



AFRICAN SMES IN THE BRITISH ECONOMY

Joe Ukemenam*

Reform Corporation, UK

Abstract: Based on actual and sustained period of engagement with capacity development issues in the context of black-owned businesses in London, I address in this chapter the profound changes that are taking place within the main sectors of endeavour as well as the constraints and prospects for future growth and sustainability. I conclude that there are inescapable public policy imperatives which need to be overcome in order to ensure a more effective participation of black people in the mainstream British economy. Consequently, a more robust model of engagement is called for; in order to stem the tide of economic/social exclusion.

Keywords: black entrepreneurship, economic participation, businesses development, Britain.

INTRODUCTION

“We work to improve the quality of life for all Londoners, and encourage strong sustainable economic growth in the capital. We will continue to pioneer and drive initiatives that tackle London’s challenges and enable all Londoners to enjoy the exciting opportunities our city creates.” London Development Authority (LDA, 2005).

The vision in the LDA’s stated aim is “to make London a sustainable and socially inclusive world city driven by healthy economic growth and equal opportunity. Our primary task is to drive the delivery of the Mayor of London’s Economic Development Strategy (EDS)”.

The historic economic situation of black people (Afro/Caribbean people) in the UK has been at its best ever in the last 15 years

barring the current economic downturn that remains to be fully analysed. Over this period, the economics statistics in the UK indicate on average a fall in the rate of unemployment (on average, the employment rate in London was at 69.3% with London’s productivity being over 40% higher than the rest of the UK). This is now being challenged and reversed by the current economic situation that put unemployment at over 3 million nationally. The period also witnessed the introduction of several UK governments’ initiatives and interventions European Regional Development Fund (ERDF), European Social Fund (ESF), London Development Agency (LDA), London Skills Council (LSC), London Councils (LC) amongst many other packages aimed at stimulating economic growth in general and specialist programmes within them for increasing black people’s participation in development.

* Reform Corporation, London, UK, E-mail: corporationhouse@talk21.com

In part, this has a hand in the growth of the black middle class and black business successes (BBC Radio 4) in a way never experienced before in the history of the UK. In 2004, there were around 66,000 BME-owned businesses in London, employing 560,000 people and generating a combined sales turnover of £90 billion. In addition, there are approximately 93,000 self-employed people from the BME communities who are also contributing to the London economy. Some research ('Redefining London's BME-owned Businesses' by LDA) suggest that the number of black and minority ethnic-owned businesses in London had grown significantly over time and were making major contributions to the regional and national economy (e.g. LDA 2004).

These achievements are in most terms significant but grossly insufficient to warrant letting out the orchestra to serenade the victorious song. Do we need to celebrate at all in any event? Many people would subscribe to initiatives that require black people to count their blessings and by extension, their successes in the UK. There are good reasons for that supposition given the historical legacies and administrative dynamics that were in use to manage this target group. Such legacies include a historic practice of discriminatory policies and the regular exclusion of black people from social and political participation.

The effects of such practices are most vivid in economic activities or lack of it. For example, most minority ethnic groups will have unemployment rates well over twice as high as the white population, and though they make up only 28% of London's population, they make up 45% of the capital's unemployed. Also, there is an indisputable 'ethnic penalty' syndrome meaning that when compared with a white person of the same age, with the same

skills and qualifications and living in the same area, black people are more likely to be unemployed.

In this chapter, I address some key interventions – both statutory and non-statutory – that have assisted the advancement of this target group and provide some explanations as to their dynamics and how they may have helped and or hindered the legitimate demands of black people in the UK. London is used here as the focal point for both comparison and analytical purposes because:

- London's net business start-up rate over the most recent economic cycle was above that for the UK as a whole. Over two-fifths of London's businesses are innovation-active although productivity growth over the most recent economic cycle was below that achieved in the recent previous economic cycle.
- London remains the best European city in which to locate a business the experts say. But, despite London's global success, over 400,000 children in London are living in poverty, and over 1 in 5 children in the capital live in households where nobody works (LDA 2009).
- London has the highest concentration of black people in the UK (Office for National Statistics, 2001; 2004'; Greater London Authority, GLA, 2004). The figures show that 343,567 Londoners identified themselves as Black/Caribbean ethnicity. In England and Wales, there was a total of 563,843 so that three-fifths of all Black Caribbean people in England and Wales lived in London. Inner London was home to nearly 190,000 Black Caribbean people, nearly 7% of the population. Over 150,000, around 3.5% of the total population, lived in Outer London. Across England and Wales excluding London, there was

220,000 Black Caribbean people, around 0.5% of the total.

THE CONTEXT

For the strength of its diverse cultures (over two and half million people from nine ethnic groups – Black, Asian, Chinese, Turkish and other minority ethnic groups (GLA 2006)), London presents the biggest and toughest challenges to policies and administration for all stakeholders including the authorities. The Greater London Authority (GLA) Economics Unit provides data and analysis that form a base for policy and investment decisions facing the Mayor of London and the GLA group. The unit is funded by the GLA, Transport for London (TfL) and the LDA. It is because of their strategic importance that reference is being made of their dynamics in the development of the regional. Furthermore, no attempt is being made here to separate and distinguish between voluntary organisations and the small and medium-size businesses and enterprises, largely because the issues we are concerned with here affect them nearly in the same way. Such issues include lack of business capacity, access to resources, exclusions and discrimination amongst others.

But, most of the London regeneration initiatives including the commercial finance agencies in the period under analysis present special emphasis on promoting diversity and to a large extent show how they plan to demonstrate outcomes in these areas. For example, the LC grants (formerly known as the Association of London Government), seen as one of the most transparent of all fund providers, largely owing to its democratic control and ownership, slices up its over £28 million annual pan London grant fund into allocations

for specified thematic areas stressing ethnic minority involvement as central part of its cross-cutting theme. Others develop policies to promote the development and involvement of black people both in process and in access to finance. The LDA commits itself to playing a critical role in supporting the growth and development of the city's businesses, including those owned by the capital's black and other minority ethnic groups. The LDA being the Mayor's agency for business and jobs prepares the Mayor's business plan for the capital, investing over £300 million a year and mobilising the support and resources of other organisations to create a better environment for London's diverse people, businesses and communities to thrive.

To some black professionals, the information mentioned earlier were sufficient to propel them into taking actions designed to respond and cause changes in the lives of their communities amongst others. They also triggered black-women-ownership of businesses in numbers never seen before in the history of the country. Numbers started to increase. The percentage of majority of female-owned businesses grew to one in six (16.7%) in 2005 compared with only 11.4% in 2004 and 9.7% in 2003 (please see Learning and Skills Council various report regarding statistical information). Of these, the black-owned businesses are more likely to be run by women than businesses in other ethnic groups. Black women run around one quarter of black-owned businesses (25.5%) compared with 18.0% of white-owned and only 11.7% of Asian-owned businesses.

BME-owned firms no longer limit themselves to operating in the ethnic niche and traditional markets. Increasingly, we see the growth in the number of black entrepreneurs running successful multi-million

pound businesses in mainstream and international sectors such as banking and financial services, business and professional services, ICT, media, fashion and manufacturing. Many of them also build international trade dimensions into the core of their UK business activities.

For the same reasons, the organisation I manage – Reform Corporation (RC) – in part, developed its services in response to some of these statutory actions. Indeed, the Corporation (RC) was established in 1989 as a result of a DSS (LAC) 83 Initiative, which set out to encourage the development of ‘Alternatives to Custody and Care for Young Offenders’. The Organisation subsequently developed to cater for the vulnerable and poorest black communities in the UK and African States. RC is a Black-led agency with the overarching aim to fill the gaps that exist in the provision of services for the black and ethnic minority people in the area. This is achieved through Education, Training, Advocacy, Representation, Facilitation, General Empowerment and Collaboration.

Although the corporation started by diverting offenders from custodial sentences, reviews and emerging needs suggest that economic activities or lack of them have a correlation with the propensity to commit crime, offend and or to recidivism. Fellow criminologists will argue that specifically unemployment in the inner cities has been implicated in a host of major societal issues, from social exclusion and the physical and mental well-being of the individual through to the drug abuse and related crimes. It is an issue of national, public concern and in any event, the promotion of economic well-being could be seen as central to the development of citizenship.

In contribution to these London regeneration initiatives and development

opportunities, RC responded and designed a Community Business Development, Support and Advice Project targeting Black African communities in East London area. This was the fourth in a series of other enterprise development and support initiatives managed by the corporation in a ten-year period. The current project, which focuses on developing access to finance for target group, also provides mentoring interventions in key areas of business management and organisational development. The project provided business support interventions to over 1100 individuals, organisations and Small And Medium-size Enterprises (SMEs). Of these numbers, over 280 of them have been trading for over five years now and are still receiving continuous business support from RC. At a recent review, the ‘access to finance’ project raised over £8 million for client organisations and businesses.

KEY INTERVENTIONS

The London regeneration initiatives trend continues and in the last ten was supplemented by the general feel good factor that resulted from the economy. The feel good factor released synergy within the communities and made access to finance more easily available. Although there are funds like the ‘seed’ capital and funding for a variety of enterprises through these regeneration and other initiatives, it is the housing market with ‘buy to let’ programme that epitomised the phenomenon, leading to the charge for apparent prosperity for most. The Council of Mortgage Lenders (CML) show that in 2001, lending to this market was £119,798 million (CML, 2009). This figure grew steadily annually and reached its pick of £363,679 million in 2007 before the first decline in as many years was recorded in 2008. The CML began collecting quarterly buy to let data in 2006, but on the basis of

previous half-yearly data 2008 presented almost certainly the lowest quarterly lending figure since 2003. In 2006–2007, housing completions exceeded the targets set in the GLA London Plan for all sub-regions.

Although the exact number of black people who took advantage of this programme was not captured by the CML, our experience as a provider of capacity-building interventions to the black SMEs is that with the UK's ethnic minority communities having an estimated total disposable income of over £13 billion (LDA, 2003), they represent a significant economic force to be monitored closely for its development. With our project, up to 40% of those we worked with got involved in what is now called the housing boom era. Our figure includes people involved in other active economic activities such as full and or part-time employment as well as the group combining business with some training and formal education.

Other interventions contributed to the general feel good factor and made real difference on the ground. For example, the Capital's most comprehensive business survey of 2005 by the Business Link for London shows that general business performance and productivity were up significantly in the previous year. The figures show that in comparison with a previous year, a significantly higher proportion of business establishments reported an increase in turnover (38% of businesses increased their turnover compared with 34% in 2003), profitability (35%, compared with 25% in 2003) and staff productivity (32%, compared with 26% in 2003) London Business Support Network (LBSN, 2008).

In our experience, the small firms' loan guarantee scheme and the numerous grants/investment schemes available were instrumental to the growth recorded for our

target group. With the small firms' loan, the companies that have no assets to offer as security for conventional bank funding were assisted to raise cash without them being required to provide equity. Because the government funds 75% of the Small Firms Loan Guarantee Scheme (SFLGS), it takes some of the risk away from the lender, making the banks slightly bolder in their lending decisions than usual. The scheme is provided by 27 participating lenders, including a number of high street banks. They are able to lend up to £250,000 for a maximum ten-year term. Like all grants and loans, there are restrictions and boundaries placed as regards the type of SMEs that can access such funds. Also present are other conditions both special and general for accessing and using this fund. However, this presents a useful source of credit and one that assisted many of our client group.

Other influential sources include The City of London Corporation that has since 1999 invested £8.5million in SME loan funds; the *London Regional Venture Capital Fund* that provides equity finance to high growth, innovative businesses that require sums below £500,000 and *OneLondon's London Business Growth Fund*, which provides loans of up to £40,000 to small businesses with potential for growth and employment generation. There are also the Capital Fund, South East Growth Fund, South West Regional Venture Capital Fund, Advantage Growth Fund (WM), East Midlands Regional Venture Capital Fund, etc – all with larger budgets operating and were laid out to encourage economic development for the SMEs. But, it is the non-refundable grants run by both statutory agencies and Trusts that made the more difference to this target group – black people. The difference made include supporting the setting up of thousands of new SMEs and voluntary organisations across the country.

London alone now has over 40,000 voluntary and community groups operating and delivering services across the board. The resources available are for a variety and a range of projects. This is very significant in London area and we note that more than 10,000 black organisations were born in that era. Currently, Black, Asian and other ethnic minority businesses make up nearly 20% of London's small business community. But, we also know that up to 60% of black small businesses/organisations cease trading within the first five years. There are various reasons responsible for this high failure rate.

FAILURE RATE OF BLACK BUSINESSES

Although Britain recorded a period of unprecedented growth in employment levels and amongst the black businesses, the failure rate of their businesses was equally huge and disproportionate. BME-owned businesses encounter disproportionate barriers to the development and growth of their businesses. Particularly in securing contracts and accessing start-up and growth finance, affordable business premises, quality business support, international trade opportunities, etc. For example, over the last decade, the statistics in the UK indicate a fall in the rate of unemployment. This disguises the inequitable outcomes and higher levels of disadvantage in the labour market experienced by our target group. Nationally, the employment rates for ethnic minorities are 14% lower than those for white people, with the employment rates for ethnic minority women 22% lower. The highest unemployment rates were among Pakistani, Bangladeshi and African people.

In total, they make up only 28% of London's population, but they also make up 45% of the capital's unemployed. We

see similar patterns in the failures of black businesses and their exclusion from accessing sustainable business support. We know for example that a significant percentage of community businesses and micro-enterprises (about 40%) fail within the first-three years of inception. There are various reasons responsible for this high failure rate. Some experts attribute it to partly a general lack of business expertise and understanding on the part of black people. But, we have other theories borne out of both our experience in the sector and our historic involvement in the various processes in this country.

One of the theories is seen in a study funded by the Leverhulme Trust and conducted by the University of East London. It provided a well-grounded empirical evidence to embed the fact that black and ethnic entrepreneurs suffer levels of business failure crises (Nwankwo, 2003). The research studies suggest that as a result of the market failures black and ethnic minority people often turn to self-employment and business ownership as a means of avoiding discrimination in the labour market. Even such enterprises are often inefficient and marginal because the community and individuals do not have access to the resources (including suitable premises, finance and business support) that can transform them into viable businesses. Indeed, in the UK market, our target groups' business experiences tend to be written off and unrecognised. Perhaps, the explanation to this is contained in the data from both the DTI and the Bank of England that reveal that black peoples' micro-enterprises are the fastest mutating phenomenon in today's London yet very little is published about the dynamic phenomenon of their entrepreneurship. This is partly because of the general tendency to exclude them and view the ethnic minority enterprise sector in a monolithic fashion.

A RESPONSE THROUGH THE THIRD SECTOR

The main statutory response

There is ample evidence to suggest that the development problems of SMEs and the voluntary organisations in general are well known to most fund providers. We see such evidence in the various statutory and non-statutory efforts that are being made to develop rescue strategies in the industry. But, most of them select the third sector (The third sector in London is both large and diverse, comprising charities, voluntary organisations, community organisations and social enterprises) development as the route to tackling the problems of the third sector. The government through its various mechanisms appears to lead the rescue mission with few headline grabbing programmes.

It first recognised that the Third Sector plays a vital role in our society, from bringing people together through voluntary action and advocacy, building social capital and strengthening communities, to the delivery of public services. For the government, this underpins all reviews in this area. In 1996, it commissioned the Deakin Commission to report on the future of the voluntary sector. This became a significant factor behind the creation of the Compact, the Office of the Third Sector and Change-Up, as well as regulatory reform and the introduction of a public-benefit text for charities.

In 2002, the HM Treasury published a Cross-Cutting review on the Role of the Voluntary and Community Sector in Service Delivery. The report recognised that many voluntary and community organisations were unable to access the support required to meet the needs of their users and recommended that the voluntary and

community sector and central and local government develop a shared strategy to underpin the capacity of the sector. Following on these was the introduction of The Change-Up framework in 2004 by the then Home Office Active Community Unit. The Third Sector Review and its recommendation of 2006 were to follow with responses that were impressive and ranging.

In 2006, Capacity-builders – a Non-Departmental Public Body (NDPB) – was set up to take over the management of the Change-Up programme and to work with other funders to build the capacity of the Third Sector (i.e., organisations that provide information, business advice, facilities and other kinds of development support and assistance to help third sector organisations and others to become stronger). The Change-Up programme was funded through Capacity-builders' sponsor department, the Office of the Third Sector, with £70 million invested during 2006–2008. A further £88.5 million of investment was committed for the three-year period 2008–2011. The Capacity-builders exist to create a more effective third sector by improving support for third sector organisations. Capacity-builders want to increase by 2011 the access that third sector organisations have to high quality, relevant and affordable shared facilities and services offered by local resource centres across England.

Their framework sets out a ten-year vision up to 2014, for how the support and development needs of frontline third sector organisations can be better met through the provision of high quality, accessible and sustainable support services. The general idea is that with their strong links to communities, their diversity and their commitment to positive social outcomes, third sector organisations are ideally positioned to work with local and central government. They

can easily identify community needs and get involved in planning joined-up delivery of public services. Also, the development of the second-tier agencies and others (front-line organisations) will through this system receive appropriate development services and interventions.

Their focus, therefore, includes:

- the development of local and regional partnerships to develop long-term plans for more effective and sustainable support services
- supporting the development of six national hubs to lead work in the six key areas of organisational needs identified including governance, volunteering, information and communications technology, finance, performance improvement and workforce development
- a smaller programme supporting sector involvement in public service priorities.

Overall support will be provided to the frontline organisations through a wide range of voluntary organisations and social enterprises, as well as by public agencies. These agencies operate at national, regional and local levels. Some focus on generic support needs, while others respond to particular needs, or to specific parts of the sector.

The main non-statutory response

For the Trusts (non-statutory sector fund providers), the Big Lottery presents a good rescue programme. It accepts that infrastructure organisations services do vital work to help SMEs voluntary and community groups achieve their aims through services such as training, providing information, representing community groups' interests, supporting networks and sharing good practice. The absence of these services/skills are some of

the key issues identified severally as causing the underdevelopment of businesses and increasing the failure rate of new ventures. The Big Lottery developed and launched interventions such as BASIS programme in 2006 with the aims to ensure that voluntary and community organisations throughout England have access to high-quality support that will help them become more effective. In round 1, they awarded £101 million to 206 voluntary and community sector infrastructure organisations across England and awarded up to £50 million in round 2.

The City Bridge Trust is another serious player in this theatre. It makes grants of £15 million a year to charitable projects benefiting the inhabitants of Greater London. Since they began grant-making in 1995, they regularly set aside 5% of their grants budget each year for strategic purposes (capacity building, action research projects, feasibility studies and conferences,) but overall they have awarded 5725 grants totalling more than £220 million. They acknowledge that in their experience, they know that many organisations struggle just to keep afloat, planning, budgeting, financial management and reviewing your work can seem like luxuries to these organisations when time and money are short. This is clearly true for our entire client group hence our series of capacity-building interventions in the last ten years. For The City Bridge Trust, to fund the second-tier organisations so that they are able to help the third sector become stronger is the answer to business failures. They acknowledge that there are so many needs in these organisations. They also have identified several key development areas on which to concentrate their funding. The belief is that stronger organisations will be able to deliver better services and prove their value to future prospective funders at the same time.

CONCLUSION

How well black-led second-tier organisations have been assisted by all these is also central to the historic and current performances of the black community entrepreneurial outcomes. It appeared that in the 1990s that there was the professional willingness on the part of fund providers to support in good numbers black-led initiatives both at frontline and or second-tier levels. This also supported the growth seen for this target group. For the second-tier organisations, there has been recognition that black-led organisations deliver some of these services in ways that empower the black community much more appropriately. In addition, key statutes will have to be met covering the cross-cutting themes Sex Discrimination Act 1975, the Race Relations Act 1976 as amended, the Disability Discrimination Act 1995, the Equal Pay Act 1970, the Data Protection Act 1998 and Human Rights Act 1998. These place some responsibility on the shoulder of fund providers to ensure compliance of significant nature.

What is clearly supported by evidence is that even with these statutes, black SMEs and organisations find it particularly harder than whites to access development funds and development interventions even as second-tier organisations. We know that significant numbers of black people do not access many of the mainstream provisions led by white organisations. Some of them argue that such services do not understand their needs especially where language, religion and cultural dynamics are crucial to the services being delivered. We have seen in numerous situations where mainstream projects could not meet their targets for ethnic minority users because their services could not find or reach these communities. In such situations, not only language, religion and culture that are obstacles, but also

access for both provider and beneficiary is a problem. The solution needs to include increased and enhanced participation of ethnic minorities in the funding decision-making processes. Their involvement will assist in interpreting the business proposals of black people to the funding committees as they decide on whom to fund. Such measures will ensure in even greater measures that proportional mix of multicultural providers and provisions are available leading to economic and social equity.

REFERENCES

- Council of Mortgage Lender (2009), Annual Report, <http://www.cml.org.uk/cml/publications/annreport>
- Greater London Authority (GLA), (2004); *Ready for Business: The contribution of black business to London's economy*, GLA, London.
- Learning and Skills Council (LSC) Various reports, <http://www.fresa-london.org/publications.asp>
- London Business Support Network, LBSN, (2008), *Equipping London's Small and Medium Sized Businesses to Grow: A review, Strategy and Action Plan*. LSBN, London.
- London Development Agency (2004), FRESA Flagship Programme, Information and Communications Technologies for Small & Medium sized Enterprises in London Research Report, http://www.lda.gov.uk/workofthelda/strategy/research/content/18_517.asp
- London Development Agency (LDA), (2005); *Redefining London's BME-owned Businesses*, LDA, London.
- London Development Agency (LDA, 2009), Strategic Plan, <http://www.london.gov.uk/mayor/strategies/sds/index.jsp>; <http://www.lda.gov.uk/publications/corporate/plan/>
- Nwankwo, S. (2003), *African Entrepreneurship in the UK. Report of the Leverhulme Study*. University of East London.

Office for National Statistics (ONS), 2001;
Population Size, ONS, Houndmills.

Office for National Statistics (ONS), 2004;
Employment Patterns, ONS, Houndmills

Further Readings

London Development Agency (2003), Focus
on London, ONS/GLA/LDA [http://www.
statistics.gov.uk/focuseon/london/default.asp](http://www.statistics.gov.uk/focuseon/london/default.asp)

London Development Agency (2009), London
Annual Business Survey
[http://www.lda.gov.uk/workofthelda/
strategy/research/content/18_489.asp](http://www.lda.gov.uk/workofthelda/strategy/research/content/18_489.asp)

Learning and Skills Council (2002), London
Employers Survey 2002, London Skills
Forecasting unit, [http://www.londonp4p.
ac.uk/docs/Skills_and_Competitiveness_in
the_London_Economy.pdf](http://www.londonp4p.ac.uk/docs/Skills_and_Competitiveness_in_the_London_Economy.pdf)

Learning and Skills Council (2002), National
Employers Skills Survey,

a. [http://www.lsc.gov.uk/National/
Documents/SubjectListing/Research/
LSCcommissionedresearch/
NESS2003Findings.htm](http://www.lsc.gov.uk/National/Documents/SubjectListing/Research/LSCcommissionedresearch/NESS2003Findings.htm)

b. Survey 2002, [http://www.
businesslink4london.com/aboutus/
research.cfm](http://www.businesslink4london.com/aboutus/research.cfm)