most ethnic minorities do not seek out the offices offering mainstream business advice, the goal of the projects has been for the business advisors to seek out the immigrant businesses by offering their advice on location. Ayad, one of the outreach business advisors from EVU puts it this way:

*"To advise immigrant entrepreneurs, you have to come to their business and offer your advice there. Many of them don't have the tradition of using professional advice. Some of my customers have even asked me what business advice is? Others don't have the time to leave*

*their shop. They work alone, have long hours and do not make enough money to pay for a replacement= while they are away."*

Like most of the other business advisors in EVU's Knowledge Centre for Ethnic Entrepreneurship and SIED, Ayad has himself an immigrant background. This means that he has a deep understanding of immigrants' and ethnic minorities' special problems and can use his cultural and language skills when working with people from his own region. The common immigrant background also seems to facilitate the needed relation of trust between advisor and entrepreneur. It is this combination of outreach and intercultural methods that enable EVU and SIED to reach entrepreneurs from socially excluded ethnic groups who would normally be outside the orbit of mainstream business advisory services.

### 2.3. Mainstreaming businesses - Facilitating the move out of the informal economy

Most immigrant entrepreneurs start operating within the shadow economy because they lack technical knowledge and training about how to run a mainstream business. This means that advisory service must first of all provide them with information about the taxation system, laws and regulations relevant to their sector, helping with accountancy and contracts, and improving contact and communication between authorities and the immigrant entrepreneur to avoid misunderstandings and ensure cooperation. In the long run, the outreach business advice is about development, improvement and mainstreaming of the immigrant businesses, so they will be capable of competing in other ways than making sales and services informal. Many immigrant businesses, as an example are utilized only by other co-ethnics. The ethnic-niche gives them a competitive edge during start-up, but at the same time restricts the customers base to a limited group. This hinders consolidation and growth, and immigrant entrepreneurs rarely have sufficient insight into the marketing preferences and tastes of the native majority to reach this larger and also often wealthier customer group. By helping immigrant entrepreneurs target their business, products and services to the majority population, their growth potential can be increased, making informal economic activities less necessary and attractive.

For those immigrant entrepreneurs managing a business with reasonable turnover but still partly operating in the shadow economy, the task is to enable them to see the advantages of participating in the formal economy:

*“It’s about making them realise the advantages of formalising their business. That formally earned money can more easily be invested in real estate, improvements in the business and in the unemployment insurance system. They’ll also be able to obtain loans and credit at the bank. At the same time, they will feel more like good citizens participating and supporting society and stop living in constant fear of being caught by authorities. Many ethnic entrepreneurs are simply not aware of these advantages”*,

Heidi Wang, outreach business advisor, EVU.

Since immigrant businesses in most EU countries are concentrated in a few sectors, such as retail and catering, in which there may be excessive competition, advice about changing sector/type of business is also important for ensuring more economically sound immigrant businesses. For prospective entrepreneurs, the task is to make them realise the problems and limitations of the “traditional” immigrant business sectors and to encourage them to create more unique business concepts in alternative sectors. When working with socially excluded groups such as immigrant minorities, it is important to focus on building up self-confidence. Many immigrants simply do not believe that they can become successful entrepreneurs in the mainstream economy, and all too few have the courage to start up a unique business in a new or different sector.

It is not the goal of business mainstreaming to make immigrant businesses into a mirror image of native businesses. Research on successful immigrant entrepreneurs<sup>4</sup> actually shows that there is great commercial potential in diversity and in entrepreneurs who actively use their different cultural, ethnic or social backgrounds in building up their businesses. Business advice to ethnic minority entrepreneurs seeks to enable them to manoeuvre legally and confidentially through the maze of laws and regulations as well as to negotiate the market structures and the many unwrit-

ten rules of local business life while using their existing resources, such as their cultural and ethnic background.

Some cases from EVU and SIED can serve to illustrate how outreach business advisors work and the results they achieve from their special approach:

### **Case Denmark: Getting the right start**

Ali came to Copenhagen, Denmark from Iraq in 2002 with his wife and 3 children. It was not easy for him to find employment, but in the end he managed to get an informal half-time job in a Middle-East style restaurant. After some months Ali realised that it was almost impossible to make ends meet with a half time job and a family to care for, so he decided to start up a small grocery store. He soon located a small shop in a well established shopping street in Copenhagen that he could take over. While preparing to buy the shop, he had many doubts and questions about the right way to open up the business in Denmark. Nobody in his network was really able to answer his questions, and his Danish was not good enough to read information pamphlets and letters from the authorities. One of his friends, who owns and manage a pizzeria, advised him to call EVU’s Knowledge Centre for Ethnic Entrepreneurship. He himself had once been visited by one of EVU’s outreach business advisors in his restaurant, and though he had never thought of seeking business advice, he had been very satisfied with the service and advice he got. Ali, who really wanted to get a good start, so decided to contact EVU:

*“When I talked to the EVU business advisor, he told me how to register my business in the right way, and that I needed to pass a special test to get a licence to sell food items. I said to him that I would open my shop first, and then in time get all the right licenses and registrations. The business advisor immediately told me that this was a really bad idea because when doing business in Denmark, it is best to get the right start and obtain all the needed licences before starting up. He then helped me get the necessary knowledge about safety, hygiene and other important subjects so I could pass the test and get my license.”*



The outreach business advisor also visited Ali in his store several times to teach him how to do the daily accounts, tell him about the Danish taxation system, how to make the obligatory report to the food authorities and how to design his shop according to Danish food regulations.

*“Today I’m doing quite well. The advice I have got from EVU has been very important helping me getting the right start. I knew nothing about laws and legislations in Denmark, and I was not able to understand letters from the authorities. Luckily, EVU’s business advisor was able to explain every thing to me - and both in Danish and Arabic if needed”.*

### Case UK: From welfare benefit to self-employment

Husband and wife, Ignatius and Apollania are originally from Namibia. Since moving to the UK both sought to increase their chances of employment by undertaking studies and updating their skills.

In 2001, both were invited to attend an event ‘Friends of Namibia’ organised by the Namibian consulate. Apollania decided to take some handmade baskets and jewellery from Namibia to show delegates their cultural heritage. It was an instant success. Apollania and Ignatius felt that this was a potential business opportunity but also wanted to promote fair trade among the Namibian craftspeople. Apollania knew that

*“many corporate companies from developed countries were exploiting the craftspeople by paying them pennies without any consideration for the time and skill used to produce their crafts”.*

They registered their business ‘Omukongo’ as a social enterprise in 2002 and then sought advice to start-up their business. They used mainstream services such as Business Link who signposted them to other agencies, but the support they had received was fragmented and unclear. They started to use the business advice service within

UCKG. An ACBBA member and part of the SIED project. The advice and support they received included help with writing a business plan and signposting them to relevant networking events. Their main barriers to starting up a business were lack of access to finance and the decision to move from benefits into self-employment. Their community based business advisor, Charles believes that when giving advice to clients it is important to take into consideration their priority which in this case is looking after their child:

*“Business advice involves giving clients the tools including information about the risks and benefits of moving from welfare benefits to self-employment, but the decision to make that change must come from the client themselves”.*

Apollania contacted four projects in Namibia which work mostly with women, including the ‘Nye-kayepumba’ project when translated into the English language means ‘light from cow dung’ or in other words light from nothing. Apollania travelled to the four projects and a few villages to choose handmade crafts such as baskets and ornaments which she exported back to the UK. She had met individual craftspeople and offered them prices which reflected the time and skill invested in producing the arts and crafts.

They were able to self-finance their business to hire storage space and create a website to sell their products online. In October 2006 they were awarded the ‘Black Business Award’ by Black Business Initiative for entrepreneurs within the Southwark borough. They still seek advice and support from Charles and are currently looking for premises to develop their business even further.



## 2.4. Community-based or mainstream outreach advice?

As mentioned, EVU and SIED have chosen different ways of organising the outreach business advice. The following sections present some of the different advantages of the two approaches. The exact organisation and approach that is best for reaching ethnic minorities will of course depend on the type and structure of existing business support system and on the size, type, and organisation of the targeted ethnic minorities. As will be shown below, the two different approaches taken by EVU and SIED fit well into the two different national contexts.

### 2.4.1. The EVU model - outreach advice based on the mainstream support system

EVU has, as mentioned, created a sub-department called 'Knowledge Centre for Ethnic Entrepreneurship', which carries out the outreach advice to ethnic minority entrepreneurs. The EVU is itself a mainstream business support agency, providing advisory services to around 50% of all new entrepreneurs in Copenhagen.

First of all mainstreaming of the outreach method is easier being part of the system you are trying to influence. EVU cooperates closely with the City of Copenhagen and has a board of directors consisting of politicians and representatives from educational centres, labour unions and employers confederations. Hence communication and interaction channels with important stake holders have been institutionalised and have operated effectively from the beginning of the project. As a project carried out within a limited time frame, mainstreaming of the methods and tools is crucial to ensuring outreach business advice in the future. At the same time, the project and its business advisors have had easy access to the great amount of the EVU's general experience and know-how in the field of professional business advice and support.

To be a part of an already consolidated mainstream business support centre also forges credibility, both among the media and politicians and most importantly, among the clients, who are eager to be treated like businessmen and

women instead of immigrants. An EVU counsellor of Turkish origin, remarks that

*"Even though they [the ethnic minority businessmen] do not use the mainstream business support centre, it gives me credibility that I am one of them. My clients seem more likely to believe that I can actually help them when I tell them I am from a mainstream Danish business support agency instead of from a small project for immigrants. Many are simply tired of being treated like problematic immigrants".*

In terms of reaching clients, the community-based model would work poorly in Denmark, where most ethnic community associations are weakly organised and have only a small number of members. Working closely with the very small ethnic associations in Denmark would also create the risk of not being able to link up with the many potential ethnic minority clients who are not connected to any ethnic association.

### 2.4.2. Community-based business advice: the UK example

The SIED project utilizes a business support model developed within another EQUAL-funded project for supporting ethnic minority businesses and entrepreneurs - REFLEX. Key to the model is the direct involvement of community organizations and the provision of a high standard of support to enterprises.

The notion that a new initiative can make an impact only by ignoring existing organisations, resources and connections is a persistent flaw in many business support and regeneration programmes. This is unfortunate, as this concept is probably a major factor in explaining the failure of many initiatives. The starting point of the REFLEX model is completely opposite to the above notion, in that it acknowledges the existence of organisations with a track record of supporting different communities. The emphasis is on working with existing community organisations and existing networks and developing their capacity, thus enabling them to advise businesses created by their communities.

SIED enables organizations to employ Community-Based Business Advisors and to develop their capacity to support enterprises and entrepreneurs. Professional development ensures that community based business advisers achieve the same professional accreditation as mainstream business advisers.

DAY-MER, a Turkish and Kurdish community centre involved in the SIED project, summarizes their experience in the following way:

*"This project has brought Day-Mer into a completely different field of work. It has helped to begin the long process of recognizing the contribution of Turkish and Kurdish businesses to the overall economic activity of the Boroughs of Islington, Hackney and Haringey. It has placed the community centers at the heart of that process of recognition. The business world operates on a different plane to the 'social enterprise' of community centers. This project has helped to bring a field of professional output-driven work to this sector."*<sup>5</sup>

The strength of the Community based Business Support is that business advisors can utilize the networks, communication channels, trust and cultural knowledge and embeddedness already inherent in the ethnic community organizations. This makes it easier to reach entrepreneurs from ethnic minorities, avoid misunderstandings and build the necessary relations of trust between entrepreneur and the advisor.

<sup>3</sup> Robert Kloosterman & Jan Rath 2004.

<sup>4</sup> Successful Immigrant Entrepreneurs in Copenhagen, EVU 2006. Executive summary in English available at [www.buildingentrepreneurship.com](http://www.buildingentrepreneurship.com). Full length report in Danish available at [www.evu.dk](http://www.evu.dk).

<sup>5</sup> From [www.sied.org.uk](http://www.sied.org.uk).



## 3

## Micro-credit

In recent years, politicians, NGOs, bankers and business support agencies have shown an increasing interest in the potential of micro-credit programs in fighting social and economic exclusion. This has resulted in a dynamic and rapidly growing micro-credit sector, especially in Spain, where savings banks play an important humanitarian role. One of the many varied Spanish micro-credit projects is run by the public agency Barcelona Activa, in cooperation with the Un Sol Món foundation of the Catalan saving bank Caixa Catalunya. This micro-credit program targets entrepreneurs from socially excluded groups, such as immigrants, single mothers, unemployed persons, etc. The idea is to grant loans, accompanied with monitoring, to prospective entrepreneurs who have a good idea but lack the needed collateral, skills and know-how to obtain loans within the commercial bank system. The commercial bank system, as well, connects marginalised groups with a high level of economic risk and high administration expenses, thus creating another barrier for potential entrepreneurs, be they immigrants, unemployed or the like.

### 3.1. The background for micro-credit programs

Micro-credit programs were originally introduced in the 1970s as a tool to eliminate poverty in developing countries. Many of the programs proved to be very efficient and successful in helping poor and marginalised people start up small businesses or productive cooperatives. Since then, successful micro-credit models, converted to the different national contexts, have spread to most parts of the world, also including many developed and wealthy nations. In Europe, micro-credit programs are used mostly as a tool to help marginalised groups gain access to mainstream employment and the formal economy by granting the needed capital and monitoring for socially and economically excluded persons to set up small businesses. In this way, entrepreneurship and economic growth become central issues in most micro-credit programs but are rarely aims in themselves. The predominant focus is on social inclusion and participation in the mainstream economy.

Micro-credit programs in Western Europe are characterised by the following characteristics:<sup>6</sup>

- They are relatively new. More than half of the existing micro-credit programs in Europe have been initiated during the last four years.
- Most of the programs focus on women, unemployed and ethnic minorities. Immigrants comprise an ever increasing target group.
- The loans are of less than 25.000 euros.
- The average interest rate is 8%
- Default rates are low, with 90 % of the loans are repaid.
- Advice and monitoring is an important part of the programs.
- Most programs and agencies offering micro-credits depend on public funding to cover operational expenses.

### 3.2. Micro-credit – giving marginalised people access to mainstream economy

As already mentioned, many ethnic minority members, due to several socioeconomic barriers and regardless of their entrepreneurial spirit and good ideas, are often funnelled into the informal economy to make ends meet. One of the major barriers for entrepreneurs from marginalised groups is lack of access to capital. Lack of capital may prevent them from starting up a business or forcing them to carry out business activities informally. Other marginalised entrepreneurs, especially immigrants, obtain loans on an informal basis from relatives who themselves earned their money working in the shadow economy. These funds can have only limited use, since its origin may have to be accounted for to the authorities, putting the entrepreneur in a problematic situation. Moreover, informal loans and incomes cannot be used as a guaranty to obtain a formal bank loan. This makes informal loans a poor strategy for helping marginalised groups to enter the mainstream economy. The result is frequently a reproduction of marginalisation structures and increased dependency on informal economic activities. One way to overcome these problems and give marginalised people enhanced possibilities to participate in the mainstream economy are micro-credit programs that do not require a normal loan guaranty but instead focus on

clients' business ideas and willingness to become self employed. Àngel Font, director of the Un Sol Món says:

*"We identified a market gap five years ago, in the sense that there were many people with good business ideas, but without the collateral they needed to get a conventional loan."*<sup>7</sup>

This led the foundation to create a micro-credit fund. The fund has supported the creation of many businesses, which have generated more than 1,000 jobs to women and immigrants. This is the case for Maribel, a woman who before she obtained a micro credit had been working several years as a hairdresser in the informal economy to make ends meet. The loan granted by Un Sol Mon enabled her to open her own formally run salon now already employing two workers:

*"I am very happy with the business. I have hired two workers and I am planning to open a new hairdresser's in El Prat de Llobregat," she says.*

Enabling entrepreneurs from marginalised groups to enter the mainstream economy is not just about providing funds. A survey made by Un Sol Mon showed that limited access to banks because of lack of collateral was not the only problem confronting socially excluded groups. They were also lacking experience and confidence to sell their ideas, and were rarely capable of writing a detailed business plan with market analysis and customer profiles. Simplified application procedures and sensitive monitoring and advice, based on a thorough understanding of borrowers' overall social and economic situation, therefore play a crucial role in the micro-credit program. Marginalised people comprise a very diverse target group, which also means that loans have to be flexible in size and tailored to each individual's needs and abilities. Some will be able to manage and repay a larger loan over a relatively longer period, while others will be best served by smaller loans for shorter periods, with the possibility of increased loans in small progressive steps. When working with some immigrant groups, there can be other

barriers regarding language, legal status and culture. Some Muslims, for example, are not permitted by their religion to obtain loans with interest. In this case, specially designed credit programs are needed. Paying a fixed fee instead of interest could be a solution.

Most micro-credit programs seem to be operated by organisations, projects and foundations outside the commercial banking system. Most of these have a humanitarian charity profile. The commercial banks, besides viewing marginalised people as high risk customers, are simply not geared to working with marginalised people and the special needs they have when obtaining loans. For the Un Sol Mon foundation, however, it is still important to run the micro-credit program as a professional financial concern and not as pure charity. The foundation insists that micro credit can become viable in operational terms even though it targets socially excluded clients.

The next cases are from the Un Sol M3n program. Similar cases are found in the EQUAL funded program Barcelona Emprende en Igualdad. The program is led by the Barcelona Activa, in cooperation with (among others) the Un Sol M3n foundation. The program shows the importance that specifically tailored micro-credit programs can have in helping marginalised people developing sound businesses and giving them access to the mainstream economy.

### **Case 1 Spain: Leaving the informal sector via micro credit**

When Aisha came from Algeria to Barcelona in Spain she was already thinking of creating her own business such as the one her parents had in her country.

But in Barcelona this was not easy. Instead she was funnelled into the informal market earning a livelihood by preparing Algerian bakery in her apartment and selling it to Arabian restaurants. Since sales were good, she also started to sell Moroccan specialities, cous cous, shorba and more. By time she realised that a restaurant of her own could be successful so she and her husband started to look for start-up finance. Banks would not offer her a loan, since her only work experience was in the informal market. How-

ever she contacted Un Sol M3n, and received a micro credit of 10.000€. To-gether with thorough business advice. This enabled her to open her restaurant which is currently running with success.

### **Case 2 Spain: From cleaning lady to owner of a small chain of bakeries**

Maria, a Cuban woman, got a MBA degree with best project award from a Cuban university. After working for different Cuban companies, without earning much she decided to travel abroad in search for a better future. She did so, leaving her husband and sons in Cuba. Once in Spain, her degree and working experience was not recognised, so the only option she had available was to start working in the cleaning sector, carrying children or elderly people. Later on she worked in a bakery and she fastly learned how to bake and run a bakery.

A day she decided to start up her own bakery. However, when she went banks to ask for a loan that would allow her to start her business, the answer was that without collateral, which she did not have, she could not be granted a bank-loan. A friend of her heard about her troubles and told her to contact the Un Sol M3n foundation. Here they were ready to help her fulfil her entrepreneurial dreams. First she got business advice and help to create a good and realistic business plan. After that Un Sol M3n granted her a micro credit of 15.000€ that allowed her to start her first bakery.

Today her husband and sons are here, she has been able to buy an apartment and to open up a second bakery. She's even thinking about opening a 3rd one. She states that *"without Un Sol M3n foundation micro credit and business advice I could not have fulfilled my dream"*.

<sup>6</sup> European Microfinance Network (EMN) working paper no. 1, Overview of the microfinance sector in Western Europe, Based on a survey of 32 organisations.

<sup>7</sup> The Right Type of Money. From the EQUAL Success Stories. Available at: [http://ec.europa.eu/employment\\_social/equal/activities/success\\_en.cfm](http://ec.europa.eu/employment_social/equal/activities/success_en.cfm)



## 4

## Social enterprises

Social enterprises are a part of a broader social economy that also includes NGOs, charities, voluntary and community organisations, and certain public agencies. This sector has become increasingly innovative and entrepreneurial, leading to the growth of social enterprises. A social enterprise can be defined as a market-driven firm with a social and sometimes environmental aim. Because of this double or triple bottom line, both ensuring social and environmental aims and economic sustainability, social enterprises constitute a great potential in fighting poverty and exclusion from mainstream economy and society. Social enterprises are not only capable of giving people a formal income and a meaningful job. They can also provide the necessary formal training for employees to enter the ordinary labour market or, maybe, become entrepreneurs themselves. Other social enterprises also deliver important environmental and social community services ignored by the private market and the public sector.

A excellent example of the social enterprise idea is the Hungarian EQUAL funded program, called “Bridge” and run by the Autonomia Foundation. “Bridge”, helps the excluded Roma population gain access to the mainstream economy and labour market. Though the project is operating in the broad area of social economy the focus here will be on setting up social enterprises. A case study from the Hungarian project will be presented in the end of this chapter.

#### 4.1. What is a social enterprise?

Social enterprises have many varied forms and titles, such as social firms, co-operatives, development trusts, community interest companies or the business arm of a charity organisation. A social enterprise is thus not defined by its legal status but by its aims and nature. Social enterprises can typically be said to contain characteristics from the public, private and the charity sectors.<sup>8</sup> While there exists no exact international definition of social enterprise, but they seem to have some common characteristics. A social enterprise should typically:

- Have explicit social aims such as job creation for excluded groups, training and upgrading or the provision of social services.



- Reinvest economic surplus in sustainability of the enterprise, upgrading of employees, the community or other forms of charity.
- Be independent of the public sector in organisational means.
- Generate income and sustain their business by operating and competing in the market place like any other business.



'Socialenterprise Coalition 2003'

While sustainability and independence from the public sector through market driven income is one of the common defining criteria for social enterprises, an internet-based perusal of case studies and reports on social economy reveals that many social enterprises are dependent, to some extent, on public funding or grants. This is especially the case during the start-up period. Since social enterprises operate mostly in new sectors of activity often defined by specific ethnic, geographic or economically-segmented requirements, their activities tend to be unprofitable during the start-up phase. The former mentioned double or sometimes triple bottom line encompasses economic, social and environmental aims, makes the task of developing a successful social enterprise a complicated process. As a result, the potential of social enterprises is underdeveloped regarding their size, scale and numbers. A better developed support structure, including a broader range of financial instruments targeted at social entrepreneurs and enterprises, is therefore needed in most EU countries. Never-

An OECD report<sup>9</sup> argues that it is more helpful to look at the distinctive characteristics of the many existing social enterprises rather than focusing on a detailed definition. Based on a summary of other studies, the report lists the following key characteristics of social enterprises:

|  |      |
|--|------|
| Operating on a not-for-profit basis  | All  |
| Existing in response to a need not supported by the market   | All  |
| Profits not distributed to the "owners" of the businesses but reinvested for community benefit                   | All  |
| Providing goods & services not supplied by private or public sectors   | Most |
| Have a clear social, ethical or environmental purpose  | Most |
| Hold their assets in trust for community benefit   | Most |
| Incorporate a collective form of accountability & control  | Most |
| Involve local people/their members in the governance of the organization   | Most |
| Services provided by paid employees but voluntary activity & service delivery and management are strong features | Most |
| Have a high degree of autonomy from the state  | Most |
| Goals achieved to some degree by engaging in trading & income generation   | Some |
| Entrepreneurial in outlook & looking for innovative solutions  | Some |
| Employment is more likely targeted to the more disadvantaged communities and groups                              | Some |
| May work in mutual co-operation with other organizations in the sector   | Few  |
| Provide goods and services on a financially viable basis   | Few  |
| Improve the quality of life of their employees and community   | Few  |
| Have a local rather than a regional and national focus   | Few  |

theless, many social enterprises have shown remarkable results in their efforts to improve economic, environmental and social conditions for excluded groups.

#### 4.2. How can social enterprises facilitate the move from informal to formal economy?

First of all, social enterprises can help excluded minorities and communities by donating money to community organisations, rehabilitation programs or other projects fighting social exclusion and poverty. However, the idea of social enterprise becomes most powerful in fulfilling social aims when the social enterprise is used as a direct tool, as is the case when social enterprises employ and train excluded and disadvantaged persons and groups, hereby directly integrating them in the formal economy. The Hungarian EQUAL-funded "Bridge" program, run by the Autonomia Foundation, is a good example of a project that uses the social enterprise as a direct tool. The program targets the socially and economically excluded Roma population in the micro-region of Encs. When participants have completed the basic vocational training program, they are offered jobs in a woodworking factory or a blacksmith, both of which were started within the framework of the project. This gives the workers a formal income and provides them with the necessary skills to obtain a future job in the primary labour market or in the social economy - maybe even as social entrepreneurs themselves. By working in or co-managing the social enterprise, they obtain the kind of entrepreneurial skills, knowledge and networks that they may not have been able to acquire in an ordinary entrepreneur course. The goal of the project is to hand over the factories with their equipment to the community, letting them manage the factories as jointly owned social enterprises. The strength of many social enterprises is exactly this ability to build legitimacy and trust through their direct and empowerment-based involvement with excluded communities, at the same time improving their economic standard of living. In some depressed areas "forgotten" by the private market or the public sector, social enterprises provide services such as child care and leisure time activities, helping mothers to increase their chances to obtain a formal job or to become entrepreneurs.

As the OECD report<sup>10</sup> points out:

*"In many ways social enterprises represent the missing parts of the jigsaw or the 'third way' between state and market roles in employment and local development, as they seek to articulate, activate and reconcile the effective provision of services with greater social solidarity in the local economy. With many goods and services beyond the reach of our poorest communities, social enterprises' added value is in improving access to services through a more creative blend of public, private and voluntary activity and investment. For instance, wired-up social housing, childcare, leisure activities, culture and arts, healthy living centres and supplementary education can contribute enormously to regeneration, improve access to services and help encourage market development in stagnant areas."*

As shown, social enterprises and social entrepreneurs are characterised by a high degree of dynamism and creativity, which makes them capable of covering needy markets and doing things in ways that private businesses and public agencies cannot handle. Research also points toward the fact that many socially excluded groups and persons are more eager to work if it is for a social enterprise than for a profit-driven company without any social mission. This is very important, since enabling people to enter the mainstream economy depends on people's motivation.

#### Case Hungary: securing training and jobs for the excluded Roma population

Perkupa, a little Hungarian village, has around 350 households and some 1000 inhabitants. Roma comprise 14% of the population. The village is one of the typical small settlements of Borsod County, where due to the scarcity of jobs, all those who had an opportunity moved to the nearby towns. It is only the immobile population such as the Roma who remained in the village. In early 2005, only 4% of those within the Roma community were employed. A majority of the Roma population are officially inactive. In practice, this meant that they lived from the informal economy. Most of

the Roma adults lack any qualifications, although many of them worked as unskilled labourers. They found jobs in Budapest, working for labour contractors as a form of informal employment.

In 1998, the Roma community established a non-governmental organization, mainly with the purpose of getting access to the various sources of funding. They started their first economic project in 2000, in the framework of which they undertook forestry jobs with 2 chain-saws and a tractor. Since the settlement is surrounded by forests, almost everyone has worked in the forestry sector with different jobs and duties. So the task was not new. What was new was the form of business - in which the Roma organization contracted and invoiced the work. The following year, they applied for and received a livestock breeding project grant, in which more than 10 members of the organization agreed to raise pigs. To ensure cost efficiency, they decided to keep the animals together. Therefore, the members cooperated to build a big stock-yard with sties and other necessary equipment, for which the local municipality provided the required land. The organization kept operating successfully as a business actor with the municipality as its main client: they undertook railroad construction jobs, local roofing works, and roof repairing jobs based on a contract made with the City Management Company. On an annual basis, they could employ some 25 people. As employers, they were atypical, since their workers did not carry out their jobs as registered employees but in the form of service agreements or the members earned an income as some kind of "organizational benefit". There are two main explanations for this atypical employment: first, the organization did not have any skills and experience in labour law and employment, and, second the price level they could negotiate, that is, for which they could contract certain jobs, did not enable them to pay as much regular and taxed income to their workers as the black market minimum.

The revenue of 2004 sealed the organization's fate: they exceeded the income ceiling, making them liable to pay value-added tax. Due to the accountant's default, however, they paid no VAT. According to the decision of the tax authorities,

they should have paid VAT four years retroactively, which they were unable to do. As a result, they were compelled to dissolve the organization, losing their livestock.

In the spring of 2005, a new organization was set up within the Bridge EQUAL programme, partly with the participation of members from the former organization. Their 'reformation' was directly motivated by the Equal programme. In the framework of this programme, 20 men from the settlement and the neighbouring villages attend carpenter and smith training, while the organization itself is also the employer of the carpenters. This time, however, their jobs are officially registered, providing a secure employment relationship for the participants for over 18 months. The organization has become the local municipality's most important partner in fighting Roma unemployment and is now a well-established institution, also providing medium-term employment.

<sup>8</sup> There's more to business than you think. A guide to social enterprise. Social Enterprise Coalition 2003. Illustration is also from this publication.

<sup>9</sup> Entrepreneurship - A Catalyst for urban regeneration, OECD 2003

<sup>10</sup> OECD report: Entrepreneurship - A Catalyst for urban regeneration, 2003.



## 5

Policy  
recommendations**Creating an inclusive entrepreneurship approach**

As pointed out an increasing numbers of entrepreneurs from ethnic minorities and other excluded groups get stocked in the shadow economy. The move to a safe and legal livelihood can be an extremely difficult one - especially for ethnic entrepreneurs often facing a double set of barriers. But as also shown the move to full participation in the formal economy and labour market is reachable, even for some of the most excluded groups, if they are supported using the right tools and methods such as outreach business advice and micro credit. The presented projects all contain experiences that proof the value and the importance of an inclusive entrepreneurship approach and show that such an approach can ensure the integration and inclusion of ethnic minorities in mainstream business and work life through entrepreneurship.

With this in mind EVU's Knowledge Centre for Ethnic Entrepreneurship and it's TCA partners strongly recommend that the EU and all member countries develop and ensure an inclusive entrepreneurship approach making business support and finance reachable for all citizens and inclusive of ethnic minorities and other groups normally excluded from mainstream business and work life. The exact recommendations, based on EVU's experiences within the EQUAL project and the TCA partnership, are:

- To ensure that intercultural and outreach business advice is mainstreamed and not only offered through scattered projects with short time funding.
- To create a broad range of finance possibilities - including micro finance programs to ensure that entrepreneurial people without collateral and access to the mainstream banking system also have the opportunity to start and develop sound businesses.
- To ease the move from welfare benefits to self-employment for example by letting entrepreneurs keep their benefits - as a minimum income guarantee - in a limited period after start-up, combined with obligatory business advice and monitoring.
- To research and focus on the potential of social and collective entrepreneurship developing a support structure targeted social and collective entrepreneurs. Making it possible to create social enterprises within projects supported by the European Social Fund will also be a great help for many social entrepreneurs struggling hard with getting the right support as well as start up finance.



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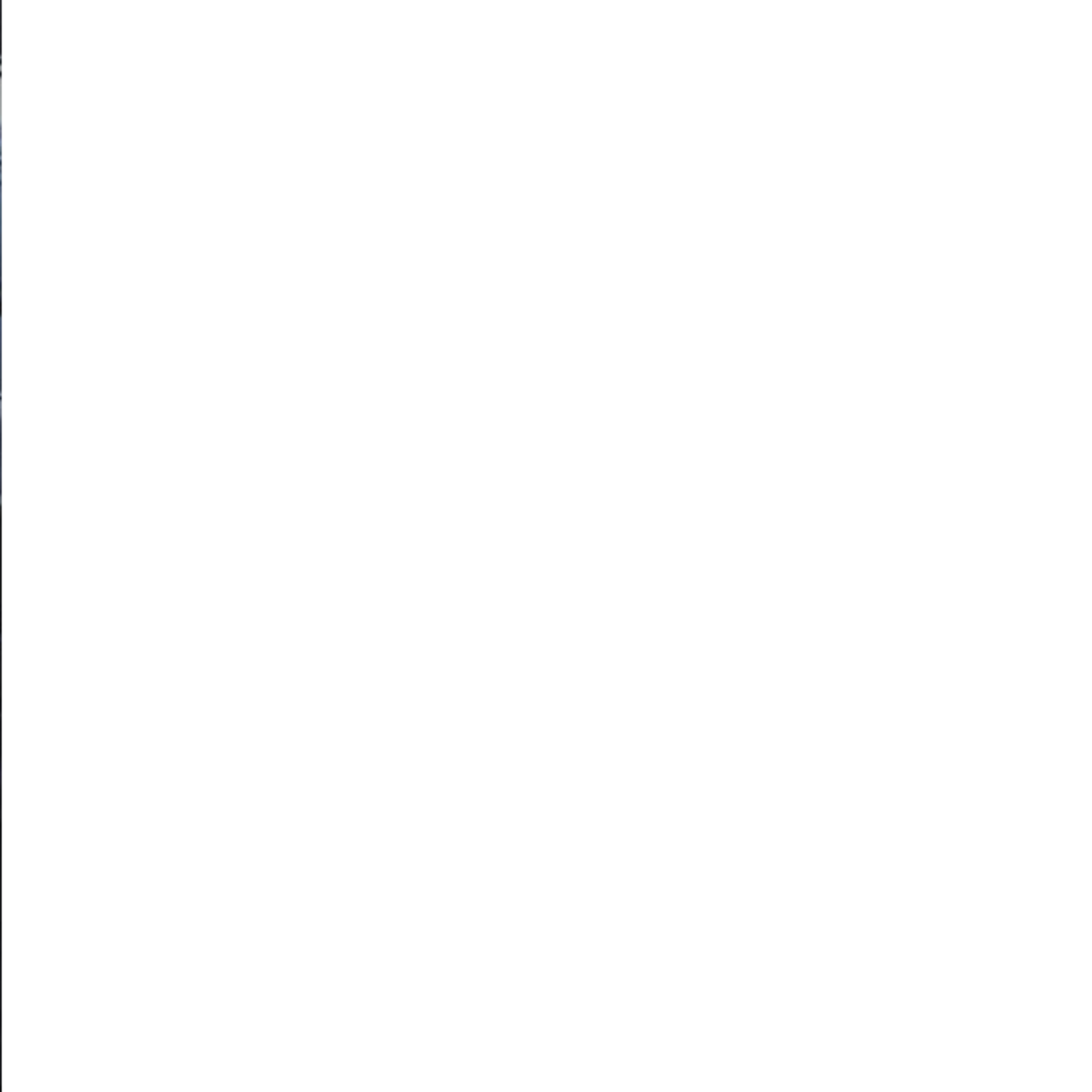
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*The Building Entrepreneurship Partnership on a micro-credit study tour to a Spanish public market.*



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The publication treats the growing problems of social exclusion experienced by ethnic minority groups participating in the shadow economy. It presents some examples of methods and tools aimed at supporting inclusive entrepreneurship among ethnic minorities and other social excluded groups hereby facilitating their integration into formal economy and mainstream business life and society. The publication is part of the European Social Fund's EQUAL program 'Integration and Development of Immigrant Businesses in Odense, Aarhus and Copenhagen'. It builds on experiences and knowledge gathered from the workshops, conferences and study tours within the project's transnational partnership 'Building Entrepreneurship'.

[www.buildingentrepreneurship.com](http://www.buildingentrepreneurship.com)