

# Ethnic entrepreneurship

## *Case study: Frankfurt am Main, Germany*

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# About CLIP

In 2006, the Congress of Local and Regional Authorities of the Council of Europe, the city of Stuttgart and the European Foundation for the Improvement of Living and Working Conditions (Eurofound) formed the ‘European network of cities for local integration policies’, henceforth known as CLIP.<sup>1</sup> This network comprises a steering committee, a group of expert European research centres and a number of European cities. In the following two years, the cities of Vienna and Amsterdam joined the CLIP Steering Committee. The network is also supported by the Committee of the Regions (CoR) and the Council of European Municipalities and Regions (CEMR), and has formed a partnership with the European Network Against Racism (ENAR).

Through the medium of separate city reports (case studies) and workshops, the network enables local authorities to learn from each other and to deliver a more effective integration policy. The unique character of the CLIP network is that it organises a shared learning process between the participating cities, between the cities and a group of expert European research centres, as well as between policymakers at local and European level.

The CLIP network currently brings together more than 30 large and medium-sized cities from all regions of Europe: Amsterdam (NL), Antwerp (BE), Arnsberg (DE), Athens (EL), Barcelona (ES), Bologna (IT), Breda (NL), Budapest (HU), Copenhagen (DK), Dublin (IE), Frankfurt (DE), Helsinki (FI), Istanbul (TR), İzmir (TR), Kirkcaldy (UK), Liège (BE), Lisbon (PT), Luxembourg (LU), L’Hospitalet (ES), Malmö (SE), Mataró (ES), Newport (UK), Prague (CZ), Strasbourg (FR), Stuttgart (DE), Sundsvall (SE), Tallinn (EE), Terrassa (ES), Turin (IT), Turku (FI), Valencia (ES), Vienna (AT), Wolverhampton (UK), Wrocław (PL), Zagreb (HR), Zeytinburnu (TR) and Zürich (CH).

The cities in the network are supported in their shared learning by a group of expert European research centres in:

- Bamberg, Germany (European Forum for Migration Studies, efms);
- Vienna (Institute for Urban and Regional Research, ISR);
- Amsterdam (Institute for Migration and Ethnic Studies, IMES);
- Turin (International and European Forum on Migration Research, FIERI);
- Wrocław (Institute of International Studies);
- Swansea, Wales (Centre for Migration Policy Research, CMPR).

There are four research modules in total. The first module was on housing – segregation, access to, quality and affordability for migrants – which has been identified as a major issue impacting on migrants’ integration into their host society. The second module examined equality and diversity policies in relation to employment within city administrations and in the provision of services. The focus of the third module was intercultural policies and intergroup relations. This final module looks at ethnic entrepreneurship.

*The case studies on ethnic entrepreneurship were carried out in 2010.*

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<sup>1</sup> See also <http://www.eurofound.europa.eu/areas/populationandsociety/clip.htm>.

## Acknowledgements

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Many large cities in Europe acquired a more cosmopolitan outlook in the closing decades of the twentieth century and the opening decades of the twenty-first century.<sup>2</sup> This is reflected in an ever-broadening product range, which now not only includes items such as Nokia cell phones, McDonald's hamburgers and Nike sneakers, but also Turkish döner kebabs, Greek food or Russian import-export businesses. In addition, various enterprises such as craft enterprises, insurance companies and law firms are run by migrants.

The appearance of ethnic entrepreneurs and 'exotic' products in shops reveals the deepening links between economies. These two highly visible aspects of globalisation – the international mobility of capital and labour – are often directly related to each other as migrants themselves introduce their products to far-off places. They start businesses in their countries of settlement and become 'self-employed', 'migrant entrepreneurs' or 'ethnic entrepreneurs'.

Although increasing numbers of ethnic entrepreneurs have set up shops, they have long remained 'unsung heroes' (BusinessWeek Online, 2000). In socioeconomic terms, for a long time migrants were largely viewed as workers and not entrepreneurs, and were predominantly depicted as suppliers of cheap, low-skilled labour in advanced economies. In recent times, more attention has been placed on migrants who set up and run their own businesses. This attention is the result of the increasing importance of ethnic entrepreneurship for local economies. By starting their own businesses, migrant entrepreneurs are active agents, shaping their own destinies as well as revitalising economic sectors: they create their own jobs as well as jobs and apprenticeships for others; they pay taxes and contribute to local economies. They provide goods and services (some of which are not likely to be offered by indigenous entrepreneurs) and contribute different forms of social capital to the local community.

The general aim of this fourth module of the CLIP project is to explore the development of ethnic entrepreneurship and to review the role of policy interventions in that process. It is motivated by the desire of municipal, national and European governments as well as third sector institutions, who want to create an environment that is conducive to setting up and developing small and medium-sized enterprises (SMEs) in general and ethnic businesses in particular.

Here, the objectives are phrased into the following basic research questions: What are the characteristics of the urban economy, and, more specifically, what developments have occurred in the SME sector? What kind of profiles of ethnic entrepreneurship can be identified? What policies, rules and regulations govern the SME sector in general and the ethnic SME sector in particular? These three basic research questions are addressed in chapters three, four and five. Before that, a short description of the city and its population is provided.

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<sup>2</sup> This section draws on the concept paper for this fourth CLIP module, see Rath, 2009.

The city of Frankfurt am Main is located in the state of Hesse, in western Germany. In 2008, Frankfurt had a total population of 672,667.<sup>3</sup> In population terms, Frankfurt is Germany's fifth largest city (City of Frankfurt am Main [*Stadt Frankfurt am Main*], 2009e).

Figure 1: *Frankfurt*



Source: *Frankfurt Economic Development GmbH 2009*

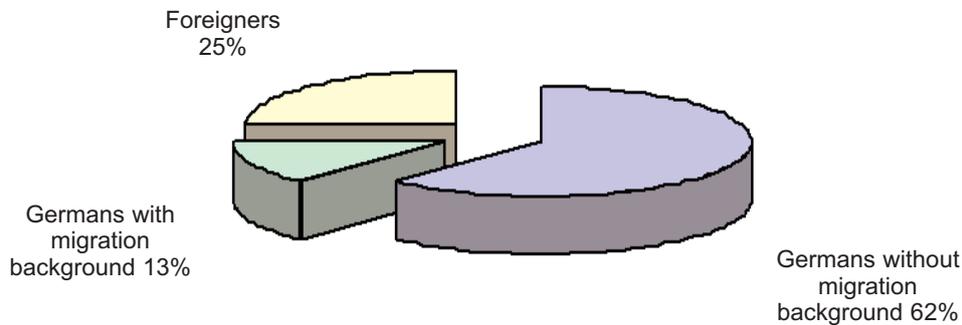
## Migrant population

The local population has been shaped by the city's long tradition of immigration. From the 1960s to the early 1970s, Frankfurt was one of Germany's most important destinations for guest workers. The labour migrants came primarily from Italy, Spain, Greece, Yugoslavia and Turkey. After the 1973 recruitment ban, migration of guest workers to Frankfurt stopped. Most of the guest workers, however, then decided to settle in the city and began bringing their families from their home countries to Frankfurt. Thus, family reunification became the most important source of migration to the city. In the 1990s, immigrants from the former Soviet Union (many of them ethnic German migrants from eastern Europe, or *Spätaussiedler*), war refugees (mainly from the former Yugoslavia) and asylum seekers were the three major groups of immigrants.

As a result of these immigration processes, the city has a high proportion of inhabitants with a 'migration background' (*Migrationshinweis*), as it is termed in Frankfurt. This term includes 'foreigners' (having a citizenship other than German), inhabitants with dual citizenship, naturalised Germans and ethnic German *Spätaussiedler* (City of Frankfurt am Main, 2009e, p. 7). Altogether, 242,650 inhabitants of the city of Frankfurt have such a migration background, representing 37.9% of the population at the end of December 2008. Of these, 161,397 persons were foreigners, forming a quarter of the whole population, and 81,253 persons were Germans with a migration background, representing 13% of the population (Figure 2) (City of Frankfurt am Main, 2009e, p. 17).

<sup>3</sup> Of these, 641,153 inhabitants had their principal residence in the city; the remaining 31,514 only had their secondary residence there.

Figure 2: Migration background of the local population, 31 December 2008

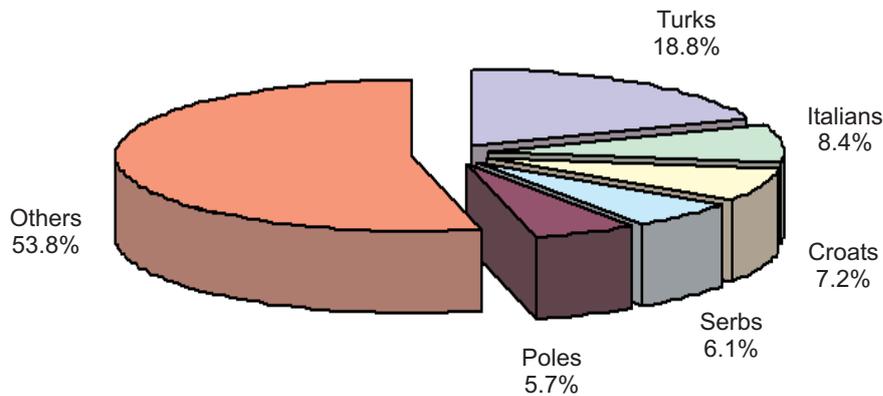


Source: Compiled by the European Forum for Migration Studies (EFMS) based on data from the City of Frankfurt am Main, 2009e, p. 17

The city’s population with a migration background is characterised by a high diversity of ethnicities and nationalities. Frankfurt’s inhabitants originate from about 175 different countries. Since the municipal statistical office, however, has only recently begun to collect data concerning migration background, this study can only give information about the countries of origin of the foreigners (that is, non-German citizens) living in Frankfurt.

As Figure 3 shows, Turkish citizens, comprising 18.8% of the foreign population of Frankfurt, constitute the largest group of foreigners. They are followed by citizens from Italy (8.4%), Croatia (7.2%), Serbia (6.1%) and Poland (5.7%) (City of Frankfurt am Main, 2009e, p. 37).

Figure 3: Foreigners in Frankfurt, by nationality, 31 December 2008



Source: Compiled by EFMS based on data from the City of Frankfurt am Main, 2009e, p. 37

Many foreigners have lived in Frankfurt for a considerable length of time. In 2004, more than one third of the city’s immigrant population aged over 18 years had lived in the city for longer than 15 years. Especially among migrants from Croatia and Turkey, there is a high proportion of ‘long-term Frankfurters’, at 62% and 54%, respectively (City of Frankfurt am Main, 2004, p. 165).

Foreigners living in the city are on average younger than Germans: in 2008, the mean age of Frankfurt's population was 41.5 years. Among Germans, it lies at 42.5, while the average age of the foreign population in the city is 38.5 (City of Frankfurt am Main, 2009a).

Immigration has had an impact not only on the ethnic landscape in Frankfurt but also on the religious composition of its population. However, no official figures are available on each community's size: the German registry office only records membership in the Roman Catholic and Protestant Churches; all other religions are registered as 'other'. Of the people living in Frankfurt, 21.9% are Protestant (*Evangelisch*) and 24.1% belong to the Catholic Church. The majority of the population (54%) are listed as having another or no religion. These figures differ significantly according to nationality: of the German population, 27% are Protestant, 21.9% are Catholic and 51.1% have another religious affiliation or no religion. Of the foreign population, by contrast, only 2.2% are Protestant and 27.5% are Catholic, while the vast majority of 70.3% has another or no religious affiliation (City of Frankfurt am Main, 2009e, p. 18; Lüken-Klaßen and Pohl, 2010).<sup>4</sup>

The diversity of Frankfurt's population is also reflected in the characteristics of its workforce and in the labour market in general. The following chapters will elaborate on these topics.

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<sup>4</sup> In absolute numbers: 111,743 Germans are Catholic, 137,412 Protestant and 230,601 have another or no religious affiliation; 42,476 foreigners are Catholic, 3,142 Protestant and 115,779 have another or no religious affiliation.

The subsequent sections examine the characteristics of Frankfurt's urban economy: the first section illustrates historical developments and recent trends; the second presents the local workforce; finally, the development and recent trends of SMEs are outlined.

## Development of the urban economy and recent trends

Frankfurt's economy has always been characterised by financial services, its stock market and trade. The first banks were founded at the beginning of the fifteenth century, and the stock exchange developed in the sixteenth century. Today, Frankfurt is Germany's leading financial centre, being home to about 370 national and international banks, such as the European Central Bank (ECB) and the German Bundesbank. Frankfurt has a long tradition of hosting trade fairs, for example the Frankfurt Book Fair and the International Motor Show, taking place yearly in the city and benefiting from Frankfurt's exhibition area, which is the third largest in the world.<sup>5</sup> Furthermore, the city has a highly developed infrastructure, including important rail and road hubs and Europe's largest airport. With this infrastructure and its central location, Frankfurt has become one of the leading locations for companies in Europe. Apart from banks, the city is home to about 400 advertising agencies, 170 insurance companies and 100 publishing houses (City of Frankfurt am Main, 2010a). According to the interviewed expert of the city's office for economic development (Frankfurt Economic Development GmbH [*Wirtschaftsförderung Frankfurt GmbH*]), the three biggest employers in the city are the airline Lufthansa (with about 28,000 employees), the local airport Fraport (about 15,000 employees) and German Rail (about 8,500 employees). Several bigger companies have, however, left the city and settled in the surrounding areas, since some of the surrounding cities offered lower trade tax rates.

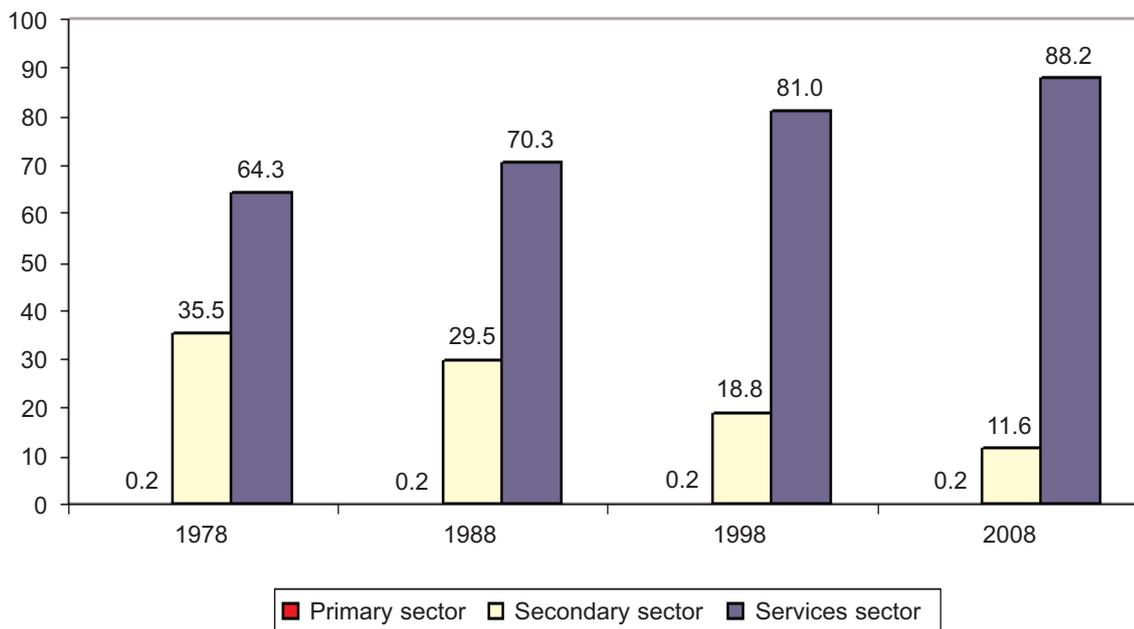
Frankfurt has the highest density of jobs in Germany: 922 jobs per 1,000 residents in 2007. This high concentration of jobs can be explained by the large number of commuting professionals. At the end of June 2007, 66.4% of all employed persons working in Frankfurt commuted to the city (City of Frankfurt am Main, 2009e, XXVIII). The city's gross domestic product (GDP) amounted to almost €51 billion in 2007. The GDP per person engaged in economic activities was €84,358 in that year – more than in any other of the biggest German cities (ibid, XXIX).

As in many other German and European cities, there is an ongoing process of tertiarisation in Frankfurt, meaning that as a result of structural changes and a shift toward a service-based economy, the number of jobs in the tertiary (services) sector has grown. Whereas the share of employed persons<sup>6</sup> in the secondary (manufacturing) sector fell from 35.5% in 1978 to 11.6% in 2008, the proportion of employed persons in the services sector increased from 64.3% in 1978 to 88.2% in 2008. The percentage of employed persons in the primary (agricultural) sector remained at a low level of 0.2% between 1978 and 2008 (City of Frankfurt am Main, 2009b). Thus, as Figure 4 shows, the vast majority of employees in Frankfurt work in the services sector.

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<sup>5</sup> In 2008, more than 1.5 million guests visited the events.

<sup>6</sup> These statistics include only employees who are subject to social insurance contributions and, thus, no civil servants, marginally employed persons or self-employed persons.

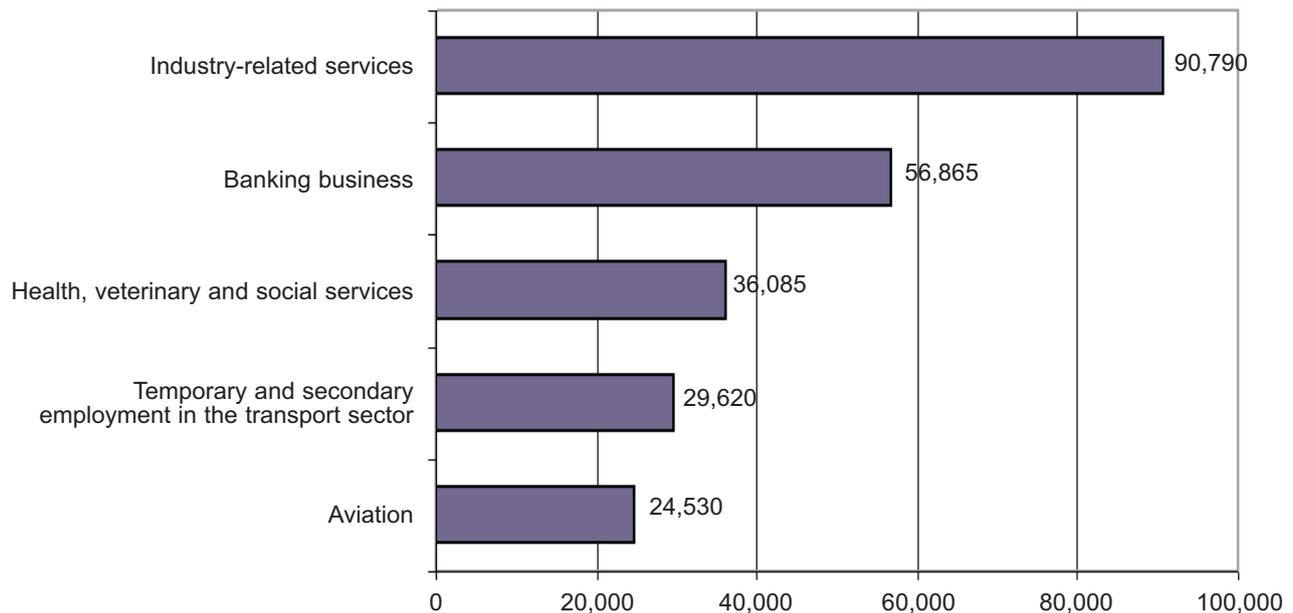
Figure 4: *Employment according to sectors, 1978–2008 (%)*

Source: *Compiled by efms based on data from the City of Frankfurt am Main, 2009b*

Despite the many positive developments, a large number of well-paid jobs for technology specialists have also been lost due to the decline of industry. This development has led to a polarisation of the qualification of employees: both the number of employed graduates and the number of minimally qualified employees have risen considerably since the 1990s. By contrast, the number of skilled employees without third-level education has fallen to an exceptionally low level (Sautter, 2004, p. 6; City of Frankfurt am Main, 2008a). Although less than 12% of the employed persons work in the secondary sector, its percentage of GDP is about 15%, according to the interviewed representative of Frankfurt Economic Development GmbH. This difference indicates that the local industry manufactures high-priced products, for instance for the aircraft industry. Such companies employ a large number of academics such as engineers. Considering the large number of people working in the city (487,634 persons in 2008), there are still many jobs in the secondary sector in absolute terms: about 56,600 employed persons work in the industrial sector in Frankfurt.

About half (49.1%) of all employees who are subject to social insurance contributions work in one of five branches that are most labour-intensive (Figure 5). They include: industry-related services, the banking business, health, veterinary and social services, temporary and secondary employment in the transport sector, and aviation. These five branches all belong to the tertiary sector (City of Frankfurt, 2008b, p. 228).

Figure 5: Number of employees in labour-intensive branches, 31 December 2007



Source: Compiled by efms based on data from the City of Frankfurt, 2008b, p. 228

Industry-related services form the largest labour-intensive branch: 90,790 employed persons (about 19% of all employees are subject to social insurance contributions in Frankfurt) are working in this field. More than 13,000 jobs in industry-related services were created between 2003 and 2007, making it by far the most dynamic branch. The number of jobs in the transport sector and in aviation also increased by about 2,500, amounting to 29,620 in transportation and 24,530 in aviation today. In contrast, employment in the banking business decreased between 2003 and 2007 by about 1,500 jobs, resulting in 56,865 employees in the banking sector. In health, veterinary and social services, about 900 jobs were lost over this period. Today, 36,085 employees work in this branch (City of Frankfurt am Main, 2008b, p. 229).

Furthermore, the city's economic statistics identify five 'key branches' (Schlüsselbranchen) in Frankfurt that are important drivers for the city's economic development, according to the interviewed representative of Frankfurt Economic Development GmbH. They include:

- the financial services sector;
- the transport sector;
- the cultural and creative sector;
- information and communication technologies (ICT);
- biotechnology, medicine and optics.

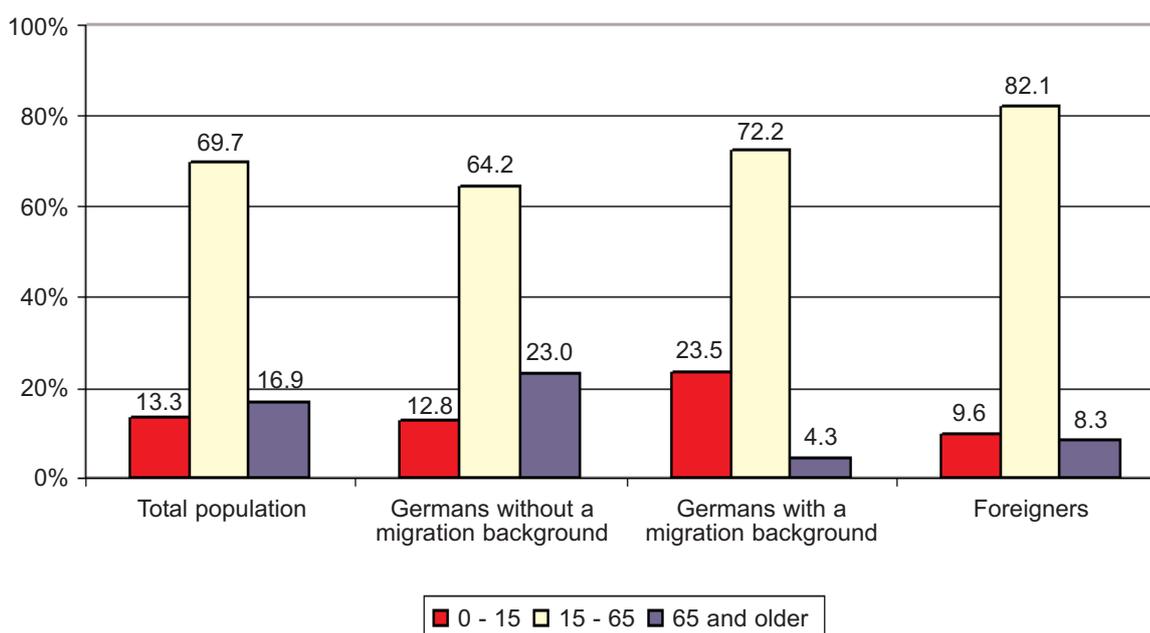
At the end of 2007, almost 200,000 people were working in a company belonging to one of these five key branches. Thus, about 40% of all jobs in the city of Frankfurt are provided by these businesses (City of Frankfurt am Main, 2008b, p. 254).

## Local workforce

### Size and characteristics of the local workforce

Among the 641,153 inhabitants with their principal residence in Frankfurt, 447,116 people are of working age – that is, between 15 and 65 years old – which adds up to about 70% of the local population. This figure differs according to the background of the population: whereas 64.2% of Germans without a migration background are of working age, the proportion is 72.2% for Germans with a migration background. The highest percentage of inhabitants of working age can be found among foreigners, of whom 82.1% are between 15 and 65 years old (City of Frankfurt am Main, 2009a) (Figure 6).

Figure 6: Population according to age groups and migration background, 31 December 2008

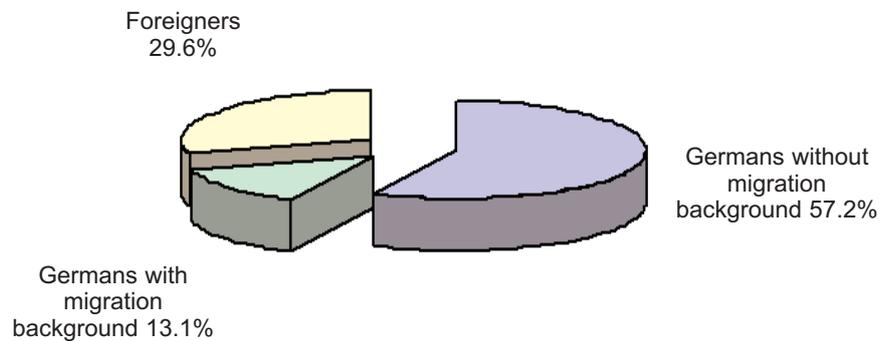


Source: Compiled by efms based on data from the City of Frankfurt am Main, 2009a

As Figure 6 shows, 13.3% of the total population are under the age of 15 years and 16.9% are older than 65. Among Germans without a migration background, the proportion of elderly people is higher (23%), while the proportion of young people is smaller (12.8%). Within the group of foreigners, both percentages are more balanced (9.6% young people and 8.3% elderly people). Germans with a migration background have the lowest share of elderly people (4.3%) and the highest proportion of young people (23.5%). In the future, there will be more people with a migration background within the working age population (City of Frankfurt am Main, 2009a).

At present, 42.7% of the local workforce has a migration background – of these workers, 29.6% are foreigners and 13.1% are Germans with a migration background (Figure 7). Thus, the proportion of the working age population with a migration background is higher than the proportion of inhabitants in Frankfurt with a migration background, which is 38% (City of Frankfurt am Main, 2009a).

Figure 7: Workforce according to migration background, 31 December 2008



Source: Compiled by efms based on data from the City of Frankfurt am Main, 2009a

Frankfurt's workforce is on average 39.4 years old. The mean age of the foreign workforce is currently 37.7 years, and thus slightly below average. The gender ratio of the working age population is balanced: women make up a share of 49.7% of the total and 49.9% of the foreign workforce (City of Frankfurt am Main, 2009a).

With regard to the educational background of the working age population, there are no data available. Since foreigners who attended school in Frankfurt have on average lower educational achievements than German nationals (City of Frankfurt am Main, 2009e, p. 77), one could assume that the educational background of the foreign population of working age is lower than that of the German workforce. At the same time, however, many of the newly arrived migrants employed at the various international institutions and firms are highly qualified.

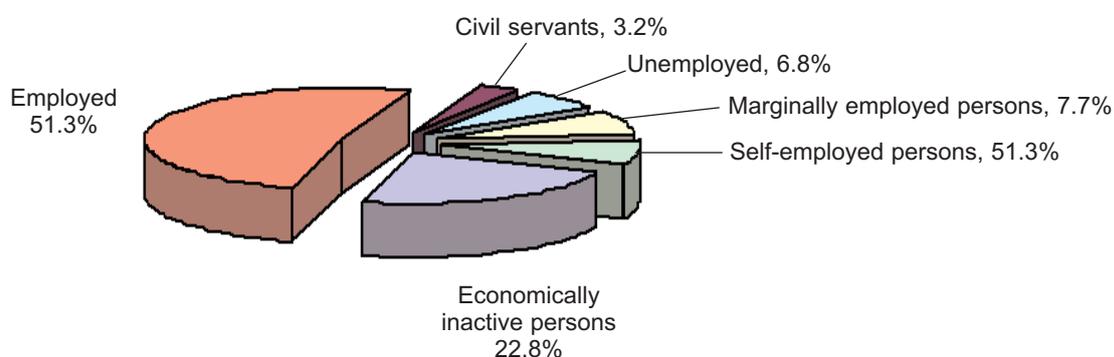
### Employment status of the local workforce

Frankfurt's working age population can be differentiated according to economic position (see Figure 8). In December 2007:

- more than half of the local workforce (51.3%) were employed ('employees subject to social insurance contributions');
- 3.2% were civil servants;
- 7.7% were marginally employed persons in so-called mini-jobs and working facilities;
- 6.8% of the local workforce were unemployed;<sup>7</sup>
- 22.8% belonged to the 'non-active population' (such as housewives and househusbands, students and pupils);
- 8.2% were self-employed entrepreneurs (City of Frankfurt am Main, 2008b, p. 282).

<sup>7</sup> The unemployment figures published by the city differ from those of the Employment Agency (see below), because the city uses a different calculation and basic population (population of working age with main residence). Thus, the percentage is not an unemployment rate but a 'specific unemployment density'.

Figure 8: Workforce according to economic position, 31 December 2007

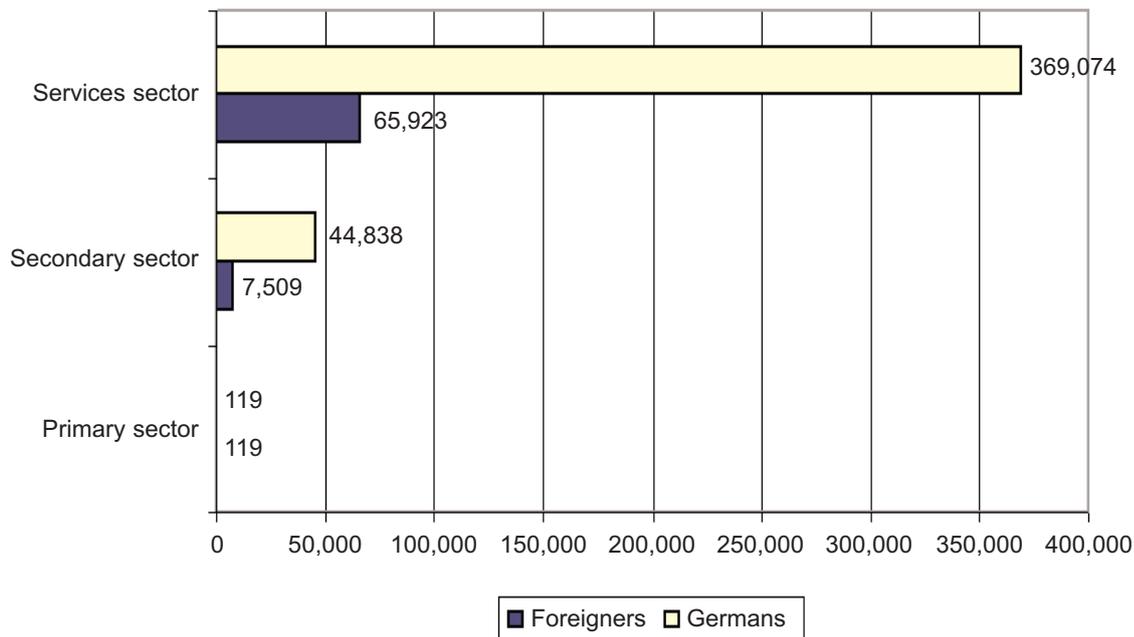


Source: Compiled by efms based on data from the City of Frankfurt am Main, 2008b, p. 282

The unemployment rate in the city of Frankfurt is tendentially falling: from 10.8% in August 2006 to 8.3% in August 2009. As of December 2009, the unemployment rate was 7.7% (Bundesagentur für Arbeit, 2006 and 2009). Foreigners living in Frankfurt have a higher unemployment rate than the city's German population. Although the unemployment rate is currently declining, it lies at 12.3%. Among Frankfurt's 26,019 unemployed inhabitants, 38.9% are foreign nationals. Unemployed persons can be further divided into two categories: the short-term unemployed (less than one year) according to the Social Security Code III (*SGB III*) and the long-term unemployed according to the Social Security Code II (*SGB II*). In December 2009, 2.1% of the civilian labour force in Frankfurt was short-term unemployed according to the *SGB III*, and another 5.6% of the labour force was long-term unemployed according to the *SGB II*. For the foreign population, these figures were higher: 2.5% of the foreign labour force was short-term unemployed according to the *SGB III*, and 9.8% of the foreign labour force was long-term unemployed according to the *SGB II* (Bundesagentur für Arbeit, 2009).

As already explained, the tertiary (services) sector employs the majority of people – nearly 90%. This is true for both the German population and foreign employed persons, who make up 15% of all employees subject to social insurance contributions in Frankfurt. Interestingly, the proportional distribution of foreigners in the different sectors is similar. In the tertiary sector, 65,923 of the 434,997 employed persons are foreigners (15%); in the secondary sector, 7,509 of the 52,347 employed persons are foreigners (14%). In the primary sector, the proportion of foreigners is 50%, but with only 238 employed persons, this sector plays a marginal role in the city (City of Frankfurt am Main, 2009e, pp. 96–97, Figure 9).

Figure 9: Foreign employees according to sectors, 2008



Source: Compiled by efms based on data from the City of Frankfurt am Main, 2009e, pp. 96–97

In other words, similar to the distribution within the total population (see section on ‘Development of the urban economy and recent trends’), the vast majority of foreign employed persons work in the tertiary sector (89.6%); 10.2% are employed in the secondary and 0.2% in the primary sector.

Regarding quantity as well as proportion, the most important branches for employed foreigners are commercial services (13,776 employees), transport and storage (11,774 employees), trade (8,174 employees) and the hospitality (hotels and restaurants) industry (8,152 employees). The highest proportion of foreigners can be found in hospitality, in which 40% of employees do not have German citizenship. In commercial services, 28% of employees are foreigners, and in both transport and storage and trade, the proportions lie at 18% (City of Frankfurt am Main, 2009e, pp. 96–97).

## Development of SMEs and recent trends

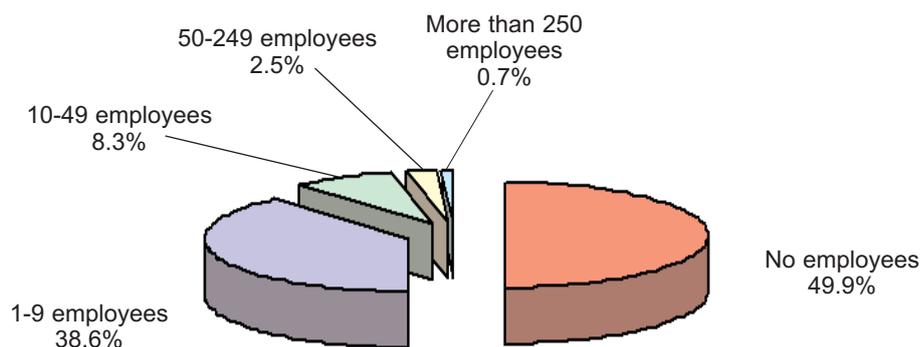
The structure of businesses is another important factor to consider when describing the urban economy. One way of categorising businesses is according to their size. If an enterprise has fewer than 250 employees and less than €50 million turnover (or €43 million balance sheet total), the EU defines it as a small and medium-sized enterprise (SME). Within this category, there are:

- ‘medium-sized enterprises’ employing between 50 and 249 people and having a turnover of less than €50 million (or less than €43 million balance sheet total);
- ‘small enterprises’ with 10 to 49 employees and less than €10 million turnover/balance sheet total;
- ‘micro enterprises’ with fewer than 10 employees and less than €2 million turnover/balance sheet total.

SMEs play the most important role in the European economy, representing 99% of all businesses in the EU. Moreover, nine out of 10 SMEs in the EU are micro firms, having two employees on average (Rath, 2009; European Commission, 2009).

This can also be observed in the city of Frankfurt. According to the city's business register, 35,630 enterprises were located in Frankfurt (as of December 2008).<sup>8</sup> Of these, only 0.7% had more than 250 employees. The vast majority of 99.3% were SMEs with fewer than 250 employees, while 2.5% of the businesses were medium-sized enterprises (50 to 249 employees), 8.3% belong to the category of small enterprises (10 to 49 employees). Altogether 88.5% of the businesses were micro firms with fewer than 10 employees. In all, 38.6% of the local enterprises in Frankfurt employ one to nine persons and 49.9% have no employees at all (Figure 10).<sup>9</sup> The average size of Frankfurt's enterprises amounts to 12 employees (City of Frankfurt am Main, 2009e, p. 113).

Figure 10: Enterprises according to the number of employees, 2008



Source: Compiled by efms based on data from the City of Frankfurt am Main, 2009e, p. 113

In crafts, businesses are on average even smaller. According to the interviewed representative of the Chamber of Crafts, all craft enterprises in the Frankfurt region are SMEs – mostly micro businesses – with an average of about five employees.

According to the interviewed expert of the Frankfurt Economic Development GmbH, the proportion of SMEs in the city of Frankfurt has increased in recent decades. This was often due to the fact that some large companies (for example, the well-known construction company Philipp Holzmann AG) went bankrupt or split into smaller enterprises.

Although there are no official figures regarding the sectoral and spatial distribution of SMEs, one can assume that it is similar to that of the local economy, as 99% of all enterprises located in Frankfurt are SMEs. Furthermore, there are some concentrated areas of business: the Industriepark Höchst, for instance, is a chemical and pharmaceutical site in the western part of the city, while several transport businesses are located close to the airport, in the southwest of Frankfurt.

<sup>8</sup> Only companies that were active on 31 December 2008 and had a taxable turnover and/or employees subject to social insurance contributions in 2006 are considered in this figure.

<sup>9</sup> In total numbers: 265 of Frankfurt's 35,630 enterprises have more than 250 employees, 35,365 are SMEs. There are 905 middle-sized enterprises, 2,958 small enterprises and 31,492 micro enterprises. Among the latter, 13,738 enterprises employ one to nine people and 17,764 have no employees.

The current financial and economic crisis has had an impact on the local economy. Still, according to all experts interviewed in the course of the CLIP city visit, the crisis has hit Frankfurt significantly less severely than other German cities. According to the expert of the Chamber of Commerce and Industry (*Industrie- und Handelskammer Frankfurt, IHK*), this is due to fact that the crisis mainly affected the secondary sector, which is less important than the tertiary sector in the city. Furthermore, the government-sponsored ‘short-time work’ (*Kurzarbeit*) supported local businesses to bridge the crisis. At the beginning of 2009, about 5,000 employed persons in Frankfurt worked short-time.<sup>10</sup> They made up about 1% of all employed persons – which is relatively few compared to other German cities or regions (Agentur für Arbeit Frankfurt/Main, 2009).

The tertiary sector also suffered under the crisis, but primarily at the end of 2008; afterwards, it recovered rather quickly. The Frankfurt School of Finance and Management developed a system of indicators characterising the situation of Frankfurt as a financial centre, using the following five dimensions: 1) condition regarding location; 2) education and employment; 3) dependability; 4) internationalisation; and 5) performance. It shows a sharp decline during 2008 (particularly in the fourth quarter), which is mainly due to the poor performance of the banks. The indicator started to increase again in 2009 (Frankfurt School of Finance and Management, 2010).

Overall, entrepreneurs in Frankfurt seem to be rather optimistic with regard to coping with the current financial crisis, as the economic forecasting of the local IHK shows (IHK, 2010). The business climate index as well as the current state and expectations of businesses started to rise again in the second half of 2009, after the downturn of the economy in 2008 affected companies in practically all branches in the city. As of spring 2010, about 26% of the surveyed entrepreneurs regarded the state of their companies as being good, 20% stated that the enterprise is in a poor state and 53% said it is in a satisfactory position. The entrepreneurs are confident that the situation will stabilise.

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<sup>10</sup> In order to stabilise the labour market, the Federal Ministry of Labour and Social Affairs established the ‘short-time allowance plus’ [*Kurzarbeitergeld plus*]). If the workload of a company decreased for economic reasons (i.e. the economic slump), but the situation was expected to improve within 18 months at the latest, to allow a return to regular weekly working hours companies could reduce the working hours of employees and apply for short-time allowances. The company then only paid wages for the work actually performed, and the employees concerned received a short-time allowance to offset the lost income in the amount of 60% of foregone net wages (those with children received 67%). The allowance lowers the financial burden on the company and prevents the dismissal of many workers (Federal Ministry of Labour and Social Affairs, 2010).

# 4

## Profiles of ethnic entrepreneurship

This chapter first focuses on ethnic entrepreneurs in Frankfurt. It first presents an overview of the development of ethnic entrepreneurship in the city. The subsequent sections outline markets and competitors of ethnic businesses, ownership structures, workforce and labour relations in ethnic enterprises, reasons for entrepreneurial careers, and problems and barriers ethnic entrepreneurs face.

### Development of ethnic entrepreneurship and recent trends

Before presenting the development of ethnic entrepreneurship, a definition should be provided. The CLIP project simply defines an entrepreneur as ‘a person in effective control of a commercial undertaking for more than one client over a significant period of time’ (Rath, 2009, p. 7). The CLIP project considers as ‘ethnic entrepreneurs’ those entrepreneurial persons who were born abroad, as well as second and third generation immigrants (Rath, 2009, p.10).

In Frankfurt, ethnic entrepreneurs are mostly referred to as ‘entrepreneurs with a migration background’ (that is, an entrepreneur who has migrated to the country or is the descendant of a migrant), but sometimes also referred to as ‘entrepreneurs with a foreign nationality’ or ‘foreign entrepreneurs’. The latter term is more common with regard to official data, since only the nationality of the entrepreneur, and not their migration background, is registered. The IHK introduced the term ‘international businesses’ to describe enterprises that are owned by a person with a foreign nationality.

Several interviewed experts stated that the terms ‘ethnic entrepreneurs’ or ‘ethnic businesses’ should not be used at all, since the businesses are founded and located in Germany and many of the entrepreneurs are German citizens who identify with the country. The experts preferred the businesses to be treated and labelled the same as with any other local entrepreneur.

### Development of ethnic entrepreneurship

Most interviewed experts stressed the fact that the economy of the city had always relied on these international businesses. Until recently, however, the city did not have any data on their numbers, since the ethnic background of an entrepreneur was not seen as a feature that should be recorded.

In 2007, the Frankfurt IHK, in cooperation with the city of Frankfurt and some other local institutions, analysed for the first time the number and national background of international businesses located in Frankfurt. This information was updated in 2008 (data for the region of Frankfurt including surrounding areas and towns IHK, 2009; data for the city of Frankfurt: City of Frankfurt am Main, 2009d, p. 117). According to the update, the city of Frankfurt is home to 56,274 enterprises of which 11,479 are run by foreigners (or by a majority of foreigners). This would mean that every fifth business (20.1%) in the city of Frankfurt is a foreign (or ‘international’) one.

These data have to be interpreted carefully, however, since the study only focuses on 27 countries.<sup>11</sup> In other words, the authors analysed whether the business owners were one of the 27 nationalities they were interested in. In doing so, the study ignores ethnic entrepreneurs stemming from the other countries of the world – among them Serbia and Croatia.

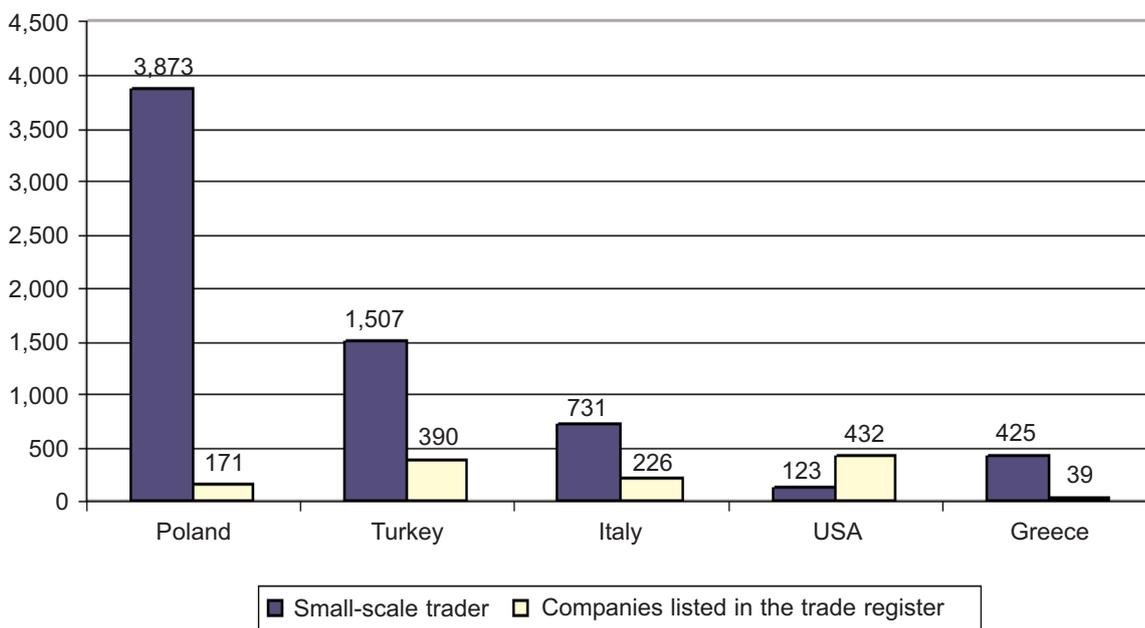
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<sup>11</sup> Austria, Belgium, Brazil, China, Denmark, Finland, France, Greece, the Gulf States, India, Iran, Israel, Italy, Japan, Canada, Korea, the Netherlands, Poland, the Russian Federation, Spain, Sweden, Switzerland, Taiwan, Turkey, the United Kingdom, the USA and Vietnam. The selection criteria of these countries are not made known in the report and could not be established in the course of the CLIP city visit.

Since foreigners with a Croatian and Serbian nationality already represent 13% of the foreign population in Frankfurt (see the previous chapter), neglecting to include the Croatian and Serbian entrepreneurs is a considerable deficiency of the study. In addition, as the category ‘others’ does not exist, the total share of businesses run by foreigners is even higher than the 20% suggested by the IHK and the city. Nonetheless, the study provides important data in an area where no previous research has been carried out.

First, the study gives valid information about the nationalities of local entrepreneurs as well as some indications about company size. Of the 27 nationalities analysed, by far the most entrepreneurs have Polish nationality (4,044). They are followed by entrepreneurs from Turkey (1,897), Italy (957), the USA (555) and Greece (464) (Figure 11).

Figure 11: *Ethnic enterprises according to nationalities, 2008*

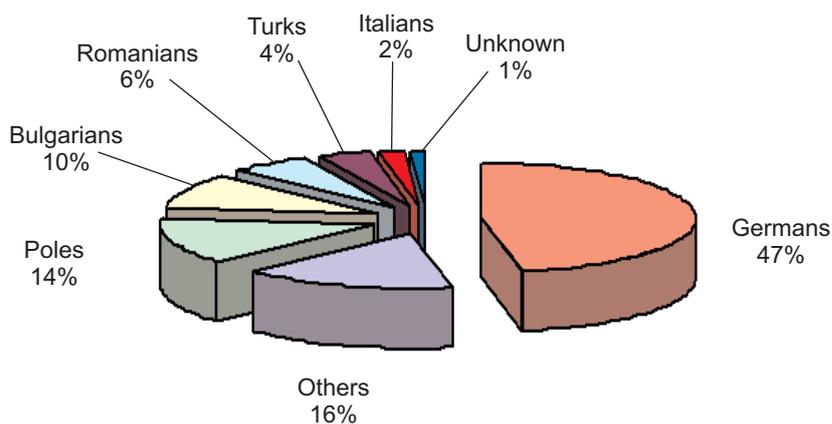


Source: *Compiled by efms based on data from the City of Frankfurt am Main, 2009e, p. 117*

Additionally, it is possible to distinguish between businesses that are recorded in the trade register (*Handelsregister-Unternehmen*) and small-scale businesses with a low turnover and few or no employees, which are only registered with the municipal administration (*Kleingewerbetreibende*) (see the next chapter under ‘Rules and regulations’). Of the Polish enterprises, the vast majority consist of small businesses (3,873 out of 4,044), which is also the case for most Turks, Italians and Greeks, although to a lesser extent (see Figure 11). Most US businesses, by contrast, are recorded in the trade register. According to the interviewed experts of the IHK, one can assume that most of these businesses are subsidiaries of international companies. The same holds true for many northern European countries. The majority of British, French, Austrian and Dutch, but also Chinese enterprises, which are recorded in the trade register, are presumably part of an international corporation, while Spanish, Russian, Indian or Vietnamese entrepreneurs mainly own small businesses (City of Frankfurt am Main, 2009d, p. 117).

While at least every fifth business in the city of Frankfurt is a foreign (or ‘international’) one, data regarding start-ups paint a different picture: every second newly created business in 2008 was founded by a foreigner (51.8% or 5,970 in absolute terms). Among them, Poles founded the most businesses (14%), followed by Bulgarians (10%), Romanians (6%), Turks (4%) and Italians (2%) (Figure 12) (City of Frankfurt am Main, 2010b).<sup>12</sup>

Figure 12: Start-ups according to nationality, 2008



Source: Compiled by efms based on data from the City of Frankfurt am Main, 2010b

The majority of entrepreneurs (foreigners and Germans) are men (69.5%). Foreign founders are, on average, younger than their German counterparts: the average German founder is 37.7 years old, the average foreign founder 34.4 years old (City of Frankfurt, 2010b).

There has been a sharp increase in new businesses started by eastern European migrants in crafts, which can be seen in unpublished data provided by the Chamber of Crafts. Between 1980 and 2004, six persons with a foreign nationality founded a business in tiling; between 2004 and 2009, the number of entrepreneurs with a foreign nationality who started a business in this field of work was 1,130. Similar trends can be seen in the areas of industrial cleaning, for instance (1980–2004: six foreign entrepreneurs; 2004 until the beginning of 2010: 841), and interior decorating (1980–2004: two foreign entrepreneurs; 2004 until the beginning of 2010: 168).

This trend was fostered by two political changes. Firstly, the revision of the Crafts and Trade Code (*Handwerksordnung*) had a significant impact on the foundation of new businesses. It facilitated the establishment of small businesses by foreigners by reducing the number of handicraft businesses for which one had to be an accredited master craftsman (*Meister*). Thus, since 2004, the number of handicrafts requiring this accreditation has decreased and the number of foreign founders who started businesses in crafts not requiring specific permits has increased considerably. For more detailed information regarding the revision, see the section on ‘Rules and regulations’.

Secondly, the increase of eastern European craftsmen founding businesses was fostered by the eastward enlargements of the EU in 2004 and 2007, which introduced the freedom of movement, establishment and trade for the new EU citizens. The free movement of eastern European workers, however, is still restricted: the old EU Member States have the right to limit the free movement of workers from the new Member States for a transitional period of seven years. As

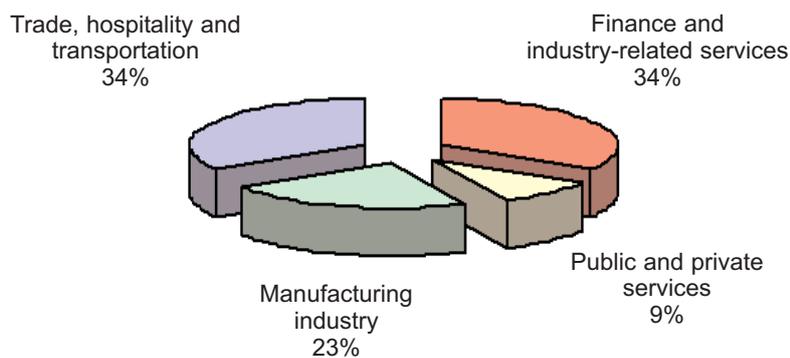
<sup>12</sup> In all, 6,750 businesses were closed in 2007. On average, the closed businesses ran for 3.6 years. The nationalities of the entrepreneurs closing down their business are not analysed by the city.

is the case with some other countries, Germany suspended the free movement of eastern European workers and grants work permits only if the position cannot be filled with German or other EU citizens. Nonetheless, individuals from the new Member States have the right to move to Germany, to be self-employed and to establish businesses without any legal restrictions. Thus, ‘pseudo self-employment’ (*Scheinselbständigkeit*) also plays a role in the increasing number of businesses: some of the registered eastern European craftspersons are actually subcontractors of local craftspersons and building companies that are not willing or not allowed to employ the eastern European craft workers directly. Hence, several of them may have founded their ‘business’ involuntarily and suffer under bad working conditions such as job insecurity and low income.

### Sectoral and spatial distribution of ethnic enterprises

The existing ethnic enterprises are well distributed over the various sectors of the urban economy (Figure 13). 34% of the ethnic businesses belong to finance and industry-related services, 34% to trade, hospitality and transportation, 23% can be found in the manufacturing industry and 9% in public and private services (City of Frankfurt am Main, 2009e, p. 117).<sup>13</sup>

Figure 13: *Ethnic enterprises according to sectors, 2008*

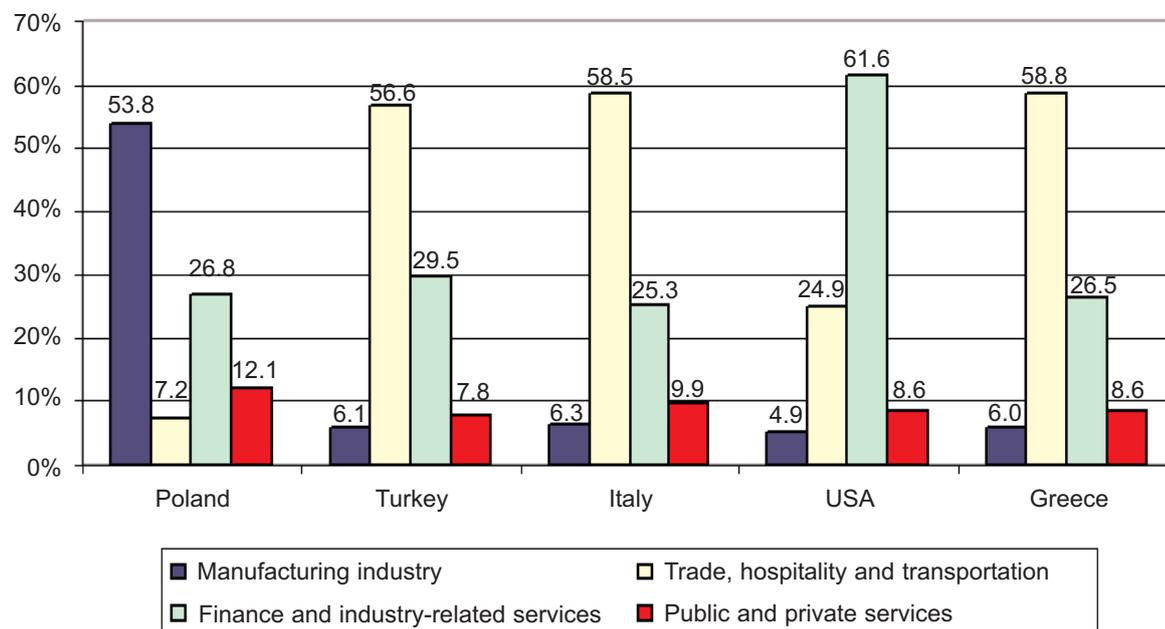


Source: Compiled by efms based on data from the City of Frankfurt am Main, 2009e, p. 117

There are large differences according to the nationality of the entrepreneurs, however. While the majority of the Polish enterprises (most of which are small-scale enterprises) belong to the manufacturing industry (presumably in crafts), most of the Turkish, Italian and Greek enterprises can be found in trade, hospitality and transportation (where presumably many entrepreneurs work as restaurant owners). Most of the US firms can be found in finance and industry-related services (Figure 14).

<sup>13</sup> Categories defined by the Chamber of Commerce and Industry (IHK, 2009).

Figure 14: Ethnic enterprises according to sectors and nationalities, 2008



Source: Compiled by efms based on data from the City of Frankfurt am Main, 2009d, p. 117

In analysing these data, one has to bear in mind that these statistics only consider foreign entrepreneurs. In other words, entrepreneurs with a migration background (for example, naturalised and second-generation entrepreneurs) are not included in these data. One can assume that their distribution according to sectors looks different. This assumption cannot, however, be proved by official data.

As mentioned in the section on ‘Development of SMEs and recent trends’, there is no specific pattern to the distribution of SME locations, except for the concentrated business areas previously mentioned. According to the assessment of the interviewed experts, this is also true for enterprises run by migrants. Still, the interviewed expert of the Frankfurt Economic Development GmbH (*Wirtschaftsförderung Frankfurt GmbH*) noted that many small ethnic businesses are located in the area around the train station (*Bahnhofsviertel*), and that ethnic entrepreneurs establishing import–export businesses usually prefer to locate their firms close to the airport. Regarding start-ups, most businesses were founded in the centrally located city districts, for example in the Gallus district (620 enterprises), a district well-known for its high percentage of migrant inhabitants (City of Frankfurt am Main, 2010b).

## Market and competition of ethnic businesses

Markets supplied by entrepreneurs with a migration background are very diverse in the city of Frankfurt. Unfortunately, there are no quantitative data available on this topic. Still, the interviewed expert of the centre of business formation Kompass (*Zentrum für Existenzgründungen*), the Foreigners’ Advisory Council (KAV) and other interviewees provided useful information. They stated that, in the past, ethnic entrepreneurs used to operate in niche markets and used to establish businesses where lower qualifications were required. Today, they can be found in all branches of activity and professions, including those requiring higher qualifications. Products and services that entrepreneurs with a migration background offer are wide-ranging and diverse, and they supply a variety of markets, often local but also national and international. According to all interviewed experts as well as the ethnic entrepreneurs, who were portrayed in a booklet by the business support agency Kompass (Kompass, 2008), ethnic businesses usually have all kinds of customers – that is, people with and without a migration background.

Thus, entrepreneurs with a migration background compete with all other relevant businesses. According to the interviewed expert of the Croatian Business Association, however, ethnic entrepreneurs face ‘double competition’: they compete both with companies within their branch – irrespective of the ethnic background of these companies – as well as with other entrepreneurs with a migration background within their ethnic community.

There are no particular marketing techniques of ethnic entrepreneurs according to the interviewed experts. The interviewee of the Croatian Business Association stated that a positive word-of-mouth recommendation is the most important means of advertising for ethnic enterprises, as it is with all businesses. Additionally, ‘classical’ marketing elements such as placing advertisements in newspapers, handing out giveaways or supporting cultural activities are also used by entrepreneurs with a migration background. Apparently, they do not differ from other entrepreneurs in this regard. There is, however, no quantitative data available to elaborate on this topic.

### Ownership structures, workforce and labour relations in ethnic enterprises

Usually, an entrepreneur with a migration background is the owner as well as the manager of a business. Again, there is no quantitative data available on the proportion of owner-managers, franchise businesses, sole owners or partnerships. Kompass issued a ‘guide for entrepreneurs of all nationalities’ (Kompass, 2008), which gives an insight into the diversity of ethnic entrepreneurship in Frankfurt. Among the 15 businesses with a migration background portrayed in the Kompass booklet, the vast majority are sole ownerships, though all other forms of ownership also occur. The statements of the interviewed experts support this assumption. They indicated that entrepreneurs with a migration background often founded the business alone or with their families. Family businesses are thought to be common among ethnic entrepreneurs, since most of the interviewed experts stated that inhabitants with a migration background generally have a broad family network to support them in setting up their business.

The family network plays an important role for the workforce of ethnic businesses. Some of the interviewed experts – for example, those from the Croatian Business Association, Kompass, the Institute for Vocational Training, Labour Market and Social Policy (*Institut für berufliche Bildung, Arbeitsmarkt- und Sozialpolitik*, INBAS) and the KAV – stated that entrepreneurs with a migration background regularly employ members of their family or friends with the same ethnic background, particularly when most customers have the same ethnic background as well. Nevertheless, the interviewed experts from Kompass, INBAS and the KAV stressed that otherwise – and particularly with larger ethnic businesses – the ethnic background of the employees does not play a role. In a booklet issued by Kompass, local entrepreneurs with a migration background stated that their employees are ‘very international’, which is particularly important when the business has an international orientation (Kompass, 2008). One of the interviewed experts from IHK summarised that, in the foundation phase, most ethnic businesses are family businesses in which the ethnicity plays a crucial role; as the businesses grow and become more professional, the ethnicity becomes less important. Unfortunately, the local authorities do not gather data about the number of workers employed by entrepreneurs with a migration background or other characteristics.

Due to the fact that ethnic enterprises are generally SMEs, and in particular micro companies or family businesses, the level of unionisation within these enterprises in Frankfurt is rather low, according to the interviewed experts of the trade union and the IHK. The unions do not have enough staff or other resources to help set up works councils or similar structures in all enterprises. The huge proportion of jobs in the services sector also makes the unions’ work in Frankfurt more difficult.<sup>14</sup>

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<sup>14</sup> The interviewed representative of the trade union stated that unions also do not specifically target employees with a migration background any more and that they reduced their information material in foreign languages because they needed to save money. However, the average degree of unionisation among employees with a foreign background has historically been higher than among Germans, making them an important target group for trade unions.

There are no data available regarding the employment situation and labour relations in ethnic businesses. Several of the interviewed experts noted that this topic cannot be generalised – labour relations and employment conditions are usually a result of the manager or owner’s management style. The experts assume that differences between entrepreneurs with and without a migration background are unlikely to occur. The interviewed representative of the trade union stated that generally labour relations are worsening, since rising unemployment rates and new social security regulations are increasing the pressure for employees.

Nevertheless, the interviewed experts (mainly from the Croatian Business Association and the municipal chambers) assessed that within the small ethnic businesses – which are often family businesses – there is a more informal and friendly atmosphere. According to one interviewed representative from the IHK, this is sometimes regarded as a lack of professionalism by the employees (whether correct or not) and can cause misunderstandings. Difficulties can also arise when family and friends are employed without regard to their qualifications, as the interview partner of INBAS noted.

### Reasons for entrepreneurial careers

Research on ethnic entrepreneurship shows various reasons for migrants becoming self-employed (Constant and Zimmermann, 2006, p. 295; ifm, 2005, pp. 17–20; Jaeckel, 2007, pp. 9–10; Schuleri-Hartje et al, 2005, pp. 24–26; Tolciu and Schaland, 2008, p. 538). The reasons can generally be sorted into three different categories. Although these are general classifications, they are typical motives for entrepreneurial careers in the city of Frankfurt as well.

First, according to the ‘niche model’, migrants start a business because they recognise that there is a demand for certain products or services within the population with a foreign background that is not satisfied by existing ‘native’ businesses. Import–export businesses, grocery stores and restaurants, as well as real estate agencies or insurance companies specialising in migrants’ demands are examples that fall under this category. At first, customers mainly belong to the same ethnic group. Later, the base of customers usually broadens and includes members of the German population and other ethnic groups. However, this approach is no longer very common in the city of Frankfurt. Although there are some ethnic entrepreneurs who operate in niche markets, offering specific products or services for specific migrant groups, the majority do not have specific ethnic groups as customers (see section above on ‘Market and competition of ethnic businesses’).

Second, the emergence of ethnic entrepreneurship can be explained as a result of cultural particularities of the migrants’ country of origin that influence the preference for self-employment – that is, a ‘mentality for self-employment’ (‘cultural model’). Such a mentality acts as a ‘pull factor’ for entrepreneurs with a migration background. According to most of the experts interviewed, a mentality for self-employment is an important reason for ethnic entrepreneurship in the city. In this context, several experts, including a staff member from the Frankfurt Employment Agency (*Agentur für Arbeit Frankfurt*) who regularly advises migrants, stated that self-employment is more common and held in high esteem in many of the migrants’ countries of origin. Furthermore, entrepreneurs with a migration background were described by the majority of interview partners as being on average ‘more often willing to take risks’ (as emphasised by the representative of the Croatian Business Association) and ‘more courageous’ (as highlighted by the staff member from the Frankfurt Economic Development GmbH) than native German entrepreneurs. Family tradition is another important factor influencing migrants in their decision to become self-employed. Having parents or other family members who run their own businesses serves as a role model and enhances the wish to become self-employed (Kompass, 2008).

Third, for some migrants and particularly among second-generation immigrants, entrepreneurship is a response to their specific and sometimes difficult situation in the labour market. Thus, reasons for entrepreneurial careers include migrants’ poor employment options and better opportunities for businesses in certain branches of the economy. This approach incorporates ‘push factors’ such as potential job loss, actual unemployment and discrimination in the labour

market, as well as ‘pull factors’, such as more opportunities for advancement, a wish for self-fulfilment or to be independent and one’s own boss. These economic factors are further important reasons for ethnic entrepreneurship in the city of Frankfurt. Many of the entrepreneurs with a migration background who were interviewed for the booklet issued by Kompass (Kompass, 2008) stated that they either wanted to be their own boss or had previous experiences in their field of work but were faced with unemployment and therefore decided to become self-employed. The avoidance of unemployment is a motive for ethnic entrepreneurs, and is more common in periods of crisis when the situation in the labour market is tense. According to several interviewed experts, people with a migration background have fewer opportunities in the labour market and are sometimes discriminated against. Moreover, qualifications they have obtained in their country of origin are often not acknowledged in Germany. Thus, self-employment is seen by many migrants as a means to improve their economic situation and a way to work according to their qualifications.

These three explanatory approaches are not to be regarded as exclusive; the reason for the emergence of ethnic entrepreneurship is rather a mixture of these explanatory attempts. According to an expert of the IHK who is in close regular contact with ethnic entrepreneurs, important reasons for migrants to establish a business are both the ‘push factors’ of unemployment and discrimination in the labour market as well as the ‘pull factors’ of the higher reputation of entrepreneurs in their ethnic community and the fact that migrants are more prepared to take risks. The pull factors, however, seem to be of higher importance. This assessment is shared by the other experts interviewed – for example, the KAV interviewee. Moreover, they stated that the reasons for ethnic entrepreneurship do not differ significantly from reasons for entrepreneurship in general.

## Problems and barriers

When setting up and running a business, ethnic entrepreneurs face several problems and barriers. Local interviewed experts mentioned several migrant-specific problems that are described below.

To begin with, the personal qualifications of the entrepreneur play a crucial role when starting up and operating a business. The level of education and entrepreneurial skills are important aspects in this regard. According to local experts interviewed, some entrepreneurs, regardless of migration background, lack the qualification to manage an enterprise and/or employees. Often, business plans of ethnic entrepreneurs turn out to be ‘too optimistic’, as mentioned, for instance, by the experts of the local Jobcenter (Rhein-Main-Jobcenter). Further, many ethnic entrepreneurs only seek advice from friends, family members or competitors and are therefore insufficiently or even incorrectly prepared to run the business and to implement successful marketing and customer acquisition techniques, as explained by an IHK expert. A thorough preparation, however, is of particular importance when founding a business. In order to tackle this challenge, the city-funded centre of business formation, Kompass, makes an effort to approach migrant entrepreneurs in a systematic way (see the next chapter under the section on ‘Local activities’).

Furthermore, the financial management of the company is sometimes problematic for ethnic entrepreneurs. Micro businesses generally face difficulties in obtaining credit, particularly in hospitality, a branch of activity common among ethnic entrepreneurs in Frankfurt. If they do not get any credit from a bank, ethnic entrepreneurs often turn to their family and friends to borrow money. Local entrepreneurs with a migration background believe that support from their family is very important with regard to financial and other issues (Kompass, 2008). Some of the interviewed experts stated that entrepreneurs with a migration background sometimes lack information about financing opportunities, which can be prevented through the provision of advice and support.

In addition, ethnic entrepreneurs are faced with problems concerning national or local rules and regulations, as indicated by several experts, such as Employment Agency staff. German bureaucracy is regarded as a barrier as well. Some ethnic entrepreneurs – in particular those who did not grow up in Germany – have difficulties getting to know the local business culture or institutions they can turn to for help. Another problem is the bureaucratic verbiage used in official letters (Kompass, 2008). However, this is also a problem for many entrepreneurs without a migration background. The lack of knowledge and information about rules and regulations mainly occurs when the entrepreneur has a lower educational background, irrespective of their ethnic background. According to the interviewed expert from Kompass, there are also migrant-specific problems and barriers with regard to regulations. The command of the German language is sometimes problematic in this regard. Some migrants also find it difficult to approach and/or cooperate with government or municipal institutions due to their experiences in their countries of origin. Furthermore, other barriers include prejudices against entrepreneurs with a foreign background on the part of the employees in public institutions and the non-recognition of qualifications that the entrepreneurs have obtained in their countries of origin.

# Policies, rules and regulations

# 5

This chapter first gives an overview of national rules and regulations controlling the formal access to entrepreneurship and then highlights some violations of these rules and regulations. Further sections concentrate on Frankfurt's strategy concerning ethnic entrepreneurship.

## Rules and regulations

### General rules and regulations

Access to entrepreneurship in Frankfurt is regulated in the same way as it is in every other German city – that is, there are certain formalities every entrepreneur has to meet. First, the entrepreneur has to choose the legal structure of the company. Taxes, finances and laws that apply to businesses are determined by this structure. In general, a new business has to be registered with the local Trade Office (*Gewerbeamt*), which then automatically informs other authorities, with which a new business must also register. Among these are the Tax Office, the Occupational Accident Insurance Fund (*Berufsgenossenschaft*), the Trade Supervisory Office (*Gewerbeaufsichtsamt*), local courts (for entry into the trade register), the IHK and the Chamber of Crafts (BMW, 2010).

Membership in the latter institutions is compulsory in Germany (see the next section), as is an entry in the trade register (see the previous chapter under 'Development of ethnic entrepreneurship and recent trends'). The Trade Supervisory Office is responsible for checking for compliance with sector-specific health and safety regulations. Staff members (and sometimes the self-employed person as well) must be insured at the local Occupational Accident Insurance Fund. Additionally, the staff members and the entrepreneur must be registered with the Employer's Liability Insurance Association, and have social insurance, covering contributions to the pension insurance fund, health and nursing care insurance, as well as unemployment insurance (BMW, 2010).

The Tax Office is another important regulatory office. Entrepreneurs are faced with four different types of taxes: turnover or input tax, income tax, trade tax and corporation tax. Taxes differ, mainly depending on the size of the company, its legal structure or whether it is a freelance profession. Special tax regulations apply for 'small entrepreneurs' (*Kleinunternehmerregelung*). An entrepreneur is classified as 'small' when the total turnover (plus turnover tax) was less than €17,500 during the last year of operation and will not exceed €50,000 during the present year. If the entrepreneur is registered as a 'small entrepreneur' he or she then does not have to pay turnover tax (BMW, 2010). This regulation can be particularly important for entrepreneurs with a migration background, since the majority of them run micro businesses. Furthermore, entrepreneurs must follow specific health and safety, environmental, labour and planning regulations. Some businesses can be started without needing a permit – for example, marriage bureaus or travel agencies. For most other businesses, a permit or certain qualifications are needed (see below).

These regulations do not differentiate between entrepreneurs with a migration background and those without one. However, third-country nationals who already live in Germany must have a valid residence permit that allows them to work in order to start their own business. Third-country nationals who plan to emigrate to Germany to become self-employed, have to take the regulations of the German Immigration Act into account. According to the Immigration Act (paragraph 21), 'self-employed persons can obtain a residence permit if there is an overriding economic interest or a regional demand, if the activity can be expected to have a positive impact on the economy and if the funding is ensured' (BMI, 2005). The 'overriding economic interest' is given when entrepreneurs make an investment of at least €250,000 or create five new jobs. If these requirements are fulfilled, the entrepreneur obtains a residence permit for a maximum of three years. If the business is successful – the entrepreneur has sufficient means to assure a livelihood – he or she then gets a settlement permit.

These regulations do not apply to citizens of a European Union Member State. They do not need permission to settle or start their own business in Germany because of the freedom of movement, of establishment and of trade within the EU.

This freedom is still partially suspended for workers of the eastern European Member States that joined the EU in 2004 and 2007: work permits are granted only if the position cannot be filled with German or other EU citizens. Nonetheless, individuals from the new Member States have the right to be self-employed and to establish businesses without any legal restrictions. One can assume that these restrictions often lead to ‘pseudo self-employment’, as explained in the previous chapter under ‘Development of ethnic entrepreneurship and recent trends’.

Comprehensive information about founding a business in Germany is provided online by the Federal Ministry of Economics and Technology in German, English, French, Italian, Turkish and Russian. At the local level, government and municipal departments or chambers also offer information, advice and support for entrepreneurs.

### Sectoral and spatial rules and regulations

As mentioned, there is a plethora of sectoral rules and regulations in Germany that entrepreneurs need to adhere to. Depending on the business sector, the entrepreneur must obtain different permits or possess specific qualifications. Professions such as childcare, nursing services, brokers or accountants need specific permits. For instance, a special licence is needed for the carriage of passengers. Industrial enterprises with an impact on the environment have to get permission in compliance with the Federal Emission Control Act. In the hospitality industry, all entrepreneurs need to participate in a one-day course of instruction organised by the Chamber of Commerce and Industry. Similarly, entrepreneurs in the security business have to participate in a specific 80-hour course of instruction, and prove their personal reliability and that they have the necessary resources (BMW, 2010).

Specific requirements also exist for entrepreneurs who want to start a business in crafts. After the revision of the Crafts and Trade Code in 2004, there are now two types of handicraft trades. The first type includes crafts that endanger the life and health of the customers when carried out incorrectly. These crafts are listed in the first part of the Crafts and Trade Code’s attachment; examples are bricklayers, plumbers, bakers or hairdressers. The entrepreneur needs to obtain a permit for these crafts, which generally requires that the entrepreneur is a master craftsman or employs a master craftsman. Entrepreneurs with citizenship in a European Union or European Economic Area country who are not master craftsmen in accordance with German law need an exemption if they want to start this type of craft business. They must prove they have comparable qualifications to German master craftsmen and several years of work experience (BMW, 2007). The second type of handicraft trade includes crafts as well as ‘quasi-crafts’ for which the entrepreneur no longer needs a permit. The entrepreneur does not have to be a master craftsman nor does he or she need specific qualifications in order to start a business. Examples include floor tilers, goldsmiths, building cleaners and beauty specialists (BMW, 2009).

The interviewed experts stated that this revision of the Crafts and Trade Code had a significant impact on entrepreneurs with a migration background in the city of Frankfurt (see the previous chapter under ‘Development of ethnic entrepreneurship and recent trends’).

### Illegal and informal practices

None of the experts interviewed could provide substantial information regarding illegal and informal practices of ethnic entrepreneurs. According to a staff member of the Employment Agency, some migrant entrepreneurs do not know all regulations, which sometimes leads to administrative fines or recourse claims. The representative of the KAV and one of the experts of the IHK, who is in constant contact with ethnic entrepreneurs, assumed that migrant entrepreneurs have fewer staff hired illegally and are more careful to act according to the law, since they think they are more in the focus of local authorities. Nevertheless, none of the experts knew to what extent ethnic entrepreneurs are affected by measures to crack down on informal and illegal practices; they supposed that ethnic entrepreneurs are treated like every other entrepreneur.

## Local strategy

### Overall strategy, objectives and target groups

This section examines the local strategy regarding ethnic entrepreneurship for economic policy and integration policy, starting with the latter.

In Germany, integration policies traditionally focus on the fields of social affairs, youth work, language and education. Activities that directly and systematically promote equal opportunities in the labour market play a minor role in these policies. For several years, ethnic entrepreneurship was not an issue addressed in integration policies. Only recently, migrants' resources as entrepreneurs became a topic of minor political interest in the field of integration. On the national level in Germany, which influences local integration strategies, the National Integration Scheme (*Nationaler Integrationsplan*) outlines some objectives and recommendations for integrating migrants. The scheme addresses 10 topics. However, ethnic entrepreneurship is very much a minor theme of the topic 'promoting integration on the local level', which, among other things, tackles the involvement of migrants in the local economy. In order to support local ethnic businesses, the federal government, municipalities and a number of non-governmental organisations (NGOs) have made several voluntary agreements; particularly in the fields of financial promotion and advice services (Beauftragte der Bundesregierung für Migration, Flüchtlinge und Integration, 2007). In conclusion, ethnic entrepreneurship is a topic discussed at national level and supported by the government, but only represents a minor issue within national policies.

This is also true for the city of Frankfurt, where ethnic entrepreneurship plays only a minor role in the city's integration policy. According to the city's website, the official goals of the policy are:

- promoting equal participation of migrants in societal and social life;
- promoting peaceful intergroup relationships and social cohesion of the heterogeneous population groups;
- supporting the native population in handling changes and new challenges.

In order to reach these goals, the city's Office for Multicultural Affairs (*Amt für multikulturelle Angelegenheiten*, AmkA) primarily focuses on projects improving language competence and education as well as on projects fostering the social integration of migrants, particularly children, young people and women. Projects enhancing ethnic entrepreneurship are not part of the office's activities.

Even though the city is currently developing a new integration strategy, this is not very likely to change. The blueprint of the city's first integration policy concept suggests 10 fields of activity, of which one is 'Economy and labour market'. Within this field of activity, the topic of ethnic entrepreneurship is mentioned, but not discussed as an important policy topic. According to the interviewed representatives of the AmkA, this is mainly because other challenges and problems are more urgent, and also because the city already finances and supports the advisory centre Kompass, which provides impressive advice for ethnic entrepreneurs (see the following section on 'Local activities').

Within the local economic policy, ethnic entrepreneurship plays a more prominent role. For several years, the promotion of entrepreneurship and international businesses has been a crucial part of the economic strategy. The city is paying increasing attention to Frankfurters with a migration background who plan to found a business, mainly because the city has become aware of their economic potential. Thus, according to the interviewed expert of the Frankfurt Economic Development GmbH, the city also targets migrant entrepreneurs, although mostly through the activities of the advisory centre Kompass. All interviewed experts agreed that Frankfurt should continue to promote entrepreneurs with a migration background. Some, such as the KAV interview partner, wish for more services and support.

### Main actors and institutions, dialogue and involvement of migrants

In the city of Frankfurt, the Frankfurt Economic Development GmbH, a company owned by the city, is in charge of promoting the local economy. The Frankfurt Economic Development GmbH aims to create growth and jobs in Frankfurt, offers companies advice and pursues cluster-related settlement strategies. It regards itself as a service point both for businesses in Frankfurt and foreign investors (see the next section on 'Local activities'). This political-administrative institution is a main actor in the field of ethnic entrepreneurship in the city of Frankfurt.

Regarding start-ups, Kompass, the centre of business formation, can be seen as the most crucial actor promoting ethnic entrepreneurship. The centre is financed by the Frankfurt Economic Development GmbH, the training centre of Hessian entrepreneurs' associations (*Bildungswerk der Hessischen Wirtschaft e.V.*) and the local NGO *Frauenbetriebe – Qualifikation für die berufliche Selbständigkeit e.V.* (which is now called 'jumpp'), supporting women's entrepreneurship. Kompass, which aims at promoting advice for potential and existing entrepreneurs and acting as a 'compass' for them, conducts its projects in cooperation with, and partially on behalf of, governmental institutions such as the city of Frankfurt, the Frankfurt Employment Agency and the federal-municipal Jobcenter (see the next section on 'Local activities').

In addition to Kompass and the Frankfurt Economic Development GmbH, the interviewed experts assessed the following institutions as the most relevant ones for entrepreneurs in the city:

- the IHK Frankfurt and the Chamber of Crafts Rhine-Main (*Handwerkskammer Rhein-Main*);
- the Frankfurt Employment Agency and the Jobcenter;
- the AmkA;
- the local KAV;
- ethnic associations, particularly international entrepreneurs' associations;
- INBAS;
- NGOs supporting migrants' integration in the labour market, such as the women's NGO *Frauenbetriebe – Qualifikation für die berufliche Selbständigkeit e.V.*, the Turkish–German NGO KUBI (*Verein für Kultur und Bildung e.V. / Kültür ve Egitim Dernegi*) and the international NGO *beramí*.

According to the interviewed experts, the institutions maintain a good dialogue with each other and conduct several projects in close cooperation. Examples are the regular cooperation of the Chambers of Commerce and Crafts and the city in promoting Frankfurt's economic future, the fruitful contact between the Croatian Business Association and the KAV, as well as the intensive cooperation between Kompass and both migrant associations and local institutions such as the Jobcenter and the Frankfurt Economic Development GmbH in advising future entrepreneurs.

As outlined above, ethnic entrepreneurs in Frankfurt are involved in the local institutional structures. Membership of the IHK and the Chamber of Crafts is compulsory. However, migrant entrepreneurs are rather passive members of these institutions, often not actively involved in the chambers' activities, according to the representative of the KAV and staff members of Kompass. Additionally, entrepreneurs with a migration background have founded ethnic business associations – of which some maintain good relations with the city while others are not linked with or even known by local institutions. Whether migrant entrepreneurs are members in majority business organisations as well cannot be assessed due to a lack of data.

## Local activities

### Advice in promoting entrepreneurship

The various local actors mentioned above provide different measures and programmes to promote the business acumen of entrepreneurs. Most of them are general measures – that is, they address all entrepreneurs who are planning to run or already running a business in the city – irrespective of their migration background. The offers of the biggest service providers are illustrated below.

As discussed in the previous section, the Frankfurt Economic Development GmbH is in charge of promoting and boosting the local economy and aims to create growth and jobs in Frankfurt. In order to reach these goals, staff members both pursue cluster-related settlement strategies and act as a service point for local businesses and foreign investors. They provide information about the economic structure, markets and key sectors of the city, support businesses' search for offices, commercial space, land and storage space, initiate networks and sector meetings, as well as help businesses to expedite and complete authorisation procedures. In 2009, the Frankfurt Economic Development GmbH advised more than 1,000 entrepreneurs. In order to encourage business start-ups in 'key branches' of activity, the city established two start-up centres – the *Gründerhaus Kreativwirtschaft* for creative industry companies and the Frankfurt Biotechnology Innovation Centre (FIZ) for biotech companies – which provide office space, research facilities and networks for new businesses (Wirtschaftsförderung Frankfurt, 2010a). Beyond that, the staff members cooperate closely with the other local institutions, such as Kompass.

Apart from the Frankfurt Economic Development GmbH, the Frankfurt Employment Agency offers advice for the short-term unemployed (less than one year) who are interested in becoming self-employed. First, it provides an individual interview, advice with a placement officer and some general information about entrepreneurship and possible support measures. Interested people can then participate in a two-week coaching seminar for potential entrepreneurs, which is paid for by the Employment Agency but conducted by an external educational institute. In 2010, it was planned to offer this seminar 11 times, but the share of migrants involved is not recorded.

While the Employment Agency is responsible for the short-term unemployed, the Jobcenter is responsible for the long-term unemployed, as well as for people who are employed or self-employed, but not able to fully earn their livelihood with their job (see chapter 3 under 'Local workforce'). For unemployed people, the Jobcenter has developed a four-step advice service: first, the Jobcenter offers monthly information events in which the staff members inform interested unemployed persons about entrepreneurship and possible support. Second, a staff member and the potential entrepreneur analyse the competence of the potential entrepreneur in a one-on-one interview. Third, the Jobcenter organises a maximum of 10 individual 'pre-formation coaching' sessions in which a business plan (including the financing) is prepared and organised. Finally, the entrepreneurs get a minimum of eight 'after-formation coaching' sessions, during the first year of the business. The two latter steps are outsourced: external institutions such as Kompass conduct these individual coaching sessions. On average, about 30 unemployed persons participate in the monthly information sessions, about 20–25 then pass the profiling and about 20 people per month participate in the coaching sessions. In the end, about 30% of the participants are 'successful', which means they do not need further assistance from the Jobcenter. However, the staff members responsible do not know whether the business is successful or whether the clients find employment. The share of migrants in these processes is not recorded by the Jobcenter.

For people who run a business and are not able to make a decent living, the Jobcenter analyses the economic situation of the enterprise. If the Jobcenter observes that the entrepreneur is in need, he or she can benefit from an advice service comparable to the third and fourth step described above. Participation rates in this process are not known.

Both of the Chambers of Commerce and Crafts are additional actors in promoting entrepreneurship. The Chamber of Crafts, for instance, established a centre called the *StarterCenter Rhein-Main* to advise potential entrepreneurs. Funded by the state of Hesse and the European Social Fund, the StarterCenter aims to be a ‘one-stop-agency’ for entrepreneurs in crafts. It helps with paperwork, provides information and offers an online platform for registering with public authorities. Concerning the provision of advice for potential and existing entrepreneurs, the chambers do not offer specific services for inhabitants with a migration background.

Another crucial institution offering advice for natives and migrants who want to establish a business is Kompass. As mentioned earlier, it is financed by the Frankfurt Economic Development GmbH, entrepreneurs’ associations and a local NGO. Its projects are further funded by the city’s Youth and Social Welfare Office, the Labour Agency and the Jobcenter. Founded in 2000, Kompass offers advice for (potential) entrepreneurs within four stages:

- orienting and informing;
- planning and qualifying;
- starting and implementing;
- consolidating and growing.

Within the first two stages, which concentrate on the time before the establishment of the business, the client attends profiling sessions, one-on-one sessions, workshops, seminars and coaching regarding business plans. Afterwards, Kompass offers advice for the actual launch of the business, for example via individual coaching and support teams (step three as described above), and continues giving advice for up to five years after the formation of the business, for instance through further coaching, operation analysis and seminars (step four).

Furthermore, Kompass organises the platform ‘Network Action’ for exchanging skills and expertise, for example about rules and regulations in other countries, at the local, national and international levels. The centre also supports entrepreneurs in obtaining a location for their business. For up to three years, entrepreneurs can rent office space in Kompass’ premises at a relatively low price.

Since its establishment in 2000, about 17,000 potential entrepreneurs have approached Kompass, and about 4,500 people actually founded a business following the centre’s services. According to a survey, around 80% of the businesses established with the help of Kompass are still operating after five years (Kompass, 2010). Thus, the centre promotes a strikingly sustainable development of the firms.

Kompass, employing people of various ethnic backgrounds, targets all kinds of entrepreneurs and offers advice ‘in accordance with a socioeconomic concept’, as stated by the interviewed expert of Kompass. Within the framework of the four stages outlined above, the centre follows an individualised approach which considers not only economic facts, but also social circumstances. Since 2005, the staff members have paid specific attention to reach not only natives, but also migrants.

In order to reach this goal, the centre changed its way of addressing migrants. It reduced barriers to its services for people with a migration background by cooperating, for instance, with local migrant associations and migrant business associations. In specific workshops, the Kompass team trained members of migrant organisations as ‘entrepreneur scouts’ (*Gründerscouts*). The migrant entrepreneur scouts were trained in identifying and supporting potential entrepreneurs in their organisations. Hence, the participants act as ‘multipliers’ and are enabled to support other members of their migrant organisation in becoming self-employed.

Furthermore, in cooperation with the Frankfurt Economic Development GmbH and the AmkA, Kompass issued a brochure with information for entrepreneurs of all nationalities (Kompass, 2008) that portrays 15 successful entrepreneurs with a migration background. They present their businesses and write about problems they faced and how they managed to solve these problems. The brochure makes successful local entrepreneurs ‘visible’ and contributes to encouraging potential entrepreneurs to realise their ideas.

Figure 15: Brochure portraying ethnic entrepreneurs



Source: <http://www.kompass.de>

The new strategy of focusing on potential entrepreneurs with a migration background proved to be successful. Since 2005, Kompass has managed to raise the share of clients with a migration background from 30% to more than 50%.

With its various services, Kompass is an outstanding good practice example for the promotion of ethnic entrepreneurship in Frankfurt.

### Financial support

There are various ways to obtain financial assistance for founders of new businesses. The most important actors in this area are local banks. The Savings Bank (*Sparkasse*), for instance, offers advice for entrepreneurs who apply for credit. According to the interviewed experts, there are no specific measures for ethnic entrepreneurs. The centres providing advice mentioned above are also important actors in the area of finance since they provide information on financing possibilities.

In addition to credit from banks, there are other financing possibilities for entrepreneurs in Germany. Founders of businesses who need a relatively small amount of money and/or face difficulties in securing credit from banks (which is often the case in the hospitality industry), can apply for a ‘micro loan’ issued by the German reconstruction loan corporation (*Kreditanstalt für Wiederaufbau, KfW*).

The city’s Economic Development Department is another provider of financial support for start-up companies. It offers information on the local start-up advice network and issues the brochure ‘Starting up and financing young companies in Frankfurt am Main’. Furthermore, it established the *Frankfurter Gründerfonds*, a micro finance fund for supporting

small new companies and business start-ups. Through the fund, the city will make €1.5 million available in 2010 and 2011 to give out loan guarantees for bank credit to start-ups and young companies in cooperation with local banks. Additionally, the city donates a yearly award, the *Frankfurter Gründerpreis* (FGP), for outstanding and potentially successful new businesses (*Wirtschaftsförderung Frankfurt*, 2010a).

People who want to start a business while unemployed can also apply for grants from the local Employment Agency or the local Jobcenter. Within the first nine months of unemployment, an entrepreneur can apply for a grant at the Frankfurt Employment Agency. If there is a promising business plan, the entrepreneur can receive a monthly grant (*Gründungszuschuss*) – including unemployment benefits plus €300 for social insurance contributions – for half a year, with an option of allowances for a further six months. People who are long-term unemployed and want to become self-employed can apply for a monthly grant (*Einstiegsgehd*) at the Jobcenter Frankfurt am Main. The extent of the subsidy is specified individually and can be granted for up to 24 months. Both grants are based on nationwide regulations and information about these different financing possibilities is provided by the respective local institutions. Between 2005 and 2009, however, only about a fifth to a quarter of all start-ups out of unemployment using these grants in the region of Frankfurt were founded by persons with a migration background, as analysed by the Employment Agency.

### Activities improving employment within ethnic businesses

An abundance of seminars and courses for entrepreneurs are offered by the city in cooperation with educational institutions such as the NGOs KUBI and *berami* as well as by the chambers, the Employment Agency and the city's Adult Education Centre (*Volkshochschule*, VHS). The seminars include topics such as legal matters, the organisation of labour, marketing, management or business administration. Similar to most other activities, the seminars are offered as a general service for people with and without a migration background.

Occasionally, the institutions offer migrant-specific services. The local Chamber of Crafts, for instance, runs a bilingual information event for hairdressers with a Turkish background in cooperation with the Association of Turkish Businessmen and Industrials in Europe (ATIAD), the Turkish Consulate General in Frankfurt and the city. The event provides information on business start-ups, apprenticeships, further training, the examination for the master's certificate and means of support (ATIAD, 2010).

Moreover, there are two good practice projects supporting access to employment or apprenticeships within ethnic businesses: *IUBA* and *KWVD pro Ausbildung*. They will be described in the following paragraphs.

The project International Enterprises Offer Apprenticeships (*Internationale Unternehmen Bilden Aus*, IUBA) aims to support international enterprises in creating apprenticeships in the state of Hesse and particularly in the city of Frankfurt. The project was set up in cooperation with the Chamber of Commerce and Industry Hesse (IHK Hessen) and INBAS in 2001. The Federal State Government of Hesse and the European Social Fund financially supported the project, which was expected to continue until the end of 2010.

In order to reach the goal of creating additional apprenticeships in international enterprises, the IHK Frankfurt put a special adviser in place, who gets in touch with ethnic entrepreneurs, encourages them to create apprenticeship training positions and provides help with formalities. However, enterprises get financial support for the further education of an employee to become a training supervisor, as required by law (*Ausbildereignungsprüfung*), according to the experts of the IHK. By conducting these activities, the chamber can also reach a group with which it has only had limited contact. 'The project opens the chamber's doors for ethnic entrepreneurs', as the expert of INBAS stated.

IUBA does not place apprentices, but informs young people with a migration background and their parents about the German vocational system and the possibilities in that system.

The project created more than 4,000 additional apprenticeship positions in international enterprises, a majority of them in Frankfurt. The apprenticeship training positions created are all in the tertiary sector (particularly trade and gastronomy); most of them (65%) are in enterprises with only one apprenticeship training position to offer.

Most entrepreneurs who created apprenticeship places are Turkish (38%), followed by Italian entrepreneurs (10%). Overall, 16% of the entrepreneurs have the nationality of another EU country, and 36% are third-country nationals. Young apprentices benefiting from the project are predominantly German (59%), often with a migration background, or Turkish (20%), according to the interviewed expert of INBAS.

Figure 16: *IUBA – International Enterprises Offer Apprenticeships*



Source: *IUBA 2010*

A second good practice project concerning the improvement of employment within ethnic enterprises is the project *KWVD pro Ausbildung* (Croatian Business Association ‘Pro Apprenticeships’), which started in December 2009. The project aims to enhance the recruitment of apprentices in ethnic enterprises – mainly with a Croatian, Bosnian, Serbian or Montenegrin background. It plans to support the firms in creating apprenticeship places and finding suitable apprentices. However, the project also seeks to support potential apprentices. The project members distribute bilingual information to them, assist the potential apprentice with applications and offer supervision during the training. By the end of the project, which is financed by national and European funds until November 2011, the Croatian Business Association wants to contact about 260 companies and provide up to 100 apprenticeship guidance sessions. It plans to create at least 65 new apprenticeship places and thus to improve the regional training structure.

Since Frankfurt is ‘Germany’s most international city’ (according to the interviewed expert of the Frankfurt Economic Development GmbH), it is accordingly internationally connected. The city uses the intercultural competence and the transnational economic connections of local ethnic entrepreneurs to promote its economic development. One important actor in this field is the FrankfurtRheinMain GmbH International Marketing of the Region, an organisation set up by several towns and cities in the Frankfurt region to market the region internationally. The company mainly focuses on bigger firms and countries such as the US, China or India. International connections of entrepreneurs with a migration background who run small businesses in the city of Frankfurt are hardly utilised, as the interviewed expert of the Frankfurt Economic Development GmbH noted. The latter institution, however, also resorts to local ethnic entrepreneurs when presenting and advertising the city’s advantages. Furthermore, the foreign business associations as well as the IHK provide for the interconnection of businesses in Frankfurt and other countries.

# 6

## Key challenges and lessons for CLIP

The city of Frankfurt is a very international city. In 2008, Frankfurt had a total population of 672,667. Of these, 25% were foreign nationals and 13% were Germans with a migration background. Thus, 38% of the population had a migration background.

The city's economy has always been characterised by its financial services, stock market and trade. This emphasis has been reinforced by the ongoing process of tertiarisation. As a result of a further shift towards a service-based economy, about 90% of the employed persons work in the tertiary/services sector. About 8% of the total population of working age are self-employed entrepreneurs.

SMEs with fewer than 250 employees are most common in the local economy: of the 35,630 businesses located in Frankfurt, the vast majority (99.3%) are SMEs. In this landscape, 'international businesses' also play a major part. At least every fifth business (20.1%) is run by a foreign national (or by a majority of foreign nationals) and is thus an 'international business', as termed in Frankfurt. The highest number of foreign entrepreneurs are Poles, followed by those from Turkey, Italy, the US and Greece.

Even though the proportion of foreign entrepreneurs in the city is already high, it is still increasing. While 'only' 25% of the inhabitants have a foreign nationality, every second new business in 2007 was founded by a foreigner. In the past, many ethnic entrepreneurs used to operate in niche markets and set up businesses where lower qualifications were required. Today, they can be found in all branches of activity and professions, including those requiring higher qualifications and supplying a broad variety of markets and clients.

The reason for the emergence and establishment of ethnic entrepreneurship seems to be a mixture of 'push factors' such as unemployment and discrimination in the labour market as well as of 'pull factors' such as a higher income, a higher reputation as entrepreneur in the ethnic community and the fact that migrants are more willing to take risks. According to most experts interviewed, the pull factors, however, seem to be of higher importance.

Even though many entrepreneurs with a migration background are successful, they also face various problems. In general, the challenges migrant entrepreneurs face are similar to those of other entrepreneurs. Compared to native entrepreneurs, however, migrants seem to have business plans that are not always thought through properly and on average they use professional advice less often.

In the framework of the local integration policy, ethnic entrepreneurship plays only a minor role, as AmkA, the city's Office for Multicultural Affairs, does not conduct migrant-specific projects. Within the local economic policy, international businesses and ethnic entrepreneurship play a more prominent role. Recently, the Frankfurt Economic Development GmbH has started to target migrant entrepreneurs and to fund migrant-sensitive advice and coaching sessions.

Today, various local actors provide useful measures and programmes promoting entrepreneurship, including advice enhancing business acumen and financial support, for instance the local Employment Agency and the Jobcenter, the Chambers and Frankfurt Economic Development GmbH. Most of these offers are general measures, which means they address all entrepreneurs in the city, irrespective of their migration background.

However, there are some exceptions to this rule that can be considered good practices. First, there is the centre of business formation, Kompass, which provides advice for potential entrepreneurs. The centre, which is financed by the city, a local NGO and entrepreneurs' associations, established migrant-sensitive services such as bilingual coaching and cooperates closely with migrant organisations to reach not only native, but also ethnic entrepreneurs. As an interesting

initiative, Kompass trains migrant representatives as ‘entrepreneur scouts’, who then transfer their entrepreneurial competence to their respective associations.

Additionally, two examples should be highlighted of good practice supporting apprenticeships within ethnic businesses. The *IUBA* project was established by the Chamber of Commerce and Industry (IHK) and the Institute for Vocational Training, Labour Market and Social Policy (INBAS) in 2001. Since then, the project members have encouraged entrepreneurs with a migration background to create about 4,000 additional apprenticeships in their businesses by holding information events and making face-to-face contact. The project *KWVD pro Ausbildung* of the Croatian Business Association, which started at the end of 2009, similarly aims to provide additional apprenticeship places, but focuses on enterprises with a Croatian, Bosnian, Serbian and Montenegrin background.

At least every fifth business in Frankfurt is run by a foreign national. Thus, ethnic entrepreneurship plays a crucial role for the city’s economy. Nevertheless, most local actors, including the city, do not consider the ethnic background of entrepreneurs as a feature that should be recorded and promoted in a migrant-specific way. However, information about ethnic businesses is an important prerequisite to be able to establish or modify effective and efficient programmes in order to support them and their economic success. Thus, it is recommended that the city gather more information on entrepreneurs with a migration background and their businesses.

Despite the limited information, there are some notable examples of good practices promoting ethnic entrepreneurship in Frankfurt, most of which could be transferred to other cities. Nonetheless, several experts expressed a wish for more migrant-sensitive services and support, because the existing projects cannot reach all potential ethnic entrepreneurs. Thus, it is recommended that the existing activities be expanded. By doing so, the city of Frankfurt could support ethnic entrepreneurship even more, benefiting from the potential of migrant entrepreneurs for the improvement of both the local economy and society.

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# List of persons interviewed

During the field visit, which took place at the beginning of March 2010, the following 16 experts were interviewed:

Bayer, Armin, Head of the economic policy department at the Chamber of Crafts Rhine-Main (*Handwerkskammer Rhein-Main*)

Bock, Claudia, staff member at the Jobcenter (*Rhein-Main Jobcenter*), consulting of entrepreneurs

Bommersheim, Ellen, Managing Director of the centre of business formation Kompass and board member of the NGO Frauenbetriebe

Brucker, Constanze, staff member of the Institute for Vocational Training, Labour Market and Social Policy (INBAS GmbH), responsible for the IUBA project (*Internationale Unternehmen bilden aus*)

Debus, Martin, staff member of the Department of Economic Policy and Urban Development at the Chamber of Commerce and Industry Frankfurt am Main (*Industrie- und Handelskammer (IHK) Frankfurt am Main*)

Dimpl, Ulrike, staff member of the Office for Multicultural Affairs (*Amt für multikulturelle Angelegenheiten, AmkA*) of the city of Frankfurt am Main, responsible for labour market and integration courses

Funedda, Christina, press spokeswoman of the Employment Agency Frankfurt (*Agentur für Arbeit, Frankfurt am Main*)

Kara, Hasan, consultant at the Department of Vocational Training at the Chamber of Commerce and Industry Frankfurt am Main (*Industrie- und Handelskammer (IHK) Frankfurt am Main*), responsible for the IUBA project (*Internationale Unternehmen bilden aus*)

Karahasan, Yilmaz, former board member of the trade union IG Metall; member of the Social Democratic Party (SPD); affiliated with the Workers' Welfare Association (*Arbeiterwohlfahrt, AWO*)

Klug, Carsten, staff member of the Frankfurt Economic Development GmbH (*Wirtschaftsförderung Frankfurt GmbH*) of the city of Frankfurt am Main, responsible for research on structural policy

Kuntich, Omar, presidium member of the city's Foreigners' Council (*Kommunale Ausländervertretung, KAV*)

Nagel, Helga, Head of the Office for Multicultural Affairs (*Amt für multikulturelle Angelegenheiten, AmkA*) of the city of Frankfurt am Main

Onuk, Barbara, staff member of the Jobcenter (*Rhein-Main Jobcenter*), responsible for migration and social affairs

Sen, Recep, staff member of the Employment Agency Frankfurt (*Agentur für Arbeit, Frankfurt am Main*), placement officer, responsible for foreigners and migrants

Susak, Mario, Chair of the Croatian Business Association (*Kroatische Wirtschaftsvereinigung e.V.*); ethnic entrepreneur

Ziemer, Frank Markus, Deputy Director of the Department of Vocational Training at the Chamber of Commerce and Industry Frankfurt am Main (*Industrie- und Handelskammer (IHK) Frankfurt am Main*)

**Doris Lüken-Klaßen** and **Franziska Pohl**, european forum for migration studies

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