



**FORMALISATION OF NEW ARRIVAL ENTERPRISES:  
Challenges of new ethnic entrepreneurship for business support policy**

**Report prepared for Minority Business Diaspora Interchange  
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## EXECUTIVE SUMMARY

### Rationale

There has been little research carried out on ethnic entrepreneurship and the informal economy, especially in relation to new and emerging ethnic minority business communities in the UK. Informality is however estimated not only to be an important phenomenon among these groups but seems also to underlie the existing gap between entrepreneurs and business support policies.

This project describes the characteristics and location of the new and emerging ethnic minority business communities in cosmopolitan London. It then critically examines the nature of informality among these groups and the challenges that this poses to enterprise policy.

### Methodology

The research methodology comprised a review of existing literature and case studies of both businesses run by new immigrant entrepreneurs (50 in total) and community-based organisations and business advisors (15 in total). Primary data was collected using semi structured interviews and field observations.

### Main findings

#### ***New and emerging ethnic minority business communities***

- New ethnic minority business communities have emerged as a result of business developments by entrepreneurs from the increasingly diverse immigrant populations which have settled in the capital during the 1980s and 1990s. Hence immigrant entrepreneurs are now evident from the world over and not only from traditional minority 'majority' Black, Asian and Minority Ethnic (BAME) groups.
- Some of the more visible emerging business communities are those from The Horn of Africa, West Asia, China (mainland China), Vietnam, Latin America, and Turkish-speaking countries.
- The new geography of BAME enterprise in the capital comprises: new agglomerations of enterprises; new activities developing around established shopping and market areas; single businesses; home-based activities; carnivals, festivals and religious celebrations; and community-based organisations.
- The new business communities exhibit differences and similarities which relate to a number of factors including: legal/migratory status of entrepreneurs; stage of business creation; size and number of enterprises; economic activities and areas of location; community support; cultures of immigrant groups; the socio-political and economic context found upon arrival; and the subsequent patterns of settling and socio-economic integration into the UK.

#### ***New ethnic entrepreneurship: in what sense a different challenge?***

- The form in which new immigrant entrepreneurs enter into self-employment/enterprise and conduct their future entrepreneurial careers were moulded by three factors: early experiences of engagement/disengagement from the mainstream; the role played by the informal support system in underpinning ethnic entrepreneurship; and the nature of informal operation. Each factor bears a different challenge for those policies that seek to engage and support BAME businesses.
- Distressing early experiences with reception organisations such as migration authorities, Job Centres and National Asylum Support Services (Home Office) set a negative precedent for future liaison and engagement with mainstream state and business support organisations.

- The fact that entrepreneurs largely were 'pushed' into businesses, notably as a means to generate an income and so to tackle a marked lack of job opportunities and discrimination in mainstream labour markets, affects the way in which businesses are set up and managed. Upon arrival, entrepreneurs rarely had relevant (or transferable) business experience let alone a business plan.
- Entrepreneurs are discouraged and intimidated in approaching business support services by a number of factors comprising: prejudice against new arrivals, lack of time to visit business support agencies and to produce the paper work required, language confidence, and the rather formal appearance of agencies and managers.
- Trust and credibility in support organisations is further undermined by the experiences of the entrepreneurs in relation to information and advice given by support agencies (i.e. Local Authority, banks, advice bureaus, and Job Centres Plus) which is often considered 'useless' and 'a waste of time'.
- The role that the informal support system plays in underpinning entrepreneurship and enterprise development is central to understanding how new BAME businesses survive and compete in the marketplace without accessing conventional sources of business knowledge and finance and with no professional marketing, and in the absence of managerial strategies.
- Critical information and ongoing advice and guidance in relation to 'what to do', 'how to do it', and 'where to do it' during the start up process, are accessed through the entrepreneur's personal (co-ethnic) network. Alongside entrepreneurs' savings, start up capital is often facilitated by family and friends from within the community. Lines of community-channelled 'informal' credit are also available within some communities.
- Over-reliance on the 'community' not only makes the 'break out' from (co)ethnic market dependency harder or even unthinkable for some entrepreneurs, but also makes the development of basic learning processes related to seeking wider markets somewhat redundant.
- All of these factors not only 'push' but 'pull' entrepreneurs to seek business '*solutions*' and '*links*' in the informal system of business support provision.

### ***Nature of informality***

- Two main types of informal economic activity were identified. Firstly, those activities which are not fully registered with relevant government agencies or operate on a 'cash-in-hand' basis. Secondly, those activities, that although registered or legally formalised, remain susceptible to irregular or informal business practices to compete in the marketplace.
- BAME cash-in-hand businesses (approx a quarter of the sample) are found across-sectors but tended to concentrate on activities such as home maintenance and construction, and 'home-based' business activities, some of which is popular among female entrepreneurs (i.e. clothes making/selling, catering and domestic services).
- Lack of awareness about registration procedures, uncertainty about the financial sustainability of ventures, the high perceived costs of 'being formal' (i.e. payment of corporation tax), and the fact that some ventures do not consider themselves to be 'businesses', are the main factors which deter entrepreneurs from registering their business ventures.
- There is an important distinction to be made between 'independent' and 'dependent' cash-in-hand activities. The financial sustainability of the latter largely depends upon their business relationship with companies operating in the formal economy and hence formalising cash-in-hand 'dependent'

businesses will rely heavily on policy initiatives targeting companies in the mainstream formal economy.

- Informal business practices among formally registered businesses relate to the nature of employment contracts (i.e. wages around if not below the statutory National Minimal Wage, long hours of work, and flexible 'contractual' agreements) and, to a lesser extent, to non-payment of corporation tax.
- The entrepreneurs' attitude towards the use of informal labour is underpinned by several factors including: the nature of the business organisation; the rather sporadic nature of labour needed; the high rotation of employees; the shortfall of qualified legal workers; and the very fact that undeclared work can be legally circumvented by employment practices (i.e. to avoid paying National Insurance). The complexity of employment legislation has also made it very difficult for both employers and employees to understand it and comply with it.
- Tax avoidance particularly relates to failure to declare any or part of the taxable profits generated, namely corporation tax and VAT.
- Lack of knowledge and adequate information, business size, likelihood of survival (if all profits are declared) and the express intent of evading taxes are the main factors that explain the failure of some entrepreneurs to declare taxable incomes. Unlike unregistered business activities, however, registration procedures are not seen as a highly complex issue by registered enterprises.
- BAME cash-in-hand and registered businesses are regularly combined under a variety of styles of business organisation and market sites. Different ethnic minority groups seem to appeal to different forms of business organisation. The symbiosis that occurs in these market sites between informal and formal spheres of the economy produces a diversity of situations in which the relationship with the formal economy can be benign, exploitative or mutually advantageous for both formal and informal operators.

### ***Policy implications***

- The study provides evidence that informality is a widespread phenomenon among the BAME groups studied and it requires a comprehensive and balanced analysis in order that both the positive and negative implications of such engagement can be examined and addressed appropriately.
- Far from being only the result of rational cost-benefit and profit-maximisation calculations by the entrepreneurs, this research alleges that informality is the product of a much more complex set of factors and circumstances, including: the nature of the official business support available, the role of the informal support system in underpinning ethnic entrepreneurship, and the very nature of the informal activity. The personal and institutional constraints which new arrivals and their communities face upon arrival are also a part of the equation.
- While some of these factors and circumstances are specific to ethnic minority businesses others are more general and cut across distinctions and/or boundaries of ethnicity, social class, economic sector, performance and location. Currently, however, public policy targeting of ethnic minority businesses is not reaching the intended groups and yet, a substantial part of the answer to reduce this gap relies in the problems of informality which are specific to, or have specific effects on, new ethnic entrepreneurship.
- Mainstream business support policies need to combine the understanding and access which ethnic- and community-based organisations possess with the expertise of business support agencies so as to engage with new arrival enterprises (i.e. by sign-posting and guiding 'fledging'

entrepreneurs on business registration procedures, license applications, training, and book keeping).

- Capacity building 'from below' and business-oriented organisation of ethnic minority business communities appears as an important line of policy action. This needs to be undertaken by new/emerging BAME groups but with the endorsement of business support agencies, small business associations and local chambers of commerce.
- An enabling or facilitating approach is required to make the transition towards the mainstream economy possible, but without negatively impacting upon entrepreneurial capacity existing among new arrivals.
- Ethnically 'sensitive' one-stop 'formalisation' services which provides advice on finance, legal issues, tax, benefits, administration, marketing and book keeping through either one-to-one sessions or courses and workshops, can provide a significant step forward to facilitate formalisation of small BAME businesses.
- At the level of single businesses, registration and compliance with taxes and regulations among smaller businesses comes after and not before businesses' break even. Hence, tapered financial support and tax relief/allowances, alongside registration advice is needed to alleviate business start up risks while encouraging smooth transition into the official economy.
- Enforcement policies targeting large companies which control chains of subcontracting should also be promoted as these can cascade 'formalising' effects involving smaller informal subcontractors (i.e. in the cleaning and construction industries). Similarly, sector-specific policies are recommended as they can target the particular nature of informal economic activity within a sector.
- These policies need to be implemented jointly with policies intended to formalise informal workers due to the mutually reinforcing nature of the relationship.
- More widespread information campaigns to raise awareness about tax and regulatory systems as well as benefits of formal work and enterprise (i.e. targeting specific institutional stakeholders, small entrepreneurs and wider society) should be part and parcel of the formalising attempt.
- It must be recognised that a wide-ranging formalisation strategy should not be conceived in a social and economic vacuum, but instead within the framework of a more comprehensive welfare state strategy aimed to combat factors such a deprivation, marginality and exclusion which push new arrivals into informal employment and enterprise in the first place.
- The inherently contradictory and controversial nature of the informal economy may further hinder the formalising attempt since policy strategies are likely to be politically controversial; and yet, informal economic activities may remain rooted 'in the shadows'.

# FORMALISATION OF NEW ARRIVAL ENTERPRISES

## Challenges of new ethnic entrepreneurship for business support policy

### 1. INTRODUCTION

#### 1.1 Introduction

Recent years have witnessed a shift in the policy debate concerning the informal economy (IE) from a policy emphasis upon deterrence and punishment for such activity towards exploring the possibilities for enabling its transition into the formal economy (EC, 2002; ILO, 2002a, 2002b). In the UK, the reason for this shift is two-fold. Firstly, the dominant deterrence approach towards the IE (see Grabiner Report, 2000) is increasingly under scrutiny owing to its rather limited degree of success in tackling the phenomenon. National estimates for the size of the IE in the UK range between 7 and 13 percent of gross domestic product (GDP). The UK informal economy is not set to disappear in the current globalising climate, and in fact appears to be growing. Secondly, there is a growing recognition that informal employment and enterprise represent important assets for economic development, especially in the context of deprived areas and communities where such assets are often in short supply (Evans et al, 2006; Sepulveda and Syrett, 2007; Williams, 2004, 2006). The British government has considered criticisms of the dominant approach towards the IE and recognised, albeit only implicitly, the need to review current policy strategies (DTI, 2005). In its response to a report on small business in the informal economy the British government recognised the importance and need for policy responses that incorporate both 'persuasion' and 'deterrence' to deal with the problem of the informal economy; and this response is informed by a view that *'the persuasive approach sees entrepreneurship in the informal economy as an asset to be harnessed'* (DTI, 2005:7).

Despite the growing policy interest in what will be referred to here as informal economic activity (IEA)<sup>1</sup>, little is known about the nature of the phenomenon especially among Black, Asian and Minority Ethnic (BAME) businesses which are often an important component of deprived local economies.<sup>2</sup> While negative effects associated with engagement in IEA are readily acknowledged (i.e. poor working

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<sup>1</sup> IEA covers a wide range of activities including undeclared and/or unregulated economic activity related to self-employment and enterprise, wage employment in informal jobs, and the paid informal work of 'favour providers' (SBC, 2004; Schneider, 2002). Paid work and enterprise associated with goods and services which themselves are illegal are excluded from this definition. The study focuses specifically on independent self-employment or enterprise business activity and the role that IEA plays within ethnic minority businesses.

<sup>2</sup> Black, Asian and Minority Ethnic (BAME) is preferred in this report as the acronym is increasingly used by official agencies due to its more inclusive nature compared to the traditional Black and Minority Ethnic (BME).

conditions, loss of labour rights, low wage jobs, loss of taxes, loss of regulatory control, unfair competition and so on), there is less recognition of positive impacts (i.e. in developing an entrepreneurial culture, promoting self-help, etc.). The lack of baseline knowledge about the nature of the IEA among BAME businesses, and its media stigmatisation, not only makes it more difficult for business advisors and mainstream business support agencies to engage and liaise with smaller start up BAME businesses but it also makes the design of policies to support them more complex.

To date, there is only limited research related to the role of IEA and the nature of new ethnic entrepreneurship in the capital. Our previous study, *'Refugee, New Arrivals and Enterprise: Their Contributions and Constraints'*, revealed that IEA does play a role in underpinning entrepreneurial careers among immigrant entrepreneurs, especially in the early stages of the start up process (Evans et al, 2006; Sepulveda et al, 2006). Evidence also showed that IEA provides both work opportunities for disadvantaged new arrivals which were often denied by mainstream labour markets (notably, for unskilled immigrants from ethnic minority backgrounds), and a development site for those seeking to go into self-employment and enterprise and 'entrepreneurial' routes out of poverty (Sepulveda et al, 2006; ISED, 2002). Likewise, a pioneer study conducted in the London Borough of Newham, one of the most deprived as well as ethnically diverse neighbourhoods in the UK, calculated that 25% of employment in the borough could be classified as 'informal' (Community Links, 2006).<sup>3</sup> The study found that IEA forms part of most people's everyday lives, as individuals move in and out of such activities over time and in relation to different needs and circumstances. Most importantly, while entrepreneurs from BAME groups own 7-10% of all businesses in Britain, the figure rises sharply to 50% in the most ethnically diverse areas of the capital (LDA-OECD, 2005); hence the analytical importance of the phenomenon and the different dimensions that it comprises.

This research extends the previous study to focus specifically on the problems of 'engagement/disengagement' and 'informal business operation' among what it is referred to here as new and emerging ethnic minority business communities in London<sup>4</sup> (see Table 4), and the particular challenges that this creates for business support providers. It seeks to explore, firstly, to what extent entrepreneurs from new/emerging BAME business communities present different problems of engagement with, and disengagement from, the UK institutional business framework, specifically in relation to finance systems, tax/regulatory systems and enterprise support systems. Secondly, it analyses the rationale behind informal business operation which is much more complex than is often

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<sup>3</sup> This study represented the first attempt to estimate the size of the informal economy for a local area in the UK.

<sup>4</sup> The term 'new and emerging ethnic minority business communities' refers to the thousands of small businesses that members of new BAME communities from both developing and transition countries have established in the capital since the mid 1990s onwards (see Section 2.1).

thought by specialised literature on ethnic entrepreneurship (see Kloosterman *et al*, 1999). The study demonstrates that grey or informal (unregistered) activity among these groups is not necessarily the product of rational cost-benefit and profit-maximization calculations made by the entrepreneurs (or rational choice) but quite often the result of a set of intertwined factors. These factors include the lack of knowledge and awareness about registration procedures, taxation and regulation, the different trading cultures in which BAME entrepreneurs are embedded, their earlier experiences of disengagement with the mainstream coupled with the 'informal' channels of support available, the migratory statuses held by the entrepreneurs, or simply because the system does not let them in (De Soto, 1989).

Implications for business support policy are specifically addressed in light of the current policy interest on the possibilities for enabling transition of informal or 'grey' self-employment and enterprise into the formal economy, especially in the context of deprived local areas where immigrants from ethnic minorities are often concentrated (Community Links, 2006; DTI, 2005; Evans *et al*, 2006; SBC, 2004; Sepulveda and Syrett, 2007; Williams, 2004; 2006).

## **1.2 Aims**

- To develop a strong empirical basis related to informal economic activity among new ethnic minority businesses from New and Emerging Ethnic Minority Business Communities.
- To understand the socio-economic nature, scope and rationale for operating in the informal economy and how this relates to formal economic activity.
- To identify barriers that business support agencies face in both engaging with ethnic minority businesses and promoting the formalisation of BAME businesses operating in the 'grey' and informal economy.
- To make recommendations to business support providers for both reaching BAME businesses more effectively and encouraging formalisation or 'integration' of new immigrant entrepreneurs in the UK business framework.
- To assess the range of potential policy developments required to enhance the positive elements of IEA whilst safeguarding against its negative consequences.

## **1.3 Methodology**

The research methodology comprised the following elements:

- A review of existing literature, policy documents, and other secondary sources of information.

- Case studies of 50 ethnic minority businesses completed in four rounds of interviews (June-August 2004, April and October 2005, and September-December 2006).
- Entrepreneurs from three out of six new/emerging business communities were analysed, including the Latin American, The Horn of Africa and Western Asian business communities.
- Fifteen BAME business support and community-based organisations were consulted from the Chinese, Turkish-speaking (Kurdish, Turkish and Turkish-Cypriot), Vietnamese, Latin American, The Horn of Africa and Western Asian communities.
- A range of purposive sampling methods were used, including identifying areas of BME business concentration and premises on high streets and developing contacts through business support and community-based organisations.
- The study focused upon London Boroughs that play a role as reception areas for new immigrants and 'incubators' for ethnic entrepreneurship. These included: Camden, Haringey and Islington in North London; Hackney and Newham in East and North East London; and Lambeth, Lewisham and Southwark in South London.
- Data were collected using in-depth interview techniques and a semi structured questionnaire was administered via face-to-face interviews. Ethnographic observations on the street and in areas where enterprises operate were also conducted in order to 'map out' the wider socio-economic context, and dynamics, in which BME businesses trade.

#### **1.4 Profile of the sample**

The sample of enterprises and entrepreneurs observed the following characteristics:

##### ***Region and country of origin***

The sample of businesses was made up of entrepreneurs from Latin America (Colombia and Bolivia) (10 cases in total = 20%); The Horn of Africa (Ethiopia, Eritrea, Somalia and Sudan) (25 = 50%); and Western Asia (Afghanistan, Iran and Iraq) (15 = 30%) (see Table 1).

##### ***Age and gender***

The majority of the entrepreneurs interviewed belong to the first and '*one-and-a-half*' generations of immigrants (approx 50% came to the UK in the period 1995-2006) with the largest group aged between 25 and 35 (approx 50% of the sample). They were mostly male (70% male and 30% female).

##### ***Year of establishment***

Businesses were predominantly established between 2000 and 2006 with a smaller group established during the 1990s.

### ***Economic sector and activities***

Businesses largely trade in sectors and activities with low barriers to entry in which competition is severe and displacement the norm. These included: Restaurant & catering (35%), service sectors (35%) and retail (30%).<sup>5</sup>

### ***Size***

The majority of businesses operated as either sole traders or micro-enterprises (the latter with an average of 1 to 4 employees each).

### ***Business profile and growth potential***

Approx 80% of businesses consulted were 'existing' businesses (39 cases), which were actively trading at the time of the interview. Cases of 'fledging' businesses (9) and a small group of 'former' entrepreneurs (2) were also consulted. The sample of businesses was divided into three categories: stable (33%); growers (25%); and limited market/decliners (20%).

Table 1. Entrepreneurs by region and country of origin.

<b>Region</b>	<b>Country</b>	<b>Total number</b>
<b>1. Latin America</b>	Bolivia	2
	Colombia	8
		<b>10 (20%)</b>
<b>2. The 'Horn of Africa'</b>	Ethiopia	7
	Eritrea	5
	Somalia	10
	Sudan	3
	<b>25 (50%)</b>	
<b>3. Western Asia</b>	Afghanistan	6
	Iran	6
	Iraq	3
	<b>15 (30%)</b>	
<b>TOTAL</b>		<b>50 (100%)</b>

<sup>5</sup> The profile of the sample in terms of enterprise-size and sectoral specialisation is consistent with data generated by recent studies on larger samples of BAME businesses in the UK (Ethnic Boost Survey, 2006).

## 2. NEW AND EMERGING ETHNIC MINORITY BUSINESS COMMUNITIES

Prior to examining the problems of engagement and informal operation among BAME businesses it is necessary to clarify what is understood here by the term 'new and emerging ethnic minority business communities' (Section 2.1), the context in which enterprise activity is developed by members of these communities (Section 2.2), which is essential to understand the frame and situation in which informal operation takes place, and their main characteristics (Section 2.3).

### 2.1 New ethnic entrepreneurship in London

The London Development Agency (LDA, 2006) estimated that in London alone there were around 66,000 'BME-owned' businesses, employing 560,000 people and generating a combined sales turnover of £90 billion in 2004, and approximately 93,000 self-employed from BAME groups. The London BME Action Plan (LDA-OECD, 2005) identified that the number of Black and minority-owned businesses has grown significantly since 1995 in the capital - although data on BAME businesses and particularly on new ethnic entrepreneurship are deficient and rather inaccurate. As the London BME Action Plan itself recognised, *'there remains a longstanding problem with the availability of consistent and reliable baseline data about BME-owned businesses'* in the capital (LDA-OECD, 2005).

Our evidence partly corroborates the data provided by LDA regarding the rising figures of BAME businesses in London from 1995 onwards. In fact, businesses identified on the high street were largely established between 2000 and 2006 (CEEDR, 2006). Our evidence based on the analysis of variables including entrepreneurs' 'age', 'year of arrival to the UK' and 'region and country of origin' (see Section 1.4) is also consistent with official data in relation to the rising figures of *'young' 'new arrivals'* which *'settled in the capital in the period 1995-2005'*. As regards *'regions and countries of origin'*, recent migratory flows to the UK from 'low income' countries, mainly came from East and West Africa and Asia (including the broad 'Middle East and Others' category used by the Home Office), and much of the increase during the 1990s was within the category of asylum seekers (GLA, 2001, 2005a; LDA, 2006; Vertovec, 2006). Lately, migratory flows originate mainly from East European accession countries, mostly Poland.

These new ethnic minority groups and the ever more visible plethora of entrepreneurial ventures that members of these and others BAME groups have established in the capital in the last 15 years or so, are shaping what is referred to here as new and emerging ethnic minority business communities. Hence, this report sustains that BAME enterprise is no longer associated only with enterprise activity developed by established minority 'majority' groups (notably, South Asian and Afro-Caribbean), which

has been traditionally the focus of BAME studies and policy development in Britain (Jones et al, 1992; Barrett et al, 1996, 2001; Ram and Smallbone, 2001; 2003). Rather immigrant entrepreneurs are now evident from the world over (Sepulveda *et al*, 2007).

Six new and emerging ethnic minority business communities were the focus of this study. They are among the most visible new/emerging business communities from London's new enterprise geography described below and represent immigrant entrepreneurs from across the developing world living in the capital. These included:

Table 2. New and Emerging Ethnic Minority Business Communities in London.

New and Emerging Ethnic Minority Business Communities
<ul style="list-style-type: none"> <li>• The Horn of Africa (East Africa) (Eritrea, Ethiopia, Somalia and Sudan)</li> <li>• West Asian (Afghanistan, Iran and Iraq)</li> <li>• Latin American</li> <li>• Chinese (Chinese from mainland China)</li> <li>• Vietnamese</li> <li>• Turkish-speaking (Turkish and Kurdish from mainland Turkey)</li> </ul>

## 2.2 The new geography of BME enterprise activity: towards a typology

The complex new geography of BAME enterprise which has emerged in London has a number of dimensions. These can be grouped into six different, though not mutually exclusive, categories, comprising: 1) New agglomerations of enterprises; 2) new activities developing around established shopping and market areas; 3) single businesses; 4) home-based activities; 5) carnivals, festivals and religious celebrations; 6) support organisations for immigrants and refugees, and community-based organisations. Findings in the following section are largely based on business activities from the first three subcategories, although certain cases of home-based activities were also studied.

**1) New agglomerations of enterprises:** Several new agglomerations of BAME enterprise have become visible in recent years in London. These include: Afro-Caribbean (i.e. in Brixton and Tottenham); Turkish-speaking businesses (Kurdish, Turkish, and Turkish-Cypriot) in Haringey and Hackney (North and North East London); Ethiopian and Eritrean ventures in Caledonian Road (near King's Cross) and Islington (Finsbury Park); Somali businesses in Lewisham (South East London), Camden, Islington (Finsbury Park) and Haringey (North London); West African businesses (notably,

Ghanaian and Nigerian) in Edmonton and Tottenham (North London); Latin American business ventures in Elephant and Castle area (South London); Iranians, Afghans and others from the Middle East and West Asia in Queensway, Harrow and Wembley (West and North West London), alongside the well established Bangladeshi, Chinese and Indian business communities in Brick-Lane (East London) and China-Towns (Central London and Oriental City –North West London) and Ealing (West London) respectively. Agglomerations appear to be more evident in and around areas densely populated by/or frequented by immigrants from ethnic minority backgrounds, which offer good transport links, (notably, in Zones 1, 2 and 3 of London's public transport zone division), and may be located near to faith sites. The old and new commercial hubs where BME businesses concentrate act as both recipient of, and incubators for, start up ethnic minority businesses.

**2) New activities developing around established shopping and market areas:** Markets such as Brixton (South London), Columbia Road (in Hackney), Spitalfields (near Brick Lane - East London) and Camden (in Camden), to mention but a few well known in the capital, have become ever more diverse in their demographic composition and goods traded, as has the plethora of BME mobile traders and 'permanent' stalls or shops which trade in and around those markets.

**3) Single businesses:** Most importantly are perhaps the thousands of single small ventures run by immigrant entrepreneurs from all over the world which, without constituting business agglomerations, have been set up throughout the capital in recent years. This sub-category of BAME businesses includes 'mobile' traders and service providers such as plumbers, technicians, carers, nannies, builders, cleaners, etc. – some of which may also grouped in the 'home-base' category below. Apart from enterprises owned by entrepreneurs from the communities previously mentioned, other BAME business communities in this sub-category include: African (i.e. Kenyan and South African), Jamaican and West Indies in general, East Europeans (notably, Poles), Pakistani and Vietnamese businesses.

**4) Home-based activities:** This micro, but no less important economic activity, largely operates from households and neighbourhoods where immigrants and their communities live and socialise. Enterprise activities that may fall within this category are house-based delivered/provided services such as catering, care, cleaning and maintenance, hair dressing and beauty as well as alterations and repairs, clothes-making and selling, etc. By their size and nature this enterprise activity is very difficult to identify and liaise with, although cases of house-based ventures were consulted through our institutional contacts and referrals. 'Fledging' and 'casual' entrepreneurs are a common factor within this group.

**5) Carnivals, festivals and religious celebrations:** The large number of carnivals, festivals and religious celebrations that take place each year in London (estimated at 80 or more) are increasingly popular events within both BAME and native populations. Some of the more recognised include: 'Notting Hill Carnival', 'Chinese New Year', 'El Carnaval del Pueblo' (Latin American People's carnival), and 'Diwali' ('the festival of light'). It is estimated that many BME cultural/faith/community organisations alongside BME businesses take part in the organisation, promotion and/or delivery of such events (i.e. catering, carnival and creativity industry, fashion, etc.). Organisations related to the so-called carnival industry however are rarely organised let alone registered as businesses, although some operators might fall into one or more of the sub-categories 1 to 5. One reason for this is that carnivals, festivals and religious celebrations are organised on the basis of a one-day per year event.

**6) Support organisations for immigrants and refugees:** Evidence shows that community-based, migrants, refugee and other charitable organisations operating in the BAME social economy play a critical role in the process of settling immigrants and diaspora formation. However, these organisations constitute a different case of entrepreneurial activity since in general they neither 'trade' goods or services - they often provide them for free or on the basis of symbolic contributions - nor are driven by a 'trading' and/or 'profit-making' culture and objective. The current policy climate which actively promotes the transformation of non-profit charitable organisations into 'social enterprises', which are expected to trade and generate profits, is yet to deliver the expected shift towards a 'trading' culture among this type of organisations.

Table 3. Spatial dimensions of new ethnic entrepreneurship.

Dimensions
1. New agglomerations of enterprises
2. New activities developing around shopping and market areas
3. Single businesses scattered all over the capital
4. Home-based and community economy
5. Carnivals, festivals and religious celebrations
6. Support organisations for immigrants and refugees

## **2.3 Main characteristics**

The six communities studied display differences and similarities which relate to: emigration factors; size and number of enterprises; stage of business creation; main economic activities developed and areas of location; community development; and legal/migratory status of entrepreneurs (see Table 4). Analysis of these factors sheds light on the role played by other factors which underpin/hinder new ethnic entrepreneurship, including: cultures brought in by immigrants; the socio-political and economic context found upon arrival (i.e. immigration acts, employment legislation, levels and patterns of economic growth, access to labour market and welfare support, etc.); and the subsequent patterns of settling and socio-economic 'integration' into the UK.

### ***Emigration factors***

Internal and external conflicts triggered the migratory process in most of the communities studied (i.e. wars, civil wars, and *coup d'états*). It follows that a high proportion of the immigrants from these communities come to the UK as asylum seekers and not as traditional 'economic immigrants'. Although economic crises in emigration countries, which affected key industries, also acted as a trigger for migratory processes (i.e. 1960s farming crisis in Hong Kong; 1970/1980s war and post war crisis in Vietnam; and in the 1980/1990s the so-called 'lost decades' in Latin America).

### ***Size***

No accurate statistics have been produced regarding the number of residents in the capital and at the national level from most of the countries included in the six communities studied. In most cases data is not collected by the Home Office and immigrants from these BAME groups fall directly in the category 'others'. Guess-estimations in turn vary according to the source consulted. Partial information available allows us to estimate that these communities number over 100,000 people and figures might reach half a million or more from the 'broad' Chinese and Turkish-speaking communities. Only West Asian and Vietnamese communities are estimated to number below 100,000 people.

### ***Business creation***

The 1990s decade witnessed the start of the process of business creation related to entrepreneurs from these communities which continues until the present time. This coincides with the growing inflows of mass migration to the UK from low-income countries in the developing world which occurred during this same period.

It is important to point out that Chinese (notably from Hong Kong) and Turkish-Cypriot migration to the UK during the 1960s and before, preceded later Chinese migration from mainland China and

Turkish/Kurdish migration from mainland Turkey; as well as large scale migration from the other four communities studied. Likewise, Chinese (Hong Kong) and Turkish-Cypriot immigrants went into business activities sooner (notably, from the 1970s and 1980s). It follows that these two groups share some common characteristics with the two largest and well established traditional BAME communities in Britain (i.e. Southern Asian and Afro Caribbean communities): they came to the UK as 'economic immigrants' to fill job vacancies (i.e. in manufacturing industry and public services), they held work permits (i.e. guest workers), and often had a better command of the English language upon arrival. English skills were in fact reported to very low for new arrivals from all of the other communities, including those from mainland China and Turkey.

Field research showed that existing Chinese and Turkish-Cypriot migrant-communities played a key role as 'bridgeheads' for new waves of immigrants from mainland China and mainland Turkey who have settled in the UK more recently. As far as business creation and business development is concerned, new arrivals were often employed by old immigrant entrepreneurs some of which, in time, became entrepreneurs themselves. Cases of business loans (i.e. start up capital) and knowledge/technology transfer from old to start up new immigrant entrepreneurs were reported (notably, in the Chinese community); as were situations of exploitation and/or business-related tensions that emerged between existing and new groups within the same 'community'.

### ***Number of enterprises***

Statistical information regarding business ownership is rather partial and guess-estimations vary depending upon the source consulted, especially in relation to The Horn of Africa, West Asian and Latin American business communities. The BME Business Knowledge Centre estimates over 10,000 Turkish-speaking businesses in London (the largest out of the six communities studied), with Chinese businesses as the second largest group. Established Vietnamese nail shops are estimated between 300 to 400 while Latino businesses are estimated at around 300.

As reported in field research, the high levels of business failure and informal operation among new immigrant entrepreneurs from ethnic minority backgrounds become key problems in estimating the population of existing owned/managed businesses from these communities (see Section 3.3).

### ***Economic sectors and activities***

Business creation largely concentrates in three sectors: 'Retail', 'catering', and 'services'. Lower barriers to entry in terms of initial capital, knowledge and skills required, and tendency to (co)ethnic sectoral specialisation, help to explain this situation. Entrepreneurs from the same ethnic group tend to set up businesses in the same activities in which co-ethnic 'role model' entrepreneurs did previously.

However, patterns of specialisation/diversification observed do not always appear embedded in the cultural traditions brought into the UK by the entrepreneurs. While some entrepreneurs exploit niche markets drawing upon their own cultural traditions (i.e. traditional cuisine, salsa night clubs, or traditional Chinese medicine practices) others have developed competitive advantage in sectors with no apparent tradition/cultural links. This includes, Iranians who specialise in pizza shops, Somalis in Internet cafés, Vietnamese in nail bars, and Latino/a in cleaning and maintenance companies. In fact, 'trading traditions' were reported to be historically scant among some communities (i.e. Ottoman Turks) and practically non-existent for most new arrivals from the Ethiopian, Kurdish, Latino and Vietnamese communities who migrated to the UK.

### ***Location***

Entrepreneurs' decisions on the location of premises generally depends upon both the nature of the markets which they serve and the size of the community which they belong to. For East African and Latino/a entrepreneurs the presence of co-ethnics in specific local areas seems to be a key factor of location and this explains the tendency to clustering among these communities, Chinese and Turkish-speaking businesses are more dispersed across the capital and more beyond, as they commonly serve the general public, whilst these communities are also larger and more dispersed.

### ***Community evolution and diversification***

Evidence shows that new economic activities develop and diversify as communities grow and settle, entrepreneurs gain business experience, and the younger generation, which has been partly or entirely educated in the UK, become better placed to go into business. Professional services supplied by accountants and solicitors from 'within the community', who were educated in the UK and know 'how the system works' in this country turn into a key business asset for ethnic minority entrepreneurs, notably to advise entrepreneurs on issues such as registration procedures, taxation, business regulations, etc. Co-ethnic professionals often play a key role in helping BAME entrepreneurs to reduce the existing gap between them and 'mainstream' businesses and the UK business framework, for instance in relation to a lack of relevant information, skills and training, knowledge and expertise. Yet, this asset appears to be a privilege not of the first but second or third generation migrants, as was apparent in the cases reported within the Chinese and Turkish-speaking communities. It appears that the greater the experience gained by a BAME business community in a specific context (city or country), through which business acumen has been gained and capital accumulated, the greater the chances for business success by individual entrepreneurs from that community. This partly explains the larger number of successful small- and medium-sized enterprises reported within the Chinese and Turkish-speaking communities vis-à-vis the other four groups.

### ***Legal/migratory status***

Unlike established BME groups, diverse migratory situations were reported among the new BAME business communities, especially among first generation migrants. These include individuals with 'indefinite' and 'temporary' leave to remain in the UK, people with different refugee status and asylum seeking situations, as well as legal and illegal economic immigrants. Different immigration acts (i.e. the Immigration & Asylum Act 1999 and the Nationality, Immigration & Asylum Act 2002) have differentiated effects on the structure of opportunities for new arrivals at a personal and institutional level, therefore affecting the entrepreneurial career of immigrant entrepreneurs in different ways. For instance, the tenure of 'temporary' leave to remain, which often provides obstacles for family reunification, generates huge uncertainties which may undermine the entrepreneur's will and commitment towards their ventures and deter them from future business investments.

Table 4. New and Emerging Ethnic Minority Business Communities in London

Factors New BMEs	The Horn of Africa	West Asian	Latin American	Chinese (Mainland China)	Vietnamese	Turkish & Kurdish (Mainland Turkey)
<b>Migration triggers</b>	Wars & civil wars Military coups (1980s & 1990s)	Islamic Revolution (Iran) Invasions (1990s) & civil wars	'Lost decades' (1980s & 1990s), civil wars (Colombia)	1990s immigration of Chinese from Mainland China	'The boat people' (Early 1980s)	Turks & Kurds from mainland Turkey (1970s/1980s)
<b>Statistics</b>	70,000-200,000 Somali (estimated)	11,000 Afghans 20,398 Iranians	100,000 (officially) 200,000 (estimated)	280,000 (official) 400,000 (estimated)	28,000 (estimated)	200,000-300,000 (estimated)
<b>Enterprise Development</b>	Late 1990s until present	1980s 1990s until present	Early 1990s until early 2000s	1990s & until present	Late 1990s until present	1980s/1990s until present
<b>Main enterprise activities</b>	Coffee shops Internet cafes & call centres corner shops	Pizza shops (Iranian) corner shops import/ export fashion (retail)	Cleaning companies coffee shops & eateries food products entertainment (salsa night clubs & classes) money transfer & shipping	Take aways restaurants traditional Chinese medicine (TCM) wholesale & retail professional services	Nail shops & hair salons take aways restaurants	Kebab Houses & restaurant fish & chips groceries & corner shops Barbers drycleaners travel agencies import / export money transfer & shipping Professional services
<b>Main location</b>	Camden, Haringey, Ham & Fulham, Wembley, Islington	Scattered, Ealing and Wembley	Lambeth Southwark	Scattered, China Towns	Scattered, Newham, Hackney	Hackney, Haringey, Scattered
<b>Enterprises' profile</b>	Sole traders Micro-enterprises	Sole traders Micro-enterprises	Sole traders Micro-enterprises	Micro-enterprises SMEs	Sole traders Micro-enterprises	Micro-enterprises SMEs
<b>Market</b>	East Africans	BAME groups & general public	Latin Americans	General public	General public	General public Turkish-speaking & BAME groups
<b>Community support</b>	High (Somali) Low (Ethiopian)	Low	Medium	High	Low	Medium / High
<b>Trading traditions</b>	High (Somali) Low (Ethiopian)	High	Low	Low	Low	High (Turks-Cypriot) Low (Mainland-Turkey)
<b>Legal/migratory status</b>	Refugees & Asylum Seekers	Old & new refugees & asylum seekers Economic immigrants	New economic immigrants, new refugees & asylum seekers	New economic immigrant (different statuses) / Students	Old refugees One-and-a-half younger generation	New economic immigrants Old/new refugees & asylum seekers
<b>English skills</b>	Basic	Basic	Basic	Hong Kong (good) Mainland China (basic)	Basic	Turk-Cypriot (good) Mainland Turkey (basic)
<b>Language &amp; Faith</b>	Arabic Regional languages <i>Muslim &amp; Christian</i>	Arabic & Farsi Regional languages <i>Muslim</i>	Spanish Portuguese <i>Catholic</i>	Chinese (Mandarin & Cantonese) <i>Buddhist</i>	Vietnamese Chinese <i>Buddhist</i>	Turkish <i>Muslim</i>

### **3. NEW ETHNIC ENTREPRENEURSHIP: IN WHAT SENSE A DIFFERENT CHALLENGE?**

So far a number of different dimensions associated with new ethnic entrepreneurship in the UK have been analysed. Crucially, these dimensions and linked circumstances vary over time and from generation to generation. Along with the shifting structure of opportunities that new arrivals face upon arrival, these mould the form in which new immigrant entrepreneurs enter into self-employment and conduct their future entrepreneurial careers. They also present different challenges for enterprise policy. Policy makers need to be sensitive to these challenges and their shifting nature if business support policies are expected to engage with and support entrepreneurs from the new/emerging BAME communities to go into self-employment and enterprise on a more formal basis. The research identifies three particular challenges to existing BAME business support policy. First, relates to the 'experiences of disengagement' from mainstream support (Section 3.1). Second, regards the role of the 'informal business support system' in underpinning entrepreneurship (Section 3.2). Third, considers the nature of informal operation to business activity (Section 3.3).

#### **3.1 Engaging/disengaging with the mainstream**

##### ***Initial experiences of state agencies***

An early and extremely important experience promoting 'disengagement' from mainstream support and services for new arrivals from ethnic minority groups relates to their migratory status and the migratory controls and procedures that they were subjected to upon arrival to Britain. This is especially significant from the 1990s onwards due to tightening migratory controls and new legislation. Findings suggest that distressing experiences with state reception organisations such as migration/customs officers and authorities, Job Centres and the National Asylum Support Service (NASS- Home Office) set a negative precedent for future liaison with state agencies, ranging from community-based through to mainstream organisations. This problem is particularly evident among asylum seekers, refugees, and new arrivals from disadvantaged ethnic minority backgrounds who often face tougher controls upon arrival. In addition, state-funded agencies are generally seen as too close to the '*benefit culture*' (or '*useless life*') which entrepreneurs seek to move away through their business ventures. Entrepreneurial careers are instead associated with a culture of '*self-determination*' which is positively valued by the entrepreneurs.

### ***New arrivals 'pushed' into businesses***

The lack of engagement with mainstream support also reflects the process by which many new arrival entrepreneurs enter into business ventures. Evidence from the previous report (Sepulveda *et al*, 2006) showed that entrepreneurs at large went into self-employment and micro enterprise as a means to generate an income and tackle the lack of job opportunities, prejudice and (perceived or overt) discrimination in mainstream labour markets. Similarly, enterprise was also seen as an alternative to previous experiences in low-paid, undesirable jobs (i.e. cleaning, taxi driving, catering and casual jobs). Entrepreneurs consequently were 'pushed' rather than 'pulled' into the entrepreneurial career and they did not always have 'relevant' business experience let alone formal business training upon arrival. This undoubtedly affected the way in which businesses were set up and managed.

### ***Factors discouraging engagement***

By the time new immigrants turn into entrepreneurs (a learning curve which is estimated to take approx 3 to 5 years to develop), the lack of engagement with mainstream agencies relates to cultural differences, language skills, lack of knowledge of what is available, and the time available to search for information and advice. Factors and situations which deterred entrepreneurs from approaching support agencies, apart from perceived prejudice against new arrivals (which is augmented by media stigmatisation of asylum seekers), included: lack of time to go into city center areas to both visit support agencies and produce the paper work required to secure support; lack of confidence in language abilities; the rather formal (*'posh'*) appearance of agency's offices and the form in which entrepreneurs perceive they have to dress up to go and be respected by these agencies; and the impersonal way in which they were are treated. Some business communities feel at a disadvantage in relation to entrepreneurs from well established BAME groups because no members of their community work for relevant business support agencies and organisations from 'within the community' (if they exist at all) are relatively powerless to lobby government agencies compared to well-established BAME organisations. This concern was raised in particular by the Somali and Latino business communities.

### ***The nature of business support provided***

Where a small number of entrepreneurs in the sample (10%) did approach business support agencies while starting up (i.e. local authorities, banks, advice bureaus, and Job Centres), further negative experiences resulted from information and advice received which was often considered 'useless' or a 'waste of time' by the entrepreneurs:

*'I know the local council but it isn't good. They ask too many questions and ask you why you are doing things in one way or another. Too much paper work' (Iraqi entrepreneur).*

*'I advise people that Job Centres have less knowledge and experience than me', 'You call the council and they don't know anything [...] It's never the right department, they tell you to call different numbers where nobody answers or they keep you on hold' (Iraqi entrepreneur).*

It follows that trust and credibility in mainstream (support) organisations is undermined from many different angles and this first-hand experiential knowledge is in turn transmitted via word-of-mouth among ethnic minority communities. There is also consensus amongst these groups that access to information (whether in the form of leaflets, brochures, newsletters or websites) without 'appropriate advice' and 'guidance' to process and understand the information received is of very limited value. However, support organisations pointed out that some entrepreneurs within their specific communities, particularly those who rarely access business support and distrust public agencies, keep their business ventures afloat by leveraging it with 'public support' received via job seekers allowance, housing benefits or other forms of public benefits. This business practice of 'cross- subsidising' is not uncommon among new arrival entrepreneurs and yet, it makes it difficult for business advisors not only to assess business performance but also to build trust. Entrepreneurs in these conditions are unwilling to disclose any information, even to co-ethnics, for fear of being denounced. As one business advisor acknowledged, in these cases, the state actually owns shares in these businesses.

The question thus arises as to how these micro and small businesses survive, compete and grow in increasingly tougher market conditions, relying on *ad hoc* marketing strategies and poor managerial skills and without accessing conventional sources of business knowledge let alone financial support. As explained below, beyond entrepreneurs' determination and hard working culture, the response to this question lies in the 'informal' business support system.

### **3.2 The role of the 'informal' business support system**

The role that the 'informal' business support system plays in underpinning ethnic entrepreneurship is particularly relevant to business support providers in two key respects. The first relates to the provision of information, advice (i.e. on issues of company registration and regulations) and basic business services, and the second relates to access to start up capital.

### ***Information and advice***

Practical information and ongoing advice and guidance in relation to 'what to do', 'how to do it', and 'where to do it' is considered critical during the start up process and yet, this '*information-plus*' type of support (i.e. how to register a business, deal with taxes and regulations, etc.) is what the entrepreneurs find much easier to access through the 'informal' system. In effect, basic business and market information, advice and guidance is secured through the entrepreneur's personal network, notably by friends, family, and co-ethnics and those who '*have greater business experience*', '*speak better English*' and '*know how things or the system work*' in this country. In other words, both market and business knowledge largely originates from within '*the community*' as 'ethnic knowledge'.

### ***Finance***

Alongside entrepreneurs' personal savings, start up loans by family and friends from within 'the community' (either from the local co-ethnic community or from the international diaspora), were the main sources of financial support 'taken up' by the entrepreneurs to launch their business ventures. Experiences of community-based informal credit unions or interest-free rotating capital systems which were purely based on trust (i.e. within the Somali and Vietnamese communities), on the one hand, and interest-paying lines of community-channelled 'informal' credit, on the other hand, were reported in field research (i.e. within the Chinese community). In all these cases, this money usually came from the informal *cash-in-hand* circuit of accumulation.

In contrast, the lack of financial trade records and references, difficulty in proving home addresses (quite frequently new arrivals do not possess utility bills in their names) and the widespread lack of collateral were frequent barriers that immigrant entrepreneurs from ethnic minority backgrounds faced in seeking to access bank services and become credit worthy. Evidence showed that after successive frustrating experiences with bank managers, entrepreneurs felt discriminated against by banks and ended up excluding themselves from the formal banking sector and, by extension, from support agencies which they might have thought of approaching to seek financial support. Negative experiences of engagement with banks, alongside an observed lack of confidence to approach bank managers (i.e. based on poor language fluency and cultural barriers), prompted some would-be entrepreneurs to launch their businesses before even opening a (personal) bank account, that is, without a key credit tool for mainstream start up businesses. By definition, BAME entrepreneurs in this situation start out operating on the fringe of the UK institutional business framework.

For many entrepreneurs 'community' itself is believed to act as a 'first sponsor' and market for new businesses. Entrepreneurs from the Horn of Africa (notably Somali) and Latin America, erroneously or not, saw the community as the 'natural market' for their product and services and, subsequently, the presence of 'the community' (i.e. in a local area) turned into the main factor underpinning entrepreneurs' decision for premises location. In contrast, knowledge of a potential market was found to be more limited among entrepreneurs from West Asia who were not serving their own co-ethnic communities - mostly because 'communities' in these cases either do not exist and/or are bitterly divided (e.g. for Afghans and Iraqis).

Over-reliance on 'the community' not only makes the 'break out' of (co)ethnic market dependency harder or even unthinkable for some entrepreneurs, but also makes the development of basic learning processes related to market knowledge (i.e. customer's preferences and services) or command of the English language (which is in general poor among the groups studied), somehow redundant.

The negative, if not distressing, experiences in liaising with two pillars of the UK institutional business framework - business support agencies and finance systems -, not only 'pushes' but 'pulls' entrepreneurs to seek business '*solutions*' and '*links*' in the informal system. There is thus a rationale behind entrepreneurs' reliance on informal business support providers, and as a result, the potential of the tax and regulatory system, the third key pillar of the UK business institutional framework, is necessarily jeopardised.

### **3.3 Nature of informality**

This section seeks to enhance awareness among business advisors and policy makers in relation to some trends and patterns of informality which were reported and/or observed in the field research. Businesses operating informally suffer a number of problems including a lack of legal protection, restricted access to capital and mainstream business support, and the risk of detention and prosecution. The analysis does not suggest that such trends and patterns are the norm among new/emerging ethnic minority business communities, but they may hinder policy efforts to engage with and support ethnic entrepreneurship among these groups. For confidentiality reasons references to specific BME groups are anonymised, although some remarks are illustrated with explicit examples.

Informal economic activity comprised here both, activity which is 'entirely hidden' from the state, in the form of businesses going unregistered with any governmental agency, and that activity which is

'partially hidden', in that it takes the form of registered businesses failing to declare their full profits or workforce (Community Links, 2007; SBC, 2004). As Community Links (2007) points out, *'either way, they evade full accountability in terms of tax, benefit and employment legislation'*. Criminal economic activity which is illegal and unregistered is not considered in this study (i.e. drug dealing).

Entrepreneurs and support organisations were consulted on the basis of two sets of semi-structured questions. The first related to the main barriers faced by the entrepreneurs for business registration and the second, to those factors where formality (or 'being formal') creates the greatest difficulties and burdens (see Table 5 columns 1 and 2).

Table 5. Factors of informality and informalisation.

1. Barriers to 'become formal'	2. Barriers to 'being formal'
<ul style="list-style-type: none"> <li>• Lack of capital</li> <li>• Lack of information</li> <li>• Financial uncertainty</li> <li>• Distrust of government agencies</li> <li>• Only way to survive in the market place (Need)</li> <li>• Deliberately cheating the system (Greed)</li> <li>• Uncertainty about their legal/migratory status</li> <li>• Too much red tape and bureaucracy</li> <li>• Lack of knowledge</li> <li>• Ethno cultural differences</li> <li>• Welfare benefits</li> </ul>	<ul style="list-style-type: none"> <li>• Corporation tax / income tax (i.e. people not declaring any or part of profits)</li> <li>• VAT registration</li> <li>• Employment contracts (casual jobs)</li> <li>• Employee rights: insurance, pensions, flexibility, annual leave &amp; sickness payment</li> <li>• National minimum wages</li> <li>• Employer liability (insurance)</li> <li>• Health &amp; Safety regulations</li> <li>• Public liability (Insurance)</li> <li>• Book keeping / track recording</li> <li>• Licence requirements</li> </ul>

A first broad distinction should be made here between those economic activities which were not fully registered with relevant government agencies or 'cash-in-hand' activities, and therefore were entirely invisible to the tax/regulatory authorities, and those activities which however 'registered' or legally formalised were characterised by irregular or informal business practices related to those factors listed on Table 5 Column 2.

### ***'Cash-in-hand' activities***

*'Cash-in-hand'* activities represented approximately a quarter of the sample and were found in practically all aspects of BAME enterprise activity. It appeared however that BAME unregistered business ventures tended to be particularly concentrated on the 'home-based' activities (i.e. traditional clothes making, repairing and selling; catering and domestic services such as childcare and cleaning), which are popular among BAME female entrepreneurs, as well as construction and home maintenance.

Four intertwined factors were reported as deterring entrepreneurs from registering their businesses and these link to individuals' attitudes towards formal operation: a) lack of awareness about registration procedures and relevant regulations, which relates to a lack of basic business training and limited access to relevant information by the entrepreneurs; b) uncertainty about the financial sustainability of ventures, which represents a widespread concern among start up BAME businesses in markets with low barriers to entry; c) linked to this, the high perceived costs of 'being formal' (i.e. corporation tax); and, finally d) the fact that some ventures do not consider themselves to be 'businesses'.

The fact that most entrepreneurs were unaware of registration procedures demonstrated the limited development of business culture within this group of entrepreneurs. In turn, this related to the fact that income generating activities took place on an irregular/casual basis and the income generated was minimal, and generally complemented paid work or other unpaid activities. This problem was particularly evident with regard to women starting businesses at home in order to complement other employment or childcare responsibilities. Hence engagement in *'cash-in-hand'* economic activities, at this level, appears to be gendered. This situation also raises questions regarding the usefulness of concepts such as 'business' and 'entrepreneur' (as a business-driven person) to the labelling and designing of support strategies targeted at this type of micro economic activity.

### ***'Independent' and 'dependent' informal economic activity***

A closer view into the nature of unregistered economic activity indicates that an useful distinction can be made between cash-in-hand 'independent' and 'dependent' economic activities.

Cash-in-hand 'independent' activities, which represented a quarter of the businesses sampled, were found in the 'single businesses' such as mobile traders and service providers with no commercial premises (i.e. plumbers, technicians, builders, nannies, baby sitters, beauticians, sales people, etc.)

and 'home-based' activities (i.e. clothes making and selling; alterations, and catering). Evidence showed that BAME female entrepreneurs were particularly important in many of these activities. Cases of registered 'dependent' economic activity are analysed further on in relation to the different styles of business organisation which are prone to informal operation.

This distinction between 'dependent' and 'independent' activities may turn critical for the formalising attempt as a cascade effect could be activated should the main subcontractor (i.e. a large building or cleaning company or in fact a government department) compel its informal service providers to regularise their activities. Strategic 'top-down' enforcement, targeting large companies like these may in effect produce better results than deterrence policies targeted at 'dependant' micro enterprises which in reality work for such companies. The case of a small firm which provides cash-in-hand decoration services for a larger developer illustrates this possibility well. The informal entrepreneur approached a business advisor from his community to seek advice on how to get his company VAT registered as he was concerned that, after three years of working cash-in-hand without any problem, the developer suddenly requested 'receipts' as a condition to continuing operating with him. The entrepreneur had no option but to go formal.

### ***Registered activities***

Three quarters to the fifty businesses interviewed were formally registered at the time of the interview and the majority had commercial premises. Informal business practices in this group of enterprises were reported and/or 'hinted' at by entrepreneurs and organisations primarily with regards to employment contracts and rights and, to a lesser extent, in relation to the payment of corporation tax.<sup>6</sup>

Employment contracts: With the exception of key employees (i.e. restaurants' chefs), businesses often failed to issue employment contracts to their employees or those who '*help the entrepreneurs out*'. Wages were around, if not below, the statutory National Minimal Wage (NMW), with long hours of work, and flexible 'contractual' agreements between employer and employee being reported. Community-based and support organisations pointed out that '*off-the-books*' low-paid work by relatives, co-ethnics and increasingly East Europeans, including undocumented or irregular labour, were a widespread business strategy used among new arrival entrepreneurs, particularly in labour-intensive sectors (i.e. catering and construction). In some cases, entrepreneurs were compelled to hire undocumented workers simply because they could not find qualified legal workers to fulfil key vacant

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<sup>6</sup> As expected, information given by the entrepreneurs was at times partial and vague as they showed themselves rather reluctant to disclose details about the sensitive issues investigated.

positions (i.e. chefs in traditional cuisine restaurants). These findings are in line with those from recent studies carried out among more established BAME businesses in the UK (see Jones *et al*, 2006).

A number of factors help to understand entrepreneurs' attitudes towards the use of informal labour. These included: the character of business organisation (i.e. 'extended' family-run businesses); the rather sporadic nature of labour needed (i.e. weekends or when the entrepreneurs '*need some one to help them out*'); the high rotation of employees (i.e. in the catering and hospitality industries); the shortfall of qualified 'legal' workers; and the very fact that undeclared labour can be 'legally' circumvented by making an 'intelligent' use of employment legislation, for example by keeping wages below the income tax threshold (£97 per week at the time of interviews) and so qualify for income tax allowance which exempts employers from making National Insurance contributions.

Some business advisers also explained that the complexity and extensiveness of employment legislation made it very difficult for smaller employers to understand and fully comply with it. As another key informant stated: *'if employers struggle to understand the employment legislation, employees have no idea about their rights either [...] So there is a big problem within the XX community as over 90% of the businesses [in that community] do not have employment contracts. So everybody is unprotected'*. As well as kinship ties, ethnicity (alongside poverty and deprivation) plays a key role in facilitating these practices as job-seeker co-ethnics are often the most readily accessible source of informal labour. Increasingly though, informal labour from East European workers is becoming popular among new BAME entrepreneurs, which coincides with the trend observed among native start up and mainstream businesses.

Tax payment: Failure to declare any or part of the profits generated, which deviates from compliance with corporation tax and VAT rules, was reported by community-based and support organisations, and less so by the entrepreneurs themselves. Payment of corporation tax and VAT is seen as the most onerous of the taxes as this has direct effects on the entrepreneurs' earnings. VAT registration was not however a requirement for many of the businesses interviewed as profits did not exceed the £61k VAT payment threshold.<sup>7</sup> Some entrepreneurs were however voluntarily VAT registered as business growth was forecast.

As with employment contracts, different factors help to explain the failure of some businesses to declare taxable incomes. These included; the entrepreneurs' lack of knowledge and adequate

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<sup>7</sup> The current registration threshold for taxable supplies is £61,000 (valid from 01.04.06 to present).

information; business size; likelihood of survival in increasingly competitive market places if all profits are declared; and the express intent of evading taxes. An ethnic minority business advisor stated: *'I think that the entrepreneurs don't do this [failing to declare incomes] because they are bad people but because businesses are too small and do not generate much profit; and also because of their mentality [...] In practical terms, many of these businesses would not have to pay much tax should they be registered or declare all of their profits, because they don't generate much profit to declare full stop'*. In his view, information, courses and rising awareness is needed as many new arrival entrepreneurs *'do not understand that corporation tax is calculated over the level of profits and not turnover'*.

In addition, registered activities in which new BAME businesses concentrate, are prone to partial compliance with tax rules as they commonly get paid in cash, and less frequently, via cheque or debit/credit cards. As a business advisor pointed out, the latter are more difficult to hide as they are likely to go through the 'formal' banking circuit. Referring to take-aways, another key informant explained: *'Having cash, as we all know, is always a temptation, because businesses are cash oriented, even when more and more people are now paying by card, it remains the exception [in some activities]... I know I have to comply but what is the harm, where is the harm [of having pocketed a part of that cash] entrepreneurs would say'*. The bottom line is that while more and more people operate through the formal bank system and hold plastic money, cash remains the common and consensual currency for many BAME-populated economic activities (namely, take-aways, pizza shops, Internet cafes, corner shops and so on). Yet, informal savings (i.e. 'kept underneath the mattress'), informal lines of credits (i.e. for would-be entrepreneurs from within the co-ethnic community) and cash-paid properties (residential but more importantly commercial premises), have their origin here in what can be referred to as an informal circuit of capital accumulation.

A major problem that business advisors face in relation to the declaration of taxable profits is that entrepreneurs rarely disclose the vital business information which is required in order to provide accurate business/financial advice, as entrepreneurs in this situation fear being denounced. As explained previously, new arrival entrepreneurs generally distrust any official institutional approach and yet, informal business practices such as those described here make things even harder for business support policy.

However, it is worth recognising that registration procedures (e.g. tax rules and regulations) were not seen as a highly complex issue by this group of registered businesses as was often the case from

unregistered businesses. Entrepreneurs expressed that relevant authorities in general were supportive during the registration process. However, local authorities sometimes displayed different approaches (i.e. to Health & Safety enforcement and regulations) which affected entrepreneurs who moved from one London borough into another (notably, catering, hair salons and nail bars). They also highlighted that if they are well advised (i.e. by an accountant or solicitor), registration was not a major problem or barrier.

### ***Style of business organisation prone to informal operation***

Three different styles of business organisation which are prone to informality, in the sense that they (positively) combine cash-in-hand and registered economic activities, were identified and are illustrative of the intertwined and interdependent relationship between informal and formal spheres of the economy. These are: the 'subcontracting model', the 'multi-business model' and the 'micro shopping centre model'.

The subcontracting model: Economic activities which are organised on the basis of a large number of subcontracted services (i.e. those provided by 'self-employed' individuals and smaller enterprises) are frequently prone to informality and informalisation. Taxi (mini-cabs) and transport (driving & delivery), cleaning, home maintenance, and construction are examples of economic activities driven by subcontracting, in which the presence of ethnic minority businesses is estimated to be significant. Two cases serve to illustrate this style of business organisation.

**Case 1: Self-employed taxi owner-driver from West Asia who is also a refugee.** Mr XX works entirely cash-in-hand for a fully registered mini-cab company which is owner-managed by a fellow West Asian entrepreneur. He does not declare income at all and works on over night shifts (for 12 to 14 hours at a time) when the likelihood of being caught is much lower. In a good week he can make up to £400 tax free. Mr XX pays £100 per week to the company and they make the bookings for him. He pointed out that *'there is no sickness pay, pension, holidays, insurances, etc. It is all entirely up to me'* and that this is the company policy for all of the taxi drivers who work for this mini cab company. Mr XX stated that the flexibility of the job arrangement he has from the company suits him, because they *'do not impose anything on me, I can stop working whenever I like, and no restrictions exist in the amount of hours that I can work because nobody controls it'*.

The company comprises the owner manager, 6 people answering the telephones and making the bookings, four administrative staff and an accountant. The company owns two offices in North London. Mr XX estimates that up to 120 taxi 'owner-drivers' work for the company under similar conditions. Most of them are immigrants from West Asian and East African countries and the majority work irregularly, either because they are not allowed to work (i.e. asylum seekers and undocumented labour) or do not declare income (i.e. refugees that claim public benefits).

**Case 2: Small cleaning companies.** On average, smaller BAME cleaning companies consist of one or two owner-manager/s, two to four administrative staff, and the labour force is entirely subcontracted (up to 20, 30 or more self-employed' workers, depending upon demand). Subcontracts are arranged weekly (i.e. 10 hours per day organised into two shifts, early mornings and late evenings) and wages are kept around the NMW. According to information provided by key informants, most of these companies are fully registered but cases of unregistered companies were also reported. Informalisation however largely refers here to the fact that individual subcontractors work cash-in-hand. Like with taxi companies, most of the labour force used is not entitled to work in the UK (i.e. undocumented new arrivals). These companies are normally subcontracted by larger cleaning companies which in turn are subcontracted by mainstream clients including government departments and large local and MNC companies (i.e. in the City). Upon arrival, several Latino/a entrepreneurs in the sample admitted to work for cleaning companies prior to becoming entrepreneurs themselves. Cleaning work is in fact seen as a truly 'equal opportunity' source of employment for new arrivals. A Colombian entrepreneur explained: *'I always say that fortunately cleaning work exists since this is a job that... Let's put it in this way, you arrive [to London], you arrive on Friday and easily on Monday, without any training or preparation, without even speaking the language, you are able to get the job and do it and this allows you to have an income. Fortunately it [the cleaning work] exists! For the people, for the immigrant'*. Unfortunately, the entrepreneur adds, *'it can also become a trap if you keep doing this job for ever and do not try to change the situation'*.

'Single businesses' and 'home based' activities which on the surface appear to be operating 'independently' may in reality be linked to, or be dependent upon, larger subcontracting chains. Cases of former employees of fashion companies who now run their own workshop but heavily depend upon contracts from the original company were reported by key informants (i.e. fashion companies which subcontract production lines from small home-based clothes making workshops within the Turkish-speaking community). Builders and home maintenance services may also fall within this category should their financial sustainability rely on subcontracts from larger developers and building companies.

The multi-business model: multi-businesses comprise groups of two to three or more 'independent' or 'semi-independent' entrepreneurs who trade under the same roof (typically one commercial premise on the high street), but only one of them appears on papers or is registered as a business owner (i.e. the Leaseholder). This person is legally accountable for paying corporation tax, council tax, obtaining licenses and paying overheads. The business agreement with the other entrepreneurs is that they share the premises with the 'official' entrepreneur but also share overheads, rent, taxes, and other obligations – although they are not legally bound to do so. Cases of BAME businesses identified which may fall into the category of multi-businesses, included: *Internet cafes/call centres*, which also operated as call centres/Internet cafes, mobile phones accessory shops, coffee shops, repair services (i.e. PCs); *hair salons* which also supply a wide range of beauty services (i.e. nail bars, make up, massage and alternative therapies, and retail beauty products); and *food shops or groceries* (e.g. butchers, news agents and off licences, and bakeries). This type of business organisation often

becomes critical to the financial sustainability of all the business activity occurring inside these premises, both registered and unregistered. In this respect it provides a clear demonstration of the dependant relationship of formal and informal business activity.

Micro 'shopping centre' model: 'micro shopping centres' constitute a slightly different case of business organisation and are very popular within the Latino and Asian business communities in the UK. They operate as follows: one entrepreneur (often the Leaseholder) hires a large commercial premise, typically a former workshop or a derelict property. This person renovates and subdivides the premises into several small 'units' and then sub-lets these units to various shopkeepers who generally belong to the same ethnic minority group.

The whole ethnic product package is supplied inside the premises by the different sub tenants, including typical food products and craft items, coffee shops, eateries or restaurants, hair dressers, money transfer & shipping houses, laundry and dry cleaners, video-music shops and so on. Cases of 'informal' surgeries and legal advice offices in such centres were also reported. The selling point of these micro shopping centres is that businesses specialise in the particular ethnic market niche where the entrepreneurs and most of their customers are from. On Saturday and Sundays a section of the premises often turns into a venue for social gatherings and partying (i.e. restaurants and coffee shops), as a large number of families and new arrivals from that BAME group come alone when shopping and socialising. Owing to their particular ethnic-based business characteristics, micro shopping centres like these portrayed above also turn into job centres, information and advice centres for new arrivals, and an opportunity to promote new business developments within the community.

As seen, the symbiosis that occurs in these market sites between the formal and informal spheres of the economy produces a diversity of situations in which the relationship with the official and regulated sphere of the economy (or formal economy) can be benign, exploitative or mutually advantageous for both formal and informal BAME businesses involved (Sepulveda and Syrett, 2007). From the point of view of opportunities for entrepreneurship among new arrivals, it must be highlighted however that several registered entrepreneurs in the sample established their businesses ventures after gaining entrepreneurial experience and business confidence by working for, or in, these test-bed market places. It may be argued that they act as informal business incubators for potential spin-offs. Yet, cases of ventures which vegetate for many years within these rather 'protected' and ghettoised market sites (like the 'micro shopping centre' portrayed) were also reported. Community support and co-ethnic market dependency in this case may not only deter potential entrepreneurs from making a qualitative jump in their business careers but also prolong indefinitely situations of informality.

## 4. POLICY IMPLICATIONS

The study provides evidence that informalisation and informal economic operation are a widespread phenomenon among new and emerging ethnic minority business communities in the UK. This requires analysis from a comprehensive and less prejudiced perspective so that both the positive and negative implications of business engagement can be examined, assessed and addressed accurately. Only an analytical perspective like this will allow policy makers concerned with supporting ethnic entrepreneurship to design and deliver appropriate mechanisms of intervention capable of overcoming the numerous challenges faced by new ethnic minority business communities.

Far from being only the result of rational cost-benefit and profit-maximisation calculations by the entrepreneurs, this research demonstrates that informal economic activity is the product of a much more complex and dynamic set of interrelated factors and circumstances. It has been said that cutting costs to compete in markets with low barriers to entry, low added value and tough competition is a common strategy used among start up ethnic minority businesses, and because doing this in 'formal' ways has limited scope, many entrepreneurs cut costs in 'informal' ways i.e. by cutting corners with respect to taxes, labour regulations, minimum wages, or employing illegal workers (Kloosterman et al, 1999). In contrast, this study argues that informality is the result of demand and supply factors and the very fact that, under certain circumstances, specifically in relation to new arrivals from disadvantaged ethnic minority groups, the system 'does not let entrepreneurs in' (De Soto, 1989). At one level, this relates to the nature of the official business support available and the strategies to engage with BAME entrepreneurs, the role of the informal support system in underpinning ethnic entrepreneurship, and the very nature of informal operation within among these groups. At a more general level, this also comprises the personal and institutional constraints that new comers face upon arrival to the UK and the specific characteristics of individuals and their communities.

A note of caution is raised here since, while some factors and circumstances underlying informal operation are specific to the ethnic minority businesses, others are ubiquitously present and cut-cross distinctions and/or boundaries of ethnicity, social class, economic sector, performance and location. Recent research shows that informal economic activity is a common and growing practice in the UK among native workers and small enterprises in deprived as well as affluent areas (Community Links, 2006, 2007; Copisarow and Barbour, 2004; Williams and Windebank, 2002). This critically relates to the risky and uncertain nature of the entrepreneurial process in globalising market economies, on the one hand, and to the very nature of the informal economy, on the other. As Community Links (2007)

puts it: *'In fact, the informal economy is actually just one side of the coin that is the economy; the informal and formal spheres are intertwined and interdependent'* and therefore unavoidably they directly or indirectly cross-cut all economic activity. The trouble for policy makers concerned with public policy targeting ethnic minority businesses is that this does not seem to be reaching the target group and as a result, a substantial part of the answer to this problem is a reliance upon informalisation and informality which are specific to, or have specific effects on, ethnic entrepreneurship.

In seeking to develop policy strategies aiming to engage with and support ethnic minority businesses in making the transition towards more mainstream business practices ('formalisation'), a number of issues need to be addressed by the delivery model and the socio-political framework in which this is embedded.

### ***Engaging with new arrival enterprises***

- A first policy implication relates to the role played by reception organisations. Although this lies outside the enterprise policy framework, certain negative experiences upon arrival may be eased on the basis of an earlier identification of new arrivals with entrepreneurial skill/expertise and/or business ideas i.e. through Job Centre Plus, Refugee Council agencies, etc.
- Mainstream business support policies need to combine the understanding and access of ethnic- and community-based organisations with the expertise of business support agencies. Special consideration should be given to the work carried out in guiding and sign-posting 'fledging' entrepreneurs to 'integrate' them into the UK business framework (i.e. guiding them on business registration procedures, license applications, training, book keeping, etc). Interesting experiences in this sense include the Regenerating Enterprise Through Local Economic Exchange Project (REFLEX Project), the Association of Community Based Business Advice (ACBBA), the Latin American Development Agency (PLADECOOP) and the Kurdish & Turkish Community Centre (HALKEVI). These 'pockets of good practice' which are leading the policy attempts to deal with increasing diversity at a local level (i.e. different ethnicities, cultural traditions, languages and faiths) should closely inform future policy developments as they have succeeded in overcoming barriers to gain entrepreneurs' trust, despite often severe budgetary restrictions.
- Although community based organisations are perceived to be knowledgeable about the needs of new arrivals 'at a grass roots level' and are trusted by ethnic minority groups, they generally possess neither the expertise, resources and/or political will to deliver business support. The role that mainstream agencies can play in supporting these organisations may thus turn critical. The

sooner relevant public agencies (notably the Local Authority and HMRC) 'contact', 'recognise' and 'legitimate' legal cash-in-hand economic activity (i.e. by temporarily having to meet part but not all of the requirements that a registered enterprise has to meet), the better for the formalising attempt. Some initiatives led by London Development Agency (notably, London BME Action Plan and Diversity Work For London initiative), Business Links For London (i.e. the Knowledge Centre on Black and Minority Ethnic Businesses and Minority Business Diaspora Interchange Programme), and the Refugee Council and its partner organisations (i.e. London Refugee Economic Action – LORECA-) do provide evidence of good practice related to the operationalisation of joint thinking and joint policy action, however much more needs to be done.

- Evidence suggests that engagement with new BAME businesses should not only be 'top-down', that is, from the mainstream to the entrepreneur level. Capacity building and business-oriented organisation of ethnic minority business communities at the grass roots level appears an important line of policy action to be undertaken by new and emerging BAME groups. This process may well be endorsed by business support agencies, small businesses associations and local chambers of commerce.

### ***Formalising new arrival enterprises***

- To make the transition towards the mainstream economy possible, but without jeopardising the huge stock of entrepreneurial capacity existing among BAME groups, an enabling or facilitating approach is required. While some aspects of the dominant deterrence approach (which focuses on detection and punishment of informal activity) will be required, this approach, as it stands, has proved to be inadequate and at times inefficient, not least as a means of capitalising on the positive aspects associated with some informal activities, such as entrepreneurship and economic inclusion.
- One-stop 'formalisation' services which provide advice and training on finance, legal issues, tax, benefit, administration, marketing and book keeping, through either one-to-one sessions or courses and workshops, are widely recognised as a significant step to facilitate formalisation (Small Business Council, 2004). This report argues that a service like that should also be 'sensitive' (although not necessarily targeted) to the specific constraints and needs of ethnic minority businesses. Experiences such as The Street UK (Copisarow and Barbour, 2004; Williams, 2004), which arguably offers the most interesting model of formalisation of micro enterprises so far set up in the UK (namely, by supporting clients to transit from informal to formal through different and ladder stages), could be re-visited and replicated on a larger scale. Evidence shows that the local scale does matter for designing an effective delivery model of formalisation services like

this, as new BAME businesses in general operate entirely at, and are embedded in, the local economy.

- At the single business level, it appears that registration and compliance with taxes and regulations comes largely after, and not before businesses' break even, for most of small minority ethnic businesses. A successful Western Asian entrepreneur explained his transition into the official economy as follows: *'I was never afraid of regulations or taxes, but you have to deal with taxes and regulations step by step. [Then] when the business grows, when you get to the point that you can pay for [being formal], lawyers and accountants can help you with these things [taxes and regulations], but you have to go step by step'*. Hence, tapered financial support and tax relief/allowances, alongside registration advice, are critical in alleviating business start up risks while encouraging a smooth transition into the formal economy.
- Enforcement policies targeting large companies which control chains of subcontracting should also be promoted as these can cascade 'formalising' effects to smaller informal subcontractors (i.e. in the cleaning and construction industries). Tapered transition strategies may in turn help small subcontractors keep their subcontracts while going formal.
- Sectoral strategies of formalisation should also be promoted as they can be tailored to specific businesses' constraints and needs, on one side, and generally are more cost-effective, due to the economies of scale involved, on the other. The rationales for such a strategy can be multiple. Such programmes can specifically tackle aspects of 'being informal', i.e. training concerning issues of environmental health for take aways, restaurants, and hair salons. One example of this is the Salon Strategies-led initiative which provides tailored training to black and minority ethnic hair salons. Others can aim to provide officially recognised qualifications in professions where shortfalls of skilled legal labour are evident. Initiatives may also aim to generate officially and nationally recognised professional standards which authorise would-be entrepreneurs to start up a business in that particular sector (i.e. official qualifications for chefs, hair dressers, beauticians and nail bars).
- This battery of policies should act jointly with policies intended to formalise informal workers and self-employed, that is, a co-ordinated approach which seeks to deal with informal providers, consumers and those who utilise informal work, respectively. Aspects of informality relating to the benefit system (i.e. in-work benefits and housing benefits – a key issue in the London context-), taxes (i.e. tax credits) and minimum wages, were not addressed by this study (See Copisarow and Barbour -2004-; Community Links report -2007-; and Small Business Council -2004-). Information campaigns to raise awareness about tax and regulatory systems as well as the benefits of formal

work and enterprise (i.e. targeting specific institutional stakeholders, small entrepreneurs or wider society at a more general level) should also be part and parcel of the formalising attempt.

Finally, it must be recognised that a wide-ranging formalisation strategy should not be conceived in a social and economic vacuum, but instead within the framework of a more comprehensive welfare state strategy aimed to combat factors such as deprivation, marginality and exclusion which push new arrivals into informal employment and enterprise in the first place. As one informant explained: *'the informal economy plays a fundamental role in providing people with an income so as to have more acceptable life conditions [...] The informal economy is facilitating the role that perhaps the government should play as the benefit system does not cover the minimum needed to have an acceptable level of life.'*

The inherently contradictory and controversial nature of the informal economy may further hinder the formalising attempt. In effect, any engagement with informal enterprise by public-funded business support agencies runs the risks of accusations of condoning cash-in-hand (if not illegal) economic activity and consequently is pursued cautiously. As the same informant added: *'the problem that currently exists is that local government, the central government, state agencies and Job Centres are not prepared to face the fact that the informal economy plays a fundamental role, because they are limited by the legal framework'*. To adopt a default position however, that publicly supports deterrence but in practice tolerates certain types of informal activity through weak or non-existent enforcement, as currently occurs in some parts of the economy, provides tacit endorsement of exploitative and socially divisive practices, let alone unfair competition for BAME and mainstream formal enterprises. In such a situation, the practical and political difficulties of engaging with informal economic activity need to be confronted, not ignored.

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