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# **New Ethnic Minority Business Communities in Britain: Challenges of Diversity and Informality for the UK Business and Policy Frameworks**

**Working Paper n. 1**

**by Leandro Sepulveda, Stephen Syrett, Fergus Lyon**

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**New Ethnic Minority Business Communities in Britain:  
Challenges of diversity and informality for the UK business  
and policy frameworks**

Leandro Sepulveda  
Stephen Syrett  
Fergus Lyon

**October 2008**

**ABSTRACT**

Ethnic minority entrepreneurship in Britain is no longer mainly associated with established ethnic minority groups, notably, South Asian and Afro-Caribbean, but rather immigrant entrepreneurs are increasingly evident from the world over. This phenomenon, which is a product of the increasingly complex socio-economic geography that is emerging in many British cities as a result of globalisation, mass migration and the so-called 'diversification of diversity', is particularly evident in the global 'ethnic supermarket' that is contemporary London. Yet, the phenomenon constitutes something of a challenge for mainstream business support organisations. The paper will therefore seek to address this challenge by exploring (a) the current understanding of the nature of entrepreneurship among new and emerging ethnic minority business communities; and (b) the relationship between such enterprise activity and the UK institutional business framework. The aim is to provide a basis for the development of policy strategies that can effectively engage with these groups, particularly with respect to the current interest in the possibilities for enabling transition from informal into formal enterprise activity.

**KEYWORDS:**

Ethnic minority businesses; entrepreneurship; informal economy; formalisation; enterprise support

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# **New Ethnic Minority Business Communities in Britain: Challenges of diversity and Informality for the UK Business and Policy Frameworks**

*Leandro Sepulveda, Stephen Syrett, Fergus Lyon*

## **1. Introduction**

Large Western cities have recently acquired a more 'cosmopolitan outlook' which is reflected not only in an ever-broadening range of products available on the high street (i.e. global icons such as Coca Cola and McDonalds alongside 'ethnic/exotic' products from the world over) and in the ever-changing '*demographic make-up*' of cities but by the very fact that immigrants themselves introduce their products, symbols and traditions to far off places, that is, by establishing their business ventures and becoming '*immigrant entrepreneurs*' (Kloosterman and Rath, 2003:1).

London, arguably the most ethnically diverse and cosmopolitan city in the world (Benedictus, 2005), is a paradigmatic case for ethnic entrepreneurship. London has turned into a 'magnet' and 'hoover' city in the sense that it attracts, brings together, and blends the most diverse migrant populations (UN-HABITAT Report, 2004). Although the process of 'bringing together' has demonstrated to be a highly complex and contested one, it is widely publicised that in London there are people from some 179 countries, numbering over 10,000 respectively from each of no less than 42 countries and over 5,000 from a further 12 countries (GLA, 2005a); alongside the British-born ethnic minority population. It is not surprising that nearly a third of Londoners are from ethnic minority backgrounds while in some parts

of the capital they represent 50% or more of the residents (LDA, 2006). Moreover, approx 45% of the foreign-born population came to London from 1990 onwards and approximately 70% did so from low income countries in the developing world (Vertovec, 2007). So they constitute the first generation of what can be considered as 'new immigrants'. Refugees and asylum seekers, who are (guess)estimated to be half a million or more living in the capital, are an important sub-group within the new immigrant population as much of the increase of new arrivals during the 1990s was within the category of asylum seekers (GLA, 2001, 2005a; Vertovec, 2007). Finally, new arrivals mainly come from East, South and West Asia, West Africa, Latin America and more recently, and in increasing numbers, from Eastern European accession countries (notably Poland). As explained below, immigrant entrepreneurs from these emerging communities represent for this paper the new faces of ethnic entrepreneurship in Britain.

Based on primary data gathered from two recent studies on new immigrant entrepreneurs conducted by the authors<sup>1</sup>, this paper argues that immigrants from new/emerging ethnic minority groups, in increasing numbers, are being 'pulled' and largely 'pushed' into self-employment and enterprise activity. Official statistics to support this claim are yet to be produced, which somehow mirrors the fact that the phenomenon in question represents something of a challenge for government departments concerned with enterprise policy and UK business frameworks (notably, tax and regulatory bodies). London Development Agency (LDA, 2006) however estimates that in London alone there are 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 individuals from Black and Minority Ethnic (BME) communities. Other commentators estimate that while entrepreneurs from BME groups own only 7% of all businesses in the UK, the figure rises sharply to 50% in some parts of the capital. London BME Action Plan (LDA-OECD, 2005) in turn estimates that the number of 'Black and minority-owned businesses' have grown significantly in the capital since 1995; which is consistent with the rising figures of 'new immigrants' which have settled in the capital during the same period as previously explained. According to the evidence gathered, the figures above in relation to the number of BME businesses somehow

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<sup>1</sup> The first study, 'Refugee, New Arrivals and Enterprise: their contributions and constraints' (Sepulveda, L., Lyon, F. and Syrett, S, 2006), focuses on the constraints that refugee and new arrivals face to go into self-employment and enterprise and examines the impacts of such an activity among owners managers, employees and the local economy. The second study, 'Formalisation of New Arrival Enterprises: challenges of new ethnic entrepreneurship for business support policy' (Sepulveda, L., Syrett, S. and Lyon, F., 2007), instead makes the case for the emergence of new ethnic minority business communities in Britain and discusses the role that both the informal support systems and informal economic practices play in underpinning entrepreneurship and the challenges that this poses to the UK institutional business framework.

hide the reality observed in many local areas should the informal or grey economic activity be accounted for, especially those that fall in the category 'self-employment' (i.e. personal services, care, home-based activities, street stalls, and 'mobile' trades). LDA in fact recognises that 'there remains a longstanding problem with the availability of consistent and reliable baseline data about BME-owned businesses' in London (LDA-OECD, 2005:3) and this paper maintains that partly this problem relates to problems of informality.

The new enterprise geography which is emerging in inner London and several UK cities comprises broad ranging BME business activity including: new agglomerations of enterprise, and new activities developing around established shopping and market areas; single business; home-based activities and community economy; carnivals, festival and religious celebrations; and support organisations for immigrant and refugees and community-based organisations (see Sepulveda *et al*, 2007). New agglomerations of ethnic businesses which have developed in recent years include: Cypriot and Turkish businesses 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) and Camden, Islington and Haringey (North London); West African businesses 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), not to mention the well established Bangladeshi business community in Brick-Lane (East London) and the Chinese community in Chinatowns in Central London and Oriental City (North West London). Furthermore, there is a plethora of mobile and permanent 'street stalls' run by new immigrants within and/or around established markets such as Brixton Market (South London), Columbia Road (in Hackney), Spitalfields (around Brick Lane - East London) and Camden Market (in Camden), to mention just a few. Furthermore, thousands of single small ventures run by entrepreneurs from all over the world which have been set up across UK cities in recent years, notably Chinese from mainland China, Polish, Thai, Turkish-speaking, and Vietnamese businesses.

Hence this paper argues that ethnic or BME entrepreneurship in the capital is no longer associated with enterprise activity developed by established ethnic minority groups such as South Asian and Afro-Caribbean entrepreneurs or ethnic minority 'majority' groups, which have been the main focus of BME businesses' research in Britain (Jones *et al*, 1992; Barrett *et al*, 1996, 2001; Ram and Smallbone, 2001; 2003), but rather immigrant entrepreneurs are evident from the world over. London is in fact becoming a prototype of a global 'ethnic supermarket' from both supply-side and demand-side. It is also argued that although the phenomenon is particularly evident in

London, other cities are likely to witness similar processes of business creation in the near future as new flows of immigrants are 'settling' in different UK regions (notably, East European and refugee groups). It needs to be emphasized that although differences based on 'ethnicity' and 'nationality' are central to understand diversity, there are other variables that studies on new ethnic entrepreneurship should be aware of. As Vertovec (2007) observes, the nature of immigration to Britain has brought with it a transformative 'diversification of diversity' not just in terms of ethnicities and countries of origin, but also with respect to a variety of significant variables that affect where, how and with whom people live', including language, religion, clan or tribal affiliation, social class, skills and education, reason for migration and so on. These variables, along with the structure of opportunity that immigrants face in host societies, as advanced by the 'mixed-embeddedness' approach (Kloosterman *et al*, 1999; Kloosterman and Rath, 2003), critically affect the strategies of socio-economic integration and/or survival that new immigrants deploy upon arrival as well as the ways in which new immigrant entrepreneurs trade and make businesses. Hence their analytical importance.

Therefore the paper seeks to address the challenges presented in gaining a clearer understanding of the nature of both the enterprise activity developed by new/emerging ethnic minority business communities and the relationship between enterprise and business support policy in order to provide a basis for the development of policies that can engage effectively with these groups. In this paper's view, the lack of official statistics about the phenomenon at national and sub-national levels mirrors two problems. Firstly, that mainstream organisations have only recently noticed the phenomenon (see recent studies by Blackburn *et al*, 2005; LDA, 2005; Michael Bell Associates - Research Report, 2004; Sepulveda *et al*, 2006). Secondly, it mirrors the fact that some start up ethnic businesses themselves might prefer to remain partly or entirely 'in the shadows', that is, operating embedded within their ethnic markets and communities and/or disengaged from mainstream, which makes the building of bridges between mainstream and these businesses extremely complicated.

The results presented draw from primary data from ethnic minority businesses owned-managed by entrepreneurs from Latin America, The Horn of Africa and Western Asia (50 in total), as well as from ethnic minority organisations related to both these groups, as well as to the Chinese, Kurdish and Turkish (and Turkish Cypriot) and Vietnamese communities. The paper suggests that the new faces of ethnic entrepreneurship appear both more distant from and marginal to mainstream business support as they present different problems of engagement with (and disengagement from) the UK business framework, which can be associated with factors such as migratory

status, available informal channels of support, and the different trading cultures in which enterprise activity is embedded. Implications for policy design are specifically addressed in light of the current policy interest observed in the UK on the possibilities for enabling transition of informal or 'grey' self-employment and enterprise into formal economic activity, as explained below.

### **1.1. Out of the shadows?**

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, 2002, Chen *et al*, 2002). In the UK, the reason for this shift is two-fold. Firstly, the dominant approach towards the IE or 'deterrence approach' (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. 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; SBC, 2004; Sepulveda and Syrett, 2007; Williams, 2004, 2006). It follows that the British government has recently taken on board the criticisms of the dominant approach towards the IE and recognised, although rather implicitly, the need to review current policy strategies (SBS, 2005). Specifically, it recognises the importance and need for policy responses that incorporate both 'persuasion' and 'deterrence' to deal with the IE, which is informed by a view that *'the persuasive approach sees entrepreneurship in the informal economy as an asset to be harnessed'* (SBS, 2005:7).

Despite this growing policy interest in informal economic activity (IEA)<sup>2</sup>, little is known however about the nature of the phenomenon especially among BME businesses, which are important in the context of deprived local economies. The lack of baseline knowledge about the phenomenon among BME businesses, and its media stigmatisation, not only makes it more difficult for business advisors and mainstream business support agencies to engage and liaise with

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<sup>2</sup> Informal economic activity is understood here as undeclared and unregulated self-employment and enterprise, wage employment in unregistered jobs, and the paid informal work of 'favour providers' (i.e. care, casual home maintenance care, and gardening activities by neighbours or acquaintances). Paid work or enterprise activity associated with goods and services which themselves are illegal are excluded from this definition.

smaller start up BME businesses but it also makes the design of policies to support them more complex. Seminal research on the subject has just commenced to shed light on 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). A pioneer study conducted in the London Borough of Newham, one of the most deprived as well as ethnically diverse neighbourhoods in the capital and the UK, calculated that 25% of employment in the borough could be classified as 'informal' (Katungi *et al*, 2006).<sup>3</sup> In fact, while entrepreneurs from BME groups own 7 to 10% of all businesses in Britain, the figure rises sharply to 50% in the most ethnically diverse areas of the capital (LDA-OECD, 2005). The study also found that the IEA forms part of most people's everyday lives, as individuals in deprived areas move in and out of such activities over time and in relation to different needs and circumstances. The problem of informality has been barely addressed by the local/regional enterprise policy framework, however, not only because it often turns politically controversial but because there is not much knowledge available relating to its nature. This study aims to contribute to fill this gap in relation to the new ethnic minority business communities.

## **1.2. Methodology and the profiles of enterprises**

The lack of information on BME businesses and particularly on new immigrant entrepreneurs which comprises contact details (i.e. name, telephone and address), determines the need for developing a flexible and (cost) effective methodology which allows the researcher to both identify, reach and liaise with the target population and adapt the techniques of data collection to the circumstances found. This methodological design has limitations however particularly in terms of potential bias. In this study, these biases were minimised by ensuring a range of techniques were used (interviewing, observations, informal discussions), combined with sampling of cases allowing cross case comparison and the cross checking of issues from multiple sources ('triangulation'), as well as the use of different interviewers, both

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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.

male and female. There is also potential for the intermediaries (key informants and translators) used to affect what interviewees said.

This study used a range of purposive sampling methods including identifying areas of business concentration and premises on high streets and developing contacts through business support and community-based organisations. Entrepreneurs interviewed were asked for other business contacts (a 'snow ball technique'). Institutional contacts were especially important for identification of businesses operating more informally (i.e. female house-based enterprise activity). Face-to-face interviews and telephone interviews based on a semi-structured questionnaire were completed in three rounds of interviews (June-August 2004, April-October 2005 and September-December 2006). Intermediaries who have knowledge of local communities as well as language skills were used when required. The project was however sensitive to avoid recommendations from business support organisations in its earlier stages, as previous work has identified the limited ability of such organisations to identify and reach businesses (Ram and Smallbone, 2003). Identifying and liaising with entrepreneurs from these groups and especially female entrepreneurs and those operating more informally, was particularly difficult and required both several visits to areas of concentration of BME businesses and numerous failed attempts to approach individuals from, or others who 'appeared' to belong to, the target population.

*Table 1. Immigrant entrepreneurs by region and country of origin.*

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

The study focused upon London, particularly in Boroughs that play a role as both reception areas for new immigrants and incubators for ethnic entrepreneurship, including Camden, Haringey and Islington in North London; Hackney and Newham in East London; and Lambeth, Lewisham and Southwark in South London. The final sample of 50 businesses was drawn from businesses owned-managed by immigrant entrepreneurs from three developing-world regions with incidence of recent migration to the UK according to Home Office

Figures (Kirk, 2004; Vertovec, 2007).<sup>4</sup> These were: The 'Horn of Africa' (Ethiopia, Eritrea, Somalia and Sudan) in Africa; 'Western Asia' (Afghanistan, Iran and Iraq) in Asia; and South America (Bolivia and Colombia) in Latin America (see Table 1). Business support and community-based organisations related to these three regions as well as those related to the Chinese, Turkish-speaking (Kurdish, Turkish and Turkish Cypriot) and Vietnamese business communities were also consulted.

The majority of the entrepreneurs interviewed belong to the first generation of immigrants (approx 50% came to the UK in the period 1995-2005), they were mostly male (68% of the sample) whose ventures fall in the categories of either sole traders or micro-enterprises (with an average of 1 to 4 employees for each company). As regards enterprises, they were mainly established between 2000 and 2006 in sectors with low barriers to entry but tough competition (often undergoing situations of market saturation). These include restaurant & catering (35%), service sectors (35%) and retail (30%). About 80% of the businesses sampled were existing businesses. If performance is considered, businesses were classified into three categories: stable (33%); growers (25%); and limited market/decliners (20%). 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 BME businesses in the UK (SBS Boost Survey, 2006). The sample is divided into 'fledging' and 'existing' businesses (9 and 39 cases) as well as two cases of 'former' entrepreneurs (2 cases) (see Table 2).

*Table 2: Business profile and growth potential*

<b>Category</b>	<b>Subcategory</b>	<b>Description</b>
<b>Fledging</b>		Recently started, some uncertainty about whether they can succeed and build a customer base
<b>Existing</b>	<b>Stable</b>	Reached a certain size and owner/manager does not want to grow and has a relatively secure customer base
	<b>Growers</b>	Growing in size in terms of employment, turnover, customer base and has plans for further growth
	<b>Limited market/decliners</b>	Those at threat from declining customer base, difficulty in finding new markets/breaking out of ethnic niches
<b>Former</b>		Those that closed down

*Source: Sepulveda, Lyon and Syrett (2006)*

<sup>4</sup> Enterprise activity developed by new arrivals from developed countries and/or less disadvantaged socio-economic backgrounds, notably, immigrant entrepreneurs from Australia, France, Germany, Japan or the US, i.e. operating in high-tech sectors or the so-called 'knowledge economy', is not comprised in this study.

## **2. New ethnic entrepreneurship: in what sense a different challenge to the UK business and policy framework?**

Two factors which help us to differentiate types of entrepreneurship as well as understand the importance of, and need for, 'informal' business support are analysed in this section. Firstly, those factors that explain the entry of new arrivals into business activities and, secondly, the nature of the constraints faced to entrepreneurship and enterprise growth.

### **2.1. Entry into self-employment: setting the scene**

Firstly, entrepreneurs were consulted about the main reason why they became entrepreneurs. The answer to this question was similar among the interviewees. Entrepreneurs mainly saw self-employment and micro-enterprise as a means to generate an income and so to tackle the marked lack of job opportunities or overt 'discrimination' in mainstream labour markets, which affected both skilled and unskilled immigrants. Expressions such as, '*I have to do something to survive*' or '*I have to support my family*' were frequently heard in the interviews. 'Push' factors were thus recognised as the main factor that triggered the entrepreneurial venture amongst new immigrant entrepreneurs. This finding is consistent with recent research on BME businesses which shows that, unlike entrepreneurs of the second generation, those of the first generation are more likely to be 'pushed' rather than 'pulled' into self-employment (Anderson and Khalid, 2006). Likewise, younger entrepreneurs in the sample, especially those from the first generation who have partly been educated in the UK master a better understanding of 'how things work' in this country (i.e. registration procedures, taxes and regulations) and speak better English than their first generation counterpart, but at the same time they also understand the needs of their co-ethnics. Hence the concept of 'one-and-a-half' generation immigrants, which helps to distinguish between these two groups of first generation immigrants regarding their entrepreneurial potential. To a lesser extent, '*the desire for independence*' or '*to do what I like or want to do*' were mentioned as triggers to entrepreneurship ('pull' factors), particularly by entrepreneurs who had been previously employed in low-paid activities such as cleaning, bus and taxi driving and catering industries (Sepulveda *et al*, 2006).

Furthermore, hard working culture, positive attitudes and determination shown by owner-managers in relation to their ventures should be examined in the context of uncertainties that they have to deal with before, during and after the process of starting up a business. Concerns associated with the immediate financial future of their businesses, obstacles related to legal/migratory status (i.e. new

immigrant generally hold 'temporary' remain to leave) and problems related to family separation/unification, were identified as important sources of uncertainty and they may undermine the entrepreneurs' will and commitment towards their ventures as well as deter them from future business investments. Uncertainties related to migratory-status mainly affect first generations immigrants and especially those who were forced to migrate, as expressed by one successful Afghan refugee entrepreneur whose visa was due to expire in 2006. Hence the nature of uncertainties faced coupled with the fact that only a minority of the entrepreneurs come to the UK without the prime motivation (no less the notion) of starting up a business, generates a different type of entrepreneurship *vis-à-vis* that developed by second generation entrepreneurs from more established ethnic minority (majority) groups who have stronger family links in the UK and a more consolidated migratory situation (i.e. British passport or 'indefinite' leave to remain in the UK).

Secondly, entrepreneurs were also consulted about the main constraints they faced to entrepreneurship and enterprise growth. The main barriers identified were: limited availability of financial resources (i.e. start up capital), difficulties in identifying marketing strategies appropriate for the short term financial sustainability of ventures, and lack of information on critical aspects for new businesses. As regards accessing mainstream financial resources, lack of a financial/business 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, are the more frequent restrictions that new arrivals face to become bankable and credit worthy, which is exacerbated in the case of refugees who often arrive destitute and without any identity papers (CEEDR, 2006; Ram *et al*, 2003; Sepulveda *et al*, 2006; Smallbone *et al*, 2003). Lack of confidence to approach banks (based on poor language fluency and cultural barriers) was also mentioned. This situation has a two-fold effect. At one level, the entrepreneurs feel excluded, and often discriminated against, from mainstream sources of funding (notably, banks). In explaining this constraint some entrepreneurs pointed out: *'Maybe there is something hidden'*; *'The problem is that we are black, [the problem] is the colour'*, *'The problem is that we are refugees'*; *'It is not easy to get money from lenders because they don't trust you'*. At another level, after successive frustrating experiences with bank managers, the entrepreneurs exclude themselves from banks and, by extension, from mainstream business support agencies - which they might approach searching for financial support. Only a small group of Muslim entrepreneurs expressed that they are reluctant to take out paying-interest loans as it is not allowed by their faith. Hence, real or perceived discrimination and institutional racism appear to be major barriers for entrepreneurial careers and yet, this prompts would-be

entrepreneurs (i.e. those who are not able to open bank accounts) to launch their businesses before even opening a (personal) bank account, that is, without a key credit tool for mainstream start up businesses (Sepulveda *et al*, 2006). In other words, businesses in this situation almost necessarily start up operating on the fringe of the UK institutional business framework.

Similar patterns of disengagement from the mainstream become apparent regarding the lack of information on critical aspects for new businesses (i.e. registration procedures and requirements, taxes, regulations and red tape in general) and access to relevant business advice. Many entrepreneurs expressed that they do not know even whether or where relevant information and business support is available. In fact, over 90 percent of entrepreneurs in the sample did not request advice and/or support from any business support agency. Only 8 out of 50 entrepreneurs admitted 'to know' about institutional support available for start up businesses, including local authorities, advice bureaux, Business Link, governmental grants, Job Centres, banks, and community-based organizations. When entrepreneurs were consulted about 'who they would ask for help if a problem in running the business comes up', over a third of the sample said that they would seek advice from friends, although if the problem is more complex, some entrepreneurs do request advice from bank managers and professionals (accountants and solicitors). A fifth of the sample stated that they do not seek external advice or help at all and, if they do so, they rely (again) on friends. A note of caution is raised here however since low levels of service take up, and indeed informality, are common practices among non BME small businesses in the UK (Katungi *et al*, 2006; Community Links, 2007; Copisarow and Barbour, 2004; Ram and Smallbone, 2001, 2003; Williams and Winderbank, 2002). This paper claim that some of these patterns are however specific to, or have specific effects on, new ethnic entrepreneurship, and therefore they should be addressed.

Hence the obvious question that arises is, how do these businesses survive and compete in increasingly competitive markets, that is, without accessing conventional sources of financial support and information/advice, and without a marketing strategy in place? As explained in the following sections, the answer to this question lies in the role that the 'informal' sources of business support and informal economic activity play in underpinning entrepreneurship among new ethnic minority business communities.

## **2.2. Informal support systems**

The role that the 'informal system' plays in the starting up process of ethnic minority businesses is analysed here in relation to three key components of the UK business institutional framework, the system

of reception and support to new immigrants, the finance system, and the enterprise support system. The analysis seeks to demonstrate that there is a rationale behind the new immigrant entrepreneurs' reliance on informal support and that this rationale becomes evident at the level of individual entrepreneurs and at the level of the BME business communities which they belong to as well (as explained in section 2.4).

Evidence suggests that distressing experiences with reception organizations upon arrival such as migration officials, Job Centres, the National Asylum Support Service (NASS- Home Office) and other public agencies set a negative precedent for future liaison with support agencies. This affects the character of the relationship all the way through from community-based organisations to the mainstream, especially among refugees and new arrivals from disadvantaged ethnic minority groups. What is more, these organisations are often seen as too close to the 'benefit culture' ('*that sort of life*' or '*useless life*') which entrepreneurs seek to move away from through entrepreneurial business activity, which is rather associated with a culture of 'self-determination'. This concern was evident from entrepreneurs who had previously been on state benefits (i.e. unemployment and housing). The resulting lack of trust in mainstream organisations is partly derived from early contacts between new arrivals and state institutions.

By the time new arrivals become entrepreneurs (a learning curve estimated to take approx 3 to 5 years to develop), issues related to culture differences, language skills, lack of knowledge of what is available, bureaucracy, and time constraints, generate new 'engagement problems' with mainstream services. Upon questioning, entrepreneurs mentioned a list of discouraging/intimidating factors which dissuade them from approaching business support agencies. These include: lack of time to go into city centre areas to visit support agencies and bureaucracy involved in producing the paper work required to get service/advice; language confidence; stigma (which is augmented by media stigmatisation of new arrivals); the general '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 (Sepulveda *et al*, 2006). Interestingly, some entrepreneurs from new/emerging ethnic minority business communities (i.e. Somali) feel at a disadvantage, in relation to entrepreneurs from well established BME groups, because non members of their community work for relevant business agencies and because organisations from within the community (if existing at all) are powerless to lobby government agencies as stronger BME organisations frequently do.

For the small group of entrepreneurs that approached business support agencies, the information, advice and services provided are

considered as 'useless' or a 'waste of time' as follows: *'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). Once again, trust in mainstream organisations is undermined by negative experience suffered which is transmitted word-of-mouth among entrepreneurs. There is also a consensus amongst those entrepreneurs who have had access to relevant information (whether in the form of leaflets, brochures, newsletters or through websites) that without 'appropriate advice' and 'guidance' to process and understand the information given, it is of very limited value. Practical and ongoing guidance in relation to 'what to do' and 'how to do it', and 'where to do it' is therefore critical to entrepreneurial careers within the new BME population and yet, this '*information-plus*' type of support (i.e. to register a business, signposting to relevant agencies, and access to formal support) is what the entrepreneurs find easier to access through the informal system.

Finally, it is essential to return to the issue of access to finance. The main sources of funding used by the entrepreneurs to launch their ventures were loans by family and friends from within 'the community', either from the local co-ethnic community or from the international diaspora, along with entrepreneurs' personal savings. Experiences of community-based informal credit unions or interest-free rotating capital systems based purely on trust (i.e. within the Somali and Vietnamese communities) as well as informal lines of community-channelled credit were also reported in field research (i.e. Chinese community). Similarly, general business and market information/advice and guidance is secured through the entrepreneur's personal network, notably by friends, relatives, acquaintances and community members who have greater business experience in the UK and '*speak better English*'. In other words, both market and business knowledge largely originate from within 'the community' ('ethnic knowledge'). In turn, for many entrepreneurs 'community' itself is believed to act as a 'first sponsor' or market for new businesses, while businesses themselves (i.e. Coffee shops, restaurants, and Internet cafes) play a role as gathering points, information hubs, community centres and, ultimately, as generators of social capital; hence the origin of the conceptualisation relating to ethnic minority businesses as '*ethnic economies*' (see Light and Gold, 2000). Interestingly, knowledge of a potential market was found to be more limited among entrepreneurs from West Asia who were not serving their own communities and whose 'communities' do not exist as such or are bitterly divided (i.e. for Afghans and Iraqis). In

contrast, for entrepreneurs from the Horn of Africa (notably Somali) the 'community' itself is seen (erroneously or not) as the 'natural market' for their businesses and its presence in local areas is often the main factor underpinning the entrepreneurs' decision for premises location. Over reliance on the 'community' not only makes the 'break out' of (co)ethnic market dependency harder, or even unthinkable, but also makes the development of basic learning processes i.e. of market knowledge (notably, relating to customer's preferences and services) and command of the English language, which is in general poor within these groups, somehow redundant.

Therefore, negative if not distressing experiences in liaising with three key pillars of the UK business institutional framework (reception, business support, and finance systems) not only 'pushes' but 'pulls' the entrepreneurs' to seek business '*solutions*' and '*links*' within the informal system. In this process, the potential of the regulatory system (another key component of the UK institutional framework) is necessarily jeopardised. In fact, in light of the current debates as to whether enabling informal businesses' transition into the formal economy is a better policy choice vis-à-vis deterrence of such an activity (Copisarow and Barbour, 2004; Williams, C.C, 2004; Sepulveda and Syrett, 2007), the situation described above poses serious questions about how this transition can be better stimulated and assisted by business support agencies. Prior to this however, it is necessary to place the individual experiences previously discussed in context of the ethnic minority groups to which entrepreneurs belong to.

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

The six business communities examined in this study present different characteristics which relate to factors including, at one level, the different trajectories and patterns of emigration, size and number of enterprises, stage of business creation, economic activities developed and areas of concentration; and legal/migratory status of entrepreneurs. These characteristics are summarised in Table 3. At a more general level, these also include the different cultures brought in by immigrants, the socio-economic context found upon arrival (i.e. immigration acts, employment legislation, level of economic growth, and access to labour market and welfare support) and the subsequent patterns of settling and socio-economic 'integration' into the UK.

Internal and external conflicts (i.e. wars, civil wars, and military cups), alongside economic crises, triggered the migratory processes in the cases analysed. It follows that many new immigrants within these groups come to the UK for humanitarian reasons (i.e. refugees and asylum seekers). With only the exception of Chinese from Hong

Kong and Turkish-Cypriots, there were no post-colonial-related links between the countries and regions in question and the UK. Chinese from Hong Kong and Turkish-Cypriots in fact share some common characteristics with migrants from Southern Asia and Afro Caribbean regions, in the sense that they came relatively early to the UK (1960s and even earlier), frequently with work permits (to fill job vacancies in several industries) and they also commenced earlier their entrepreneurial ventures in the UK. The Chinese and Turkish-speaking communities are however considered in this study as new immigrant entrepreneurs from the broad category 'mainland China' (which often includes Chinese speaking Malaysians, Taiwanese and Vietnamese) and mainland Turkey (including Turkish and Kurdish) have more recently settled in the UK and constitute a different group than the traditional post-colonial migration flows from Hong Kong and Cyprus – despite that fact that old immigrant entrepreneurs played an important role as 'bridgeheads' for fellows new arrivals.

No accurate statistics have been produced regarding the number residents (let alone the number of enterprises) from these communities in the capital and guess-estimations vary according the source consulted. It is estimated that each of these communities number over 100,000 people (with the probable exception of West Asian and Vietnamese) and figures might reach half a million or more for the broad Chinese and Turkish-speaking communities.

Enterprise activity within the new/emerging ethnic minority communities largely emerged throughout the 1990s and extends until the present. The majority of the businesses interviewed concentrate in the retail and catering sectors and services. Although diversification is a strategy pursued by some entrepreneurs (i.e. 'fusion' ethnic food restaurants or through the 'multi-business' concept), 'diversity' is less apparent when it comes to sectors of specialisation. With respect to location, entrepreneurs' decisions on premises location generally respond to the nature of the markets which they serve and the size of their own community. Whilst for East African and Latin American entrepreneurs the presence of co-ethnics in local areas/markets is a key factor of location, which also explains their tendency to clustering, Chinese and Turkish businesses are scattered all over the capital and beyond, as they tend to serve more general markets (i.e. takeaways).

It is necessary to emphasise that patterns of specialisation/diversification observed do not always appear embedded in the cultural traditions of the different communities in question. While some communities did open niche markets drawing upon their cultural traditions, namely traditional cuisine, Salsa night clubs, and traditional Chinese medicine practices, others have developed competitive advantage in sectors with no apparent ethno-cultural links, notably, Iranians who specialise in pizza shops, Somali

in Internet cafés, Vietnamese in nail bars, Latino/as in cleaning, and Turkish in fish-and-chips. 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 Ethiopia, Kurdistan, Latin America and Vietnam; which is consistent with the analysis in section 2.2 relating the 'push' factors that explain the entry of these groups into self-employment and enterprise in the UK context.

Contrarily to those approaches which place ethnicity or ethnic capital as the main asset from which immigrant entrepreneurs draw upon to launch their business ventures (see Light and Gold, 2000; Kloosterman and Rath, 2003), our findings suggest that would-be entrepreneurs draw upon (and combine) any asset and source of business ideas which are somehow available to them when going into businesses including ethnicity, class and social networks, and general market conditions and opportunities. In the authors' view, the rationale behind this is no other than to generate a source of income so as to tackle situations of poverty and marginality suffered by the entrepreneurs whether they are related or not to ethnic traditions (see Barret *et al*, 2003; Saxenian, 1999). A different issue is to recognise that, in time, both ethnic groups go specialising themselves in specific activities/sectors and new arrivals from those groups quite often launch their ventures in the same activities or sectors and locations (i.e. Internet cafes run by Somali and Ethiopian entrepreneurs), that is, following the example of successful co-ethnic 'role model' entrepreneurs. Furthermore, how non-ethnic activity/sectors of specialisation can be marketed as ethnic assets (i.e. Vietnamese people are believed to have special skills to do nails) and turn into a competitive advantage, which eventually could be promoted and become part of the 'multicultural' London, are themes for further research.

Furthermore, inasmuch as communities grow and settle, entrepreneurs gain experience, and the younger (second) generations became better placed to go into businesses, new economic activities emerge and develop. Professional services by accountants and solicitors from 'within the community', who have been educated in the UK and know '*how the system works*', become a key business asset for ethnic entrepreneurship and yet, this asset appears to be a privilege related to second generation migrants - like those cases reported within the Chinese and Turkish-speaking communities. Community-based organisations also mentioned several cases of highly successful small- and medium-sized firms within these communities. It appears that the larger the learning curve that a business community has experienced, through which business acumen and expertise has been gained and capital accumulated, the larger the chances for business success.

## 2.4. Nature of informality

The observations that follow seek to enhance awareness of business advisors, practitioners, academics, and policy makers on trends and patterns of informality identified in the field research in relation to new ethnic entrepreneurship in London. By no means does this paper suggest that such trends and patterns are the norm observed within these communities but trends which to a lesser or larger extent may affect and therefore challenge the efforts of those who are trying to liaise with and support new/emerging business communities in order to promote entrepreneurship and enterprise development. For ethical reasons, references to specific BME groups are minimised through the text, although some observations are illustrated with specific cases.

Drawing upon the information provided in Table 3, the 'relationship' between new/emerging ethnic minority businesses and the tax and regulatory systems and employment legislation is analysed in relation to three factors: sector and/or activity of specialisation, the nature of community support received/available and legal/migratory status held by entrepreneurs and their employees. In principle, informal economic activity was reported and/or 'hinted' at by the entrepreneurs mainly in relation to employment contracts and work conditions and to a lesser extent with regard to compliance with taxation and regulations. As expected, the information provided was at times vague and entrepreneurs proved rather reluctant to disclose information on the sensitive issues investigated.

'Fledgling' and 'existing' businesses with no premises are a first case to be analyzed (a quarter of the sample). The findings suggest that micro business activities in this group in general operate entirely in the unregistered '*cash-in-hand*' economy. For example home-based activities such as clothes making/repairing, catering, and care services, which are very common among self-employed BME female groups. 'Entrepreneurs' in this category are often unaware of regulations and they generally do not consider their ventures as a business.

Secondly, informal practices reported by 'registered' businesses with high street premises (three quarters of cases) included compliance with minimum wages requirement and an absence of employment contracts for employees and those who 'help the entrepreneurs out'. Cases of 'off-the-books' paid work by family, co-ethnics, and other new arrivals (notably, East Europeans) were indicated by some entrepreneurs. This was largely confirmed by community-based business support organisations interviewed.

Two 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 in the field research and are illustrative of the interdependent relationship

Table 3. New and Emerging Ethnic Minority Business Communities in London

Factors	The Horn of Africa	West Asian	Latin American	Chinese (Mainland China)	Vietnamese	Turkish & Kurdish (Mainland Turkey)
New BMEs						
<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	Hong Kong - Late 1960s & 1970s / 1980s Mainland 1990s/2000s	Late 1990s until present	1960s/1970s (Turk-Cypriot) Turks-mainland (1980s/1990s/present)
<b>Main economic 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 Hackney, Haringey Scattered all over
<b>Main location</b>	Camden, Haringey, Ham & Fulham, Wembley, Islington	Scattered all over Ealing and Wembley	Lambeth Southwark	Scattered all over China Town	Scattered all over Hackney	Hackney, Haringey Scattered all over
<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	BMEs & General public	Latin Americans	General public	General public	General public Turks-speaking & BMEs
<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	Economic immigrants New refugees & Asylum Seekers	Old economic immigrants (with work permit) New economic immigrant (different statuses) / Students British born (2 <sup>nd</sup> generation) Hong Kong (good) Mainland China (basic) Chinese (Mandarin & Cantonese) <i>Buddhist</i>	Old refugees One-and-a-half younger generation	Economic immigrants (with work permit) Old refugees British born (2 <sup>nd</sup> Generation)
<b>English skills</b>	Basic	Basic	Basic		Basic	Turk-Cypriot (good) Mainland Turks (basic) Turkish
<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>		Vietnamese Chinese <i>Buddhist</i>	<i>Muslim</i>

between informal and formal spheres of the economy. These are: the 'subcontracting model', the 'multi-business model' and 'micro shopping centre model'. Activities which rely on a large number of subcontracted 'self-employed' workers/entrepreneurs such as mini-cabs, cleaning, and construction companies are prone to the informalisation of the individual subcontractors. In many cases however informal arrangements are agreed by the subcontracted counterpart, no less because of their legal status in the UK. The 'multi-business model' refers to groups of two, three or more entrepreneurs who carry out their independent or semi-independent business activities under the same roof, but quite often only one of them (the Leaseholder) appears on paperwork. This person is legally responsible for tax payment, licenses, as well as payment of overheads. Businesses that may fall into the category of multi-businesses with varied degrees of informality are: Internet cafes, which at the same time operate as call centres, mobile accessory shops, coffee shops and/or pc repair services; nail bars and hair salons, which may also provide a wide range of 'independent' beauty services inside the same premises; and grocers, which may operate as butchers and news Agents.

Another slightly different case is that of 'micro shopping centres' which operate as follows: one entrepreneur hires a large premises, he/she renovates and subdivides the premise into several small business 'units' and subsequently sub-lets these units to different entrepreneurs which generally are from his/her ethnic minority group. In each unit or set of units the entrepreneurs set up their small business ventures. Normally they trade typical food products and craft items, set up a coffee shop and/or a small restaurant, hair dressers, a money transfer & shipping house and so on. The selling point is that all of them specialise in the particular ethnic market niche where the entrepreneurs and most of their customers are from. On Saturdays and Sundays a section of the premises quite often converts into a venue for social gatherings, an informal job centre, and an opportunity to promote new business developments within the community.

Interestingly, several 'existing' and 'registered' entrepreneurs in the sample went into their entrepreneurial careers and launching their own businesses on the high street, after gaining experience and confidence within these test-bed market places. Hence in some cases these experiences operate as true business incubators (i.e. for *would-be* entrepreneurs and/or potential spin-offs). Cases of businesses which 'vegetate' for many years within these rather 'protected' and ghettoised market sites (like the 'micro shopping mall' portrayed) were also reported. 'Community support' and co-ethnic market dependency in this case may act as factors which not only deter entrepreneurs from making a qualitative jump in their business

careers but also prolong indefinitely situations of informality and yet, marginality.

*Figure 1 a and b. State and community-channelled business support to ethnic entrepreneurship*

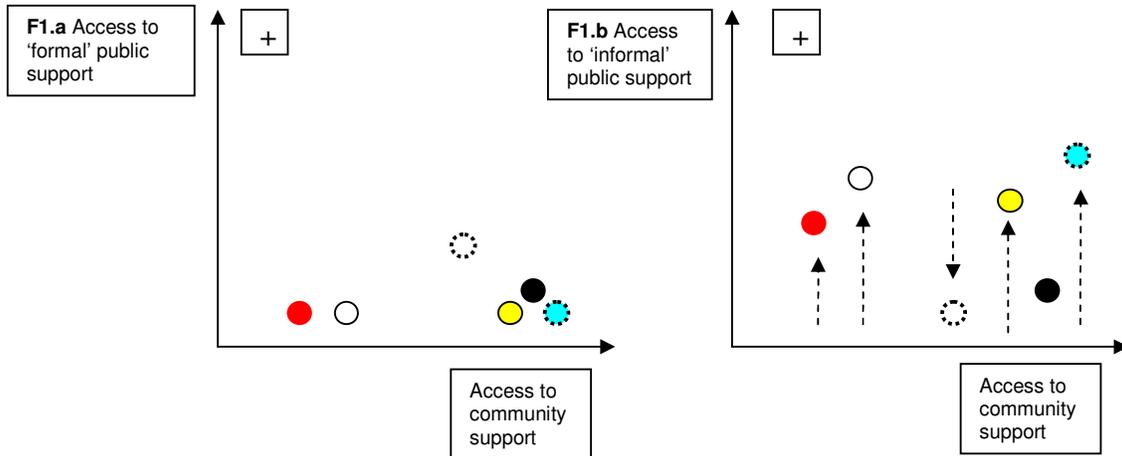


Figure 1 seeks to illustrate in a stylised form a more general level of analysis referring to the take up of 'formal' or direct public business support (Figure 1.a) and 'informal' or indirect state support (Figure 1.b). Take up is considered in relation to the community business support received by the entrepreneurs from each of the ethnic minority business communities studied, which remains constant in both figures. Each ethnic minority business community (6 in total) is represented by the same colored-ball in figure 1.a and figure 1.b., from Community 1 on the left to Community 6 on the right. Communities are anonymised for ethical reasons. Again, these are trends which have been either observed and/or reported in the field research and are by no means the norm.

As can be seen in Figure 1.a, the access or take up of 'formal' or direct public business support is very low in all but one ethnic minority business community (Community 3, the third from left to right). Public support here refers to that provided by mainstream business support organisations and by Local Authority agencies. A different context appears however in Figures 1.b when take up of 'informal' or indirect public support is considered. Take up is much higher here in all but one community (Communities 5), while community 3 dropped in relation to its position in Figure 1.a. Interestingly, key informants from different sources reported the fact that some entrepreneurs were recipients of public benefits (notably, unemployment and housing benefits), which, in their view, has a positive impact on the financial sustainability of business ventures. Hence this rather unconventional source of public support is considered here as 'informal' public business support. In fact, cases of entrepreneurs who were running their business ventures while

claiming benefits (i.e. among those groups with refugee backgrounds), that is, directly or indirectly (i.e. through their marital partners), were reported in field research. In the paper's vision, legal/migratory statuses held by the owner-managers in question (notably, refugee status) help to explain an important part of the problem but by no means the whole problem – as explained throughout this article.

The point here is that the 'indirect' support received by this sort of 'portfolio-entrepreneur' often turns into a key lever that helps to strengthen the financial sustainability of some businesses. Yet, not only does this situation make harder to assess the performance and potential of businesses involved in these fraudulent practices but it also makes it harder to develop 'trust building' between entrepreneurs and business advisors and agencies that provide business support to small businesses in deprived areas. In fact, business advisors from within some ethnic minority groups argued that entrepreneurs in this situation are unwilling to disclose any information and distrust any institutional approach (even from within the community) for fear of being denounced.

Formalisation strategies aimed to enhance and support the transition of businesses in the 'grey' or informal economy into the formal economy face here a huge challenge. Quite often the economic risks associated with losing the access to benefits (notably, public housing in London) are perceived to be much higher than the risks associated to being caught by relevant authorities, especially during the start up process in which high levels of uncertainty about the immediate financial sustainability of business ventures in highly competitive business activities is the norm.

Finally, this takes the analysis to the question of the role that the state actually plays in supporting ethnic entrepreneurship within the new/emerging business communities. As hinted at by a business advisor interviewed who is knowledgeable about this situation, the state actually own 'stakes' in these businesses. The state effectively becomes an 'unaware' stakeholder and yet, this may put well-intentioned business advisors, policy makers and academics who are interested in the development of ethnic minority businesses and ethnic entrepreneurship in a rather difficult and uncomfortable position.

### **3. Conclusion**

This paper has provided original evidence that the new faces of ethnic entrepreneurship in Britain present new and diverse challenges for enterprise policy. These challenges are associated with several variables including socio-economic factors that trigger entrepreneurial

venture among new/emerging ethnic minority communities, the nature of the constraints that future immigrant entrepreneurs have to face upon arrival, the opportunity structure for socio-economic integration and settling, the role played by what has been referred to here as informal support systems, and the complex relationship between entrepreneur/business communities and the UK institutional business framework. Consequently, the complexity and diversity of situations observed do not lend themselves to quick policy fixes and solutions.

In seeking to develop policy strategies which aim to engage with new ethnic minority businesses and help them to make the transition towards more conventional economic business practices, there are a number of issues that should be considered by the delivery model and the socio-political framework in which this is embedded.

A first and obvious policy implication relates to the role played by reception organisations (i.e. those depending on the Home Office) and the impact of legal/migratory status on both entrepreneurial attitudes and informal business practices (i.e. differences between refugee status and asylum seeking or illegality). In this respect, it is redundant to point out that little can be done for the enterprise policy framework to influence these agencies on reception policies let alone on the legal/migratory status of potential immigrant entrepreneurs. However, earlier identification and support of new arrivals with entrepreneurial expertise/capacity and/or business ideas i.e. by Job Centres, Refugee Council agencies, etc., can help to ease negative experiences by generating opportunities for the encouragement of entrepreneurial careers.

Secondly, evidence shows that there is enough critical mass of experiences and 'pockets of good practice' in London and the UK which are worthy of further attention when considering policy development. Special consideration should be given to the important work carried out by community-based and/or migrant-related organisations which are liaising with *would-be* and *existing* entrepreneurs from the BME groups in question and assisting them to 'integrate' into the UK business framework (i.e. by assisting business registration, license applications, book keeping, etc). Interesting experiences include programmes such as Regenerating Enterprise Through Local Economic Exchange Project (REFLEX Project) and the Association of Community Based Business Advice (ACBBA), independent experiences such as the Latin American Development Agency (PLADECOOP), and those larger and well-established ethnic minority organisations such as the Kurdish & Turkish Community Centre (HALKEVI) and the Chinese in Britain Forum. Some of these organisations have in effect succeeded in overcoming barriers and gain the entrepreneurs' trust and are actively operating throughout the capital despite their often severe budgetary restrictions. Although

refugee and ethnic/community-based organisations are generally perceived to be knowledgeable about the needs of new arrivals 'at a grassroots level' and are trusted by immigrants from disadvantaged groups, these organisations may possess neither the expertise nor the resources and political will to provide business support. Hence the role that mainstream agencies play or may play in supporting these organisations and, in so doing, reducing the gap between mainstream and new ethnic entrepreneurship, is essential. The earlier that relevant public agencies 'contact', 'recognise' and 'legitimate' informal self-employed entrepreneurs, for example by having to meet part but not all the requirements that an entirely formal 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 Link For London (i.e. the Knowledge Centre on Black and Minority Ethnic Businesses and Minority Businesses Diaspora Interchange Programme), and Refugee Council (London Refugee Economic Action –LORECA-) in fact shed light on how good practice for joint thinking and joint policy action can be operationalised. A lot more needs to be done however as these initiatives so far exhibit only limited success in liaising and engaging with, let alone supporting, entrepreneurs from the BME groups in question.

In addition, evidence also suggests that engagement with new BME businesses and business support policies targeted at them should not only operate 'top-down', that is, from the mainstream to grass root level, but also 'bottom-up'. Capacity building and political organisation of both ethnic minority businesses and ethnic minority communities is therefore seen here as an important line of policy action to be undertaken by new/emerging BME groups and yet, it should also be endorsed by the enterprise policy framework.

Thirdly, it has been said that cutting costs to compete in markets with low barriers to entry and tough competition is a common strategy amongst start up ethnic businesses; and because doing it in 'formal' ways has limited scope, many entrepreneurs cut costs in 'informal' ways, by cutting corners with respect to taxes, labour regulations, minimum wages, or employing illegal workers (Kloosterman *et al*, 1999). This paper demonstrates however that informal activity is not always the result of rational cost-benefit and profit-maximization calculations made by the entrepreneurs (or rational choice) (see Dabla-Norris and Feltenstein, 2003; Economist, 2004; McKinsey Global Institute, 2004), but quite often, and specially among new immigrant entrepreneurs from disadvantaged ethnic minority backgrounds, it is the result of other factors including cultural differences, lack of awareness about taxation and regulations; or simply because the system does not let them in (De Soto, 1989).

It also appears that registration and compliance with taxes and regulations in many cases comes after and not before businesses' break even. A successful Western Asian entrepreneur explains his transition into the formal 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'*.

With respect to those entrepreneurs who receive state welfare support, temporary tax allowance schemes (i.e. VAT reductions) to support processes of transition into self-employment and enterprise while maintaining some benefits have proved to be difficult to implement, expensive/controversial and barely attractive for entrepreneurs facing situations of poverty, marginality and social exclusion. The Street(UK) model is perhaps the most interesting experience of formalisation of micro-enterprises in the UK. It helps clients to transit from informal to formal through different stages and in a time framework period (Copisarow and Barbour, 2004; Williams, 2004). These types of initiatives are often unfunded and in fact some of them have diminished in the last few years. It must be highlighted that a comprehensive formalisation strategy should not be conceived in a social and economic vacuum, but instead in the framework of a comprehensive welfare state strategy aimed to combat factors such as deprivation, marginality and exclusion which push immigrants into informal employment and enterprise in the first place. The likelihood of this occurring is however minimal.

Finally, policy makers should be aware of the inherently contradictory and controversial nature of the informal economy and its intimate relationship with the formal economy (Sepulveda and Syrett, 2007), as illustrated in the examples in section 2.4. In effect, any engagement with informal business activities by public-funded business support agencies runs the risks of accusations of condoning informal (if not illegal) activity and consequently is pursued cautiously. 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, may provide tacit endorsement of exploitative and socially divisive practices, let alone unfair competition for both BME and mainstream formal enterprise. In either case policy strategies pursued may prove politically controversial and informal enterprise activities may remain rooted 'in the shadows'.

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