

## **MINUTES OF WORKSHOP C1 ENTREPRENEURIAL LADDERS OUT OF SOCIAL EXCLUSION**

### **1. INTRODUCTION**

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Nearly one hundred delegates attended the workshop, chaired by Ron Downing, Assistant Director for Business Start ups, Department of Trade and Industry, Small Business Service. In his introduction to the session Ron Downing outlined a few central aspects of the situation in the UK.

He emphasised that the UK Government saw raising entrepreneurship rates as a priority for increasing growth and for realising the economic potential of all communities and people. There is clear evidence that SMEs both create more jobs overall and lose less jobs in recessions than large companies. Increasing the entrepreneurship rates of excluded groups and communities helps to increase average growth rates, allows people to realise their full potential and reduces social exclusion.

The SBS was set up in 2001 to coordinate entrepreneurship policy across government departments. To this end it produced an action plan for small business with seven strategic themes which clearly take account of the needs of under represented groups and areas. The pilot actions carried out by EQUAL have directly contributed to the implementation of the action plan. From his position as deputy director in charge of start-ups Ron Downing has chaired the EQUAL Thematic Group on business creation and has participated in drawing up the selection criteria for EQUAL partnerships to ensure that they piloted actions that were relevant for national entrepreneurship policy. As examples he cited the way that the SBS had been able to use the results of the research carried out by the Cyfenter DP (see below) and how the CREATE DP had helped them develop their strategy towards franchising.

Henry McLeish then took over the facilitation of the workshop. He raised three points. Firstly, that there was much talk about social inclusion but rarely about economic inclusion. Secondly, that entrepreneurship policies were usually treated separately to policies for solidarity. Entrepreneurship was often seen as the prerogative of certain groups while solidarity was kept for others. Was it not time to bring them together? Finally, was it not also time that Europe woke up to the fact that workforce participation rates are far too low for certain groups such as women. Under-represented groups and communities were not just a wasted economic resource. Increasing self employment also raised self esteem, self worth and empowerment.

### **2. ISSUE ONE: INCLUSIVE BUSINESS SUPPORT PATHWAYS.**

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Henry McLeish introduced the questions on this issue: How do you reach the disadvantaged when you want to give them business support. What are the roles of organisations such as Employment Services and Enterprise Agencies when delivering support. How can those organisations ensure the provision of services that are appropriate, cost effective and of quality.

Iain Willox, Director of Enterprise Support, at the Welsh Development Agency, then presented some of the lessons of the Cyfenter DP, which dealt with the key issue of how to build a socially inclusive entrepreneurship strategy for Wales. The economic context for this strategy is that there are around 300,000 economically inactive people in Wales out of a work-force of around 1,1 million people. This totally dwarfs the 30 000 people registered as unemployed and has become the central focus for action. A similar situation exists in other parts of the UK and many of the more advanced economies of Europe.

So, the Cyfenter EQUAL project set itself the task of finding out how to increase self employment among a series of under-represented groups such as women, ethnic minorities, the 50 plus group, and welsh language speakers. The EQUAL allowed them to analyse the barriers to self employment and possible tools for overcoming them by analysing a sample of 5000 start ups

from among these groups. Among the main tools explored were the use of mentors, incubators, finance and pathways out of benefit dependency.

The work has supported a number of key changes to mainstream business support in Wales. Firstly, they now monitor the demographic profiles of the people assisted. Who is helped is recognised as being just as important as how many. Secondly, all business advisors receive training from entrepreneurs from disadvantaged groups. Thirdly, another programme (called Potentia) has been used to develop a network of first stage outreach and business support run by (community) organisations from disadvantage groups themselves. After a certain period, these organisations refer the entrepreneurs on to the mainstream support system. All the organisations in Potentia are partners of EQUAL and have used the results to set themselves a series of clear targets. Finally, much has been done to introduce entrepreneurship into the school curriculum.

The results of the inclusive approach taken by the Welsh Entrepreneurship Action Plan are impressive. Welsh start-ups nearly doubled from 12,000 in 2000 to 22,000 in 2004. Potentia has supported 2003 people from disadvantaged groups who created 700 businesses and 1,000 jobs. During the last year entrepreneurship activity increased by 74% in Wales more than in any part of the UK

Norbert Kunz, one of the coordinators of the Verbund Enterprise DP in Germany then went on to outline the lessons of their work. Once again, the figures in Germany highlight the importance of self-employment among under-represented groups. 90% of new entrepreneurs in Germany are self employment start-ups compared to just 1% of high technology high growth entrepreneurs. A full 60% of start-ups come from the unemployed representing 350 000 people.

However, most business support in Germany is still channelled through organisations such as the chambers of commerce and is directed at better educated people, who already have some experience of business in small to medium sized companies (more than 10 employees). There is little provision which deals with the specific needs of the self employed and micro-entrepreneurs from disadvantaged groups.

In order to overcome this situation, Verbund Enterprise has developed an integrated system of business support targeted specifically at young people in deprived communities. The system provides a menu of support options (counselling, training, mentoring, microcredits) divided into four clearly signposted phases in the process of setting up a business. Each phase has clearly defined goals with various services provided by different actors brought together by the partnership. The progress of each individual along the support pathway is monitored and certified in the novel concept of a business founders passport which is now gaining recognition among banks and other institutions. There is also a system of quality control.

Once again the results are impressive. Enterprise has five local contact points in Berlin and four centres in the new Länder. They deal with around 1 000 young people per year and have created 500 jobs in three years. The survival rate after 3 years is 70% compared to the 50% average after *one year* for start-ups from unemployment.

In addition, the lessons from the EQUAL project are being mainstreamed across Germany in two ways. Firstly, Verbund Enterprise is one of the founding members of the German Start-up Centre which involves most German business creation partnerships and is spreading these kinds of methods across the country. Secondly, they also form part of the Deutsche Mikrofinanz Initiative which has brought together 22 small micro-finance together in partnership with financial institutions to disseminate good practice and achieve economies of scale.

As a potential user of EQUAL good practice, Monica Vázquez García, Deputy Director General for SME Support at the Ministry for Industry, Tourism and Commerce in Spain, argued that the priority of her department was to support innovation among the bulk of ordinary SMEs in Spain which are not realising their full potential in face of the opportunities and threats of globalisation. Self-employment had reached spontaneously high levels in Spain compared to many parts of Europe.

Nevertheless, her department was interested in increasing entrepreneurship among certain specific groups and was developing a number of policies in this respect. She went on to mention

three lines of action: the creation of a new streamlined company statute which allowed registration in 24 hours through a single electronic document. It was possible to defer taxes on start-ups for the first two years. Secondly, a programme of microcredits through the official credit organisation (ICO) for specific groups such as women and ethnic minorities. 15 000 loans had been made. Finally, a specific line of support for women entrepreneurs. In the last 6 years the proportion of start-ups by women has increased from 19 to 30 percent in Spain but the Government recognises that the contribution made by women to economic growth is well below its potential. Her department also forms part of WES the European Women's Entrepreneurship Network. However, it should be recognised that the department's main role is to coordinate SME policy in a context where most implementation is carried out by the regions and that at least 75 percent of the budget goes on ordinary SMEs.

A second potential user of the lessons from EQUAL, Alfons Rokos, from the Czech National Association for Entrepreneurship, explained that his organisation was made up of business advisors working with all kinds of private companies across the Czech Republic. In fact, they were also partners of an EQUAL project in the business creation theme. They had carried out a pilot action in North Monrovia which involved creating a data base of the problems faced by unemployed people. They had also created a support model using mentors which had successfully helped 381 people of whom just under half had started up business. The model is now being extended to other parts of the Czech Republic.

Following these interventions from the panel, the participants at the workshop raised a series of key questions. Several people said that this level of support must be very expensive and asked whether the results really justified the cost. They also asked whether support such as mentoring was not more effective and economical when it was provided by business men themselves.

Norbert Kunz replied that the business support they provided to young people who entered self employment cost an average of 5,800 euros per person, This is equivalent to just six months unemployment benefit so that the firms only have to last this long to be worth it. As we have seen, the average rate of survival is 70% after three years.

Iain Willox explained that their support system cost an average of 4,000 euros and survival rates were over 95 percent after the first year. He also argued that they did use people with business experience for mentoring but that it was also important to match the demographic profile of the mentors with the potential start up (young-young, ethnic minority-ethnic minority, etc.)

Following this line of thought, a participant from Sweden also asked whether it was not more cost effective to use ethnic minority networks themselves for business support. Iain Willox agreed and explained that the Potentia partners involved in their EQUAL project were fact organisations from the hard to reach communities themselves. The WDA subcontracted out first stage and outreach work to them under certain clear terms and conditions.

Several speakers from the floor also argued that not enough had been said about the potential contribution of the social economy. This was able to deal with the most excluded groups such as ex-offenders and people with disabilities in contexts where market mechanisms on their own were not enough. Previous EQUAL conferences had shown that the social economy could also benefit from "braided" support systems involving certain specialised functions feeding in to mainstream generalist support. One should beware of creating totally separate and parallel support systems for different sectors or groups.

### **3. ISSUE TWO: MICROFINANCE**

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Henry McLeish then introduced some of the questions in the second issue dealt with. It appeared that the problem was not so much the overall availability of money but the kind of money on offer. In this context, the workshop should address questions like why the disadvantaged needed specific kinds of money; how to ensure that traditional finance providers work together with other actors and how to ensure the economic viability of the cooperation.

Angel Font presented the microfinance scheme set up by Un Sol Mon in the St Cosme Innova DP in Barcelona. Un Sol Mon is a foundation owned by the Caixa de Catalunya, one of the largest savings banks in Spain. Like all Spanish savings banks, the CC does not have stockholders and is able to channel one third of its profits into the foundation. Nearly five years ago the foundation identified a market gap in the sense that there were many people with good business ideas but without the collateral required for obtaining a conventional loan. Although their microfinance fund predates the Community Initiative, EQUAL allowed them to test out methods among extremely deprived neighbourhoods and groups (ethnic minorities, people in the submerged economy) which they have been able to replicate across the fund.

The global results after four years of operation include more than 600 loans for a total value of 6 million euro and more than 1000 jobs created of which 50% are women and another 50% ethnic minorities. The survival rate a year after the credit is 90% and defaults are within normal commercial levels. This means that the operation now covers operational costs although not the financial costs. However, it must be remembered that the money is returned by the borrowers to the loan fund to be lent out again and, therefore, is a far more effective use of public money than just providing a grant.

Moreover, the loan mechanism makes the clients co-responsible for what happens to the money and produces a change in attitude from that of being a beneficiary of hand-outs to a serious business client. Un Sol Mon actually used EQUAL funds for capital and provides a good example of how structural fund money used in this way can be managed responsibly. One of the lessons is that in countries with developed welfare states, the finance must be provided in combination with sensitively designed support services. There is potential for expanding micro-finance but one of the major barriers is the many bureaucratic and financial hurdles that people face when trying to enter self employment either from the submerged economy or from benefits.

Norbert Kunz commented that in Germany only banks are allowed to provide credit. However, as in Spain they have found many young people with a good business idea who do not receive a credit rating with a bank. This is why the German DPs have set up the Deutsches Mikrofinanz Institute in coordination with certain financial institutions. This provides a central fund of microfinance for potential entrepreneurs who can show that they have taken their business idea through the various stages of the support system mentioned above.

Peter Ramsden from the East Midlands Development Agency, UK then made a series of points as a user. First of all he asked why micro-finance is so effective and how it can create jobs for a far lower cost than conventional grants. He suggested that the answer might lie in the relationship of co-dependence involved in assuming the responsibility for a loan rather than a one off grant.

Secondly, given that the finance is the Achilles heel of small businesses he asked whether the European Social Fund could not do a lot more to explore solutions such as microfinance.

Thirdly, he detected that certain regional development organisations such as his own were now talking about economic inclusion rather than just social exclusion. This meant looking at integrated strategies for activating the full economic potential of all members of society. It is far easier to lever in business and other support for this kind of approach. But this also requires a change in the culture of public institutions.

Finally, he mentioned that there were various strategies for getting out to and building the trust of disadvantaged groups. These strategies show that while not everyone can become an entrepreneur, people from any back ground can.

Comments from the participants included the fact that micro-finance can be used for poverty alleviation and not just business creation. The main collateral of excluded groups is their capacity to work. MF can take this into account. It was also said that, in fact, the main problem for business start-ups in disadvantaged communities was not the lack of finance but the lack of markets. The social economy provided one way of bridging the gap where private sector markets were not able to sustain ordinary businesses.

This only went to show that it was necessary to operate on many fronts. Finance was not the only tool but one of many that had to be mobilised in the name of economic inclusion.

## 4. CONCLUSIONS:

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From the chair, Ron Downing, summed up the session by making the following conclusions:

He argued that the EQUAL case studies and discussion show:

- That policies to increase self employment among disadvantaged groups are an important method of creating jobs and increasing employment and activity rates.
- That they are cost effective compared to other policies and compared to the cost of unemployment.
- That they simultaneously increase competitiveness, employment and social cohesion.

The EQUAL case studies and the discussion also show how to make these policies work better:

- By demographic profiling and finding out about the real business problems of disadvantaged groups and areas.
- By adapting the supply of both *finance* and *support* to their real needs.
- By ensuring that there is a coherent, well signposted pathway they can follow
- By methods such as quality control and training.
- By ensuring that employment services, business support agencies, community groups and financial institutions work in partnership

With this, evidence the Commission and the Member States should use the EES and the Social Fund to extend these approaches across Europe.