Global Downturn: How entrepreneurs have been impacted by the global financial crisis

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Abstract

This report looks at the impact the global financial and economic crisis is having on sustainable enterprise, entrepreneurs, perceptions of entrepreneurs and decent work across the world. It argues that small companies, irrespective of location, are approaching the crisis in a similar way: they are reducing risks, not borrowing and trying not to let their workforces go in the interests of economic sustainability It looks at individual and own account workers and their experiences on the basis of a qualitative survey of entrepreneurial practitioners in policy and business and argues that the challenge for policy is to provide the mechanisms for turning sole trader or own account business into entities that are sustainable and that provide decent and enduring work, both for the individual entrepreneur or founder and potentially for the communities around them.

It suggests that much of the policy effort thus far in the recession has taken the approach of providing guarantees to credit through the orthodox banking system. Demand for finance remains low and this is because the perceived *personal* risks for the individual entrepreneur are perceived to be high at present. The notable exception to this is in microcredit where supply and demand have increased. However, much of this is going towards replacement income rather than sustainability.

The report concludes that the key issue for developing sustainable enterprises is to look at the personal risks that entrepreneurs take in engaging in the labour market through enterprise activity, be they business founders or own account or informal workers. Entrepreneurs and business leaders alike are keen to point out that the downturn itself represents an opportunity for the private sector to lead the way in developing a new and more sustainable *modus operandi*, but that a real understanding of what motivates, and what inhibits entrepreneurs is vital. These are broader than financial wealth and include value creation as well, in the form of family and community welfare as well as issues of environmental sustainability. If the social partners are to find a route to achieving sustainable enterprises by encouraging entrepreneurial activity in any form, then the key is in addressing the nature of risk that entrepreneurs face. These differ depending on the socio-economic context in which the entrepreneur is operating but they

[1] An earlier version of this report was provided to the International Labour Organisation as part of its attempts to understand the impact of the downturn on decent work and enterprise development globally. Delta Economics is grateful to the International Labour Organisation for its support.

originate from the same source: that the increasingly individualised nature of the labour market pushes the responsibility for sustainability on to the individual where it would have been with large scale businesses or governments in the past.

Introduction:
Overview of the crisis and its impact

This report, commissioned by the Employment Directorate of the International Labour Organisation, looks at the impact that the global financial and economic crises are having on sustainable enterprise, entrepreneurs, perceptions of entrepreneurs and decent work across the world. The importance that the informal employment, own account, micro, small and medium sized business segment of the industrial and labour markets have in the world economy is undisputed. If we include own account, or self-employment, then we are talking of between 43% and 99% of all employment being in companies that classify as micro, small or medium sized, depending on country.[2] It is therefore of critical importance that these private sector, "entrepreneurial" entities survive and, indeed, lead the world's economy out of recession since they are commonly seen not just as a source of employment but also as a source of innovation and long term productivity growth.[3]

Open to more debate, however, is the extent to which we can claim that "entrepreneurs" are the source of this innovation and long term productivity growth. This report argues that "entrepreneurs" are the world's change agents. As such they are the individuals in any context or setting who create opportunities and potential value for the situation they are in. This can be anything from community or social innovations through corporate innovations in processes or products to high technology or high growth start-ups that become global. Their unifying feature is not the fact that they set up a business. Rather, it is the fact that they find a market, a social, an environmental or an employment opportunity that they seize to create value.

[2] Obtaining comparative figures on the scale of employment in the informal, micro and SME sector is difficult as definitions differ across the world. These figures are based on estimates from the Department of Business, Innovation and Skills, the European Commission and the World Bank. The number of people employed in SMEs is not a factor in economic development. Scandinavian countries, for example, have very high employment in small family owned companies – this is entirely a function of their industrial structure.

[3] Acs, Z and Laszlo, S (2009): "The Global Entrepreneurship Index." Foundations and Trends in Entrepreneurship Vol. 5, No. 5 (2009) 341–435

Two things are driving a change away from an orthodox definition of the "heroic" entrepreneur who sets up a high growth business:

1. The expansion of interest in entrepreneurship as a route to solving some of the world's intractable social and environmental problems.[4]
2. The individualisation of the labour market evidenced by the demise of the "job for life" and the breakdown of the employment contract giving employment security.[5] The risks of the labour market are passed from the large public or private sector employer to the individual who has to develop skills for employment security through "portfolio careers" rather than job security rendering entrepreneurial skills such as flexibility a premium.

As more individuals are compelled into shorter term contracts or persuaded into own account employment by perceived social, environmental or economic opportunities, the challenge for policy makers becomes one of ensuring that these entities are sustainable. Sustainable enterprises are those companies that can "meet the needs of the present without compromising the ability of future generations to meet their needs"[6]: In other words, they are business entities that are sustainable in economic, social and environmental terms.

Yet relatively little is understood about how, for example, individuals move their activities from own account employment or sole trader status to sustainable enterprises and still less is known about how to move individuals from vulnerable or informal own-account employment to sustainability. Understanding this group of "founders" is, however, vital to understanding how the sustainable enterprise and decent work agenda is affected by the downturn and, more importantly, how it can be developed in the future.

So assessing the full scale of the crisis on the basis of quantitative data is, at best, difficult. This is for two reasons: first, even during boom times, data on micro, small and

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[4] See, for example, Harding, R. (2008): "Social Entrepreneurship in the UK – reflections on a five year study" Delta Economics, London or Elkington, J. and Hartigan, P. (2008): *"The Power of Unreasonable People – how social entrepreneurs create markets that change the world"* Harvard University Press. Boston, Mass.
[5] Drucker, P (2007): *"Innovation and Entrepreneurship"* Butterworth-Heineman, second edition.
[6] Buckley, G., Salazar-Xirnachs, J-M; Henriques, M. (2009): *The Promotion of Sustainable Enterprises,* ILO, Geneva.

medium-sized businesses that is comparable across countries is limited, both in terms of when and where it is collected and in terms of its focus. For example there is comparable data in the World Bank's "Doing Business" and "Enterpriser" surveys on the regulatory and financial environments but there is little information on how businesses founders make their businesses sustainable, economically, socially and environmentally. Second, the financial crisis started in 2007 and culminated in 2008 with the collapse of Lehman Brothers, government rescues of companies like AIG and the Royal Bank of Scotland and the largest one-day fall in stock markets since the Wall Street crash. Yet the effects on the real economy did not officially begin to take hold until the end of 2008. Since then, the apocalyptic predictions of the first few months of 2009 have maybe not materialised but it is nevertheless the case that the full effects of the crash cannot yet be known because the full exposure of financial institutions to credit risk is not yet known and from previous recessions we would expect the impact on the real economy to take up to five years to work through.

Thus this report is represents an assessment of the impact that the financial crisis and its subsequent aftermath was having through the four month period during which it was conducted (July 2009-October 2009) and was having at the time of writing. It is argued that the immediate effects of the crisis on micro, small and medium sized businesses have been remarkably homogeneous across the world:

1. Cash flow and margins have tightened partly because of a global drop in consumer demand and partly because payment terms on invoices have lengthened.
2. Those companies that had a high level of indebtedness or that were heavily integrated into export markets (especially in the developing world) have experienced difficulties in accessing credit to cover any shortfall in cash flow while payments are made.
3. Small businesses that have minimal debt are absorbing the costs of cash flow shortfalls using retained earnings or personal savings, which helps explain why the demand for finance has been so low. This is particularly true of family businesses where the costs of keeping the business running are being covered

through household budgets.[7] In an OECD setting this suggests that families might be running down personal savings in order to maintain their business activity and in a developing world context, there is some evidence that the reliance on the absorptive capacity of the household is falling on women who are then struggling to repay micro-credits.[8]

4. Micro and small businesses are putting their expansion plans on hold for the duration of the recession. This means that they are unlikely to be looking for finance while uncertainties about the scale of the recession and the likelihood of gaining finance remain. Interestingly, however, survey evidence from Europe suggests that where companies are seeking finance, it is for growth and investment and not to restructure debt.[9]
5. Micro and small businesses, according to selected country surveys and according to interviewees for this research are not making people redundant. Although they may have plans to do this if the contraction in the economy persists, they are reluctant to let people go for two reasons: first, the founders and owners are very close to their workforces and second, if demand rebounds, they will have to go through a rapid and expensive recruitment process to increase productivity rapidly. It is preferably, therefore, to maintain staff.

However, how these immediate effects are impacting on the entrepreneurs themselves, their livelihoods and their potential for sustainable development is not evenly distributed around the world. Much seems to depend on the pre-crisis economic conditions in a country or region. Thus, for example, although India, Africa and South America have been largely shielded from financial havoc, their heavy dependency on remittance income and the large percentage of the population reliant on "own account" or informal employment means that the problems of under-development have been highlighted. The same is the case in South Asia and the Middle East where banks, because of their

[7] This was a recurring theme of interviews – that family businesses and own account workers were bearing the costs of the crisis through their personal finances without attempting to access finance from external sources.
[8] CGAP (2009): Various global region reports on microfinance suggest that in poorer nations the decline in remittances combined with the pressure on household budgets means that microcredit is increasingly being used for consumption expenditure.
[9] European Central Bank/European Commission, September 2009: Flash Barometer survey of 9000 companies across European member states. This is corroborated by UK surveys such as the 2009 Delta Economics Challenges and Opportunities for Growth and Sustainability Survey and the UK government's own enterprise barometer survey conducted every quarter through the downturn.
http://ec.europa.eu/enterprise/newsroom/cf/itemlongdetail.cfm?item_id=3611&tpa_id=127&lang=en

highly conservative lending criteria pre-crisis, have not suffered in the same way as their UK or American counterparts. However, in South Asia the poorer communities have been hit by reduced remittance income, returning migrants and increases in numbers moving from paid employment to the informal economy.[10] In contrast, in the Middle East, financiers see the crisis as offering opportunities to indigenous small and medium sized companies (SMEs) who are largely under-supplied in terms of financial products but the extent of the collapse in the Dirham and the real estate, retail and construction sectors in the United Arab Emirates (UAE) render these sectors high risk. As these are also the sectors with high levels of migrant SMEs, especially from South Asia, this then has a ripple effect on countries such as India, Bangladesh and Pakistan.

Yet the real impact, on sustainable enterprises, entrepreneurs (or founders), perceptions of entrepreneurs and decent work are likely to be felt for many years to come. Because credit tightened and demand slumped simultaneously across the world, companies have, in the words of one interviewee, "gone bust where they should never have gone bust." Turnovers have suffered and emerging evidence in the UK suggests that overall the entrepreneurial sector has seen its turnovers drop by around 18.5% between 2008 and 2009.[11] Under tight financial and market circumstances, small and medium sized enterprises face unique challenges around whether or not to retain workers, enter new markets or simply to ride out the storm. Companies that have high levels of indebtedness or weak cash flow are seriously threatened.

It is then, of little surprise that policy makers across the world have looked to support SMEs in terms of access to finance first, to prevent otherwise viable businesses going to the wall and second, to ensure that investments in longer term sustainability, such as green technologies or innovation and skills development, are not halted. Both have the potential to fuel economic growth endogenously in the future. The European Union has opened up a large fund with the European Investment Bank to support environmental innovations, as have the United States and Canada. Alongside this, the International

[10] Chen, M. (2009): "Is informality a cushion? Global recession and the informal economy." World Bank BMZ-GTZ-IZA Policy Forum Bonn, Germany May 6, 2009
[11] Delta Economics, COGS 2009. www.deltaeconomics.com.

Finance Corporation has made funds available in emerging Asia and South America to ensure the environmental sustainability of business investments in those regions.[12]

But it is equally unsurprising that the measures to help assist access to finance are not being utilised to the extent that policy makers had expected. The financial and economic crisis has spawned an acknowledged mistrust between suppliers and users of credit and, similarly, a lack of confidence amongst businesses about the long term future of the economy and therefore their own ability to take on debt, even when it is relatively cheap as it is at present. Founders, or entrepreneurs, whether sole traders or employers, have often taken substantial personal and financial risks to set up their business entities. In the current economic climate, according to the research conducted for this report, any further risk may threaten to jeopardise both what they have achieved and the livelihoods of the people they employ.

The risks cannot be insured because the very crisis originated from the complex web of global exposure to risk insurance. This manifests itself at the level of the founder as a personal risk and is unacceptable, hence demand for growth finance stalls. This is a problem of *Moral Hazard* – where the individual who can be insulated from risk behaves in a different way to one who cannot. Small firms and individuals cannot be insulated because they are small and can, and do, fail, even in normal times. The effects of this risk personalisation are evident at any time but at the current time, where incomes and livelihoods are perceived to be vulnerable, the effect is to shut off demand for further debt rather than to increase it.

In the end, the effects that the financial crisis has in the long term will depend on two things: first governments must address the challenge of moral hazard given that the risks have been passed down to the individual. If the world is to rely more heavily on entrepreneurs and the private sector is to lead us out of recession then across the world there needs to be a support route that includes access to finance but that also incorporates mentoring, skills development and coaching to ensure that social, environmental and human capital is developed as much as finance capital. And second,

[12] International Finance Corporation (2009): "Undisclosed risk: corporate environmental and social reporting in emerging Asia." See also http://www.ifc.org/ifcext/sustainability.nsf/Content/Publications_SustFinance

in the developing world, the risks of sustainability for micro entrepreneurs and own account workers are inter-woven with the challenges of poverty. The global crisis represents an opportunity as well as a threat and its economic effects are exacerbated because of the simultaneous crisis of high food and fuel prices. The combination is flammable yet this research suggests some grounds for optimism: there is a generation coming through in Africa that has been exposed through the internet and mobile telephony to the developed world and does not relish a future of perpetual social tensions.

Scope and structure of the report

This report is an attempt to outline the effects of the crisis from the sustainable enterprise and entrepreneurial perspective and how this interfaces with the decent work agenda put forward by the International Labour Organisation (ILO) in its Global Jobs Pact.[13] The research is principally a literature and documentary review supplemented with qualitative data from 50 interviews with employer and employee representatives, financiers, entrepreneurs and company managers, policy makers and non-governmental organisations (NGOs) from the developed and the developing world. The report's goal is to understand the impact that the recession is having on sustainable enterprises and sustainable enterprise growth through entrepreneurship around the world. Within this there are a number of objectives:

1. To understand the differential impact that the financial crisis has had on global regions and countries across the world and the likely impact that this will have on decent work through entrepreneurship and sustainable enterprises.
2. To develop an analytical framework for understanding the link between sustainable enterprises and wealth/value creation in the future that illustrates the need for collaboration between the social partners.
3. To examine decent work, sustainable enterprise and micro and SME support packages across the world
4. To compare the impact of the financial and economic crisis on sustainable enterprises in Organisation for Economic Cooperation and Development (OECD) and non-OECD countries.

[13] International Labour Organisation, (2009): "Recovering from the Crisis – a global jobs pact." Geneva, June 2009.

5. To assess the impact of the recession on vulnerable or excluded groups such as women, young people and vulnerable employees
6. To lay the foundations for a methodology that will allow the ILO and its partners to track the impact of future economic and financial conditions on sustainable enterprises, entrepreneurs and decent work.

Definitions how the words “entrepreneur”, “entrepreneurship” and “sustainable enterprise” are used in this research are contained in appendix 1 which also outlines the terms of reference, research rationale and methodology of the study. The report must be seen in the context of the sustainable enterprise and decent work agenda represented by the ILO’s Global Jobs Pact of June 2009. This has defined both the theoretical underpinning outlined above and the approach taken in the research and are incorporated into the first approach to a methodology for further study discussed in Appendix 2.

The report summarizes the financial crisis and its immediate impact. It is argued that, as the crisis originated in the financial sector of OECD countries, it has been seen as an OECD crisis first and foremost. However, the interconnected nature of the global financial and trading system mean that the lock-down of credit from 2007 onwards have created a slump in demand that has affected the whole world. As incomes are squeezed further in the developing world, this has the potential to threaten much of the positive economic development work that has been done over the past few years.

The second section looks in detail at the impact that the recession is having on emerging regions across the world with a particular focus on micro-entrepreneurs, micro-enterprises and vulnerable workers (especially women). It reviews specific regions such as Africa and the Middle East and points out that the impact of the crisis at a macroeconomic level and its subsequent impact on sustainable enterprises and entrepreneurs depend on the exposure of the economy first to the global financial markets and second to the commodity markets and international trade. In the poorest nations, it is argued, the effects are being largely felt because of a spillover effect from reduced remittances and migration, while in the middle and high income countries the effects are being felt because of the exposure to a global reduction in demand. The challenge in the poorest nations, then, remains one of addressing the core issues of poverty.

The third section examines sustainable enterprise policy and strategy responses in the developed world. Two key things emerge from this analysis. First, that apart from fiscal stimuli to support aggregate demand, governments have supported small businesses by providing credit guarantees to loosen access to credit restrictions that SMEs are facing. Second, there is a real drive in developed and emerging economies to focus on the environmental challenges and requirements of a post-crisis global era. Substantial resources across the world are being put into funds to generate innovations in the environmental arena.

The social partners are agreed that there is a need to revisit the nature of Capitalism and the way in which they work together to ensure that the world emerges in a positive way from the crisis. Sustainable enterprise, entrepreneurship and decent work are a key part of this and, from the evidence of this study, stakeholders outside of immediate gambit of the ILO's partners want to address the issues of social, environmental and economic sustainability as the solution to the crisis. Company directors and entrepreneurs alike were keen to stress their focus on good work, on social responsibility and on longer term measures to address climate change. Much has been done, argued union and employer representatives to address these issues over the past 10-15 years such that the nature of social dialogue has changed for the better. Although the crisis has the potential to undo much of this as people focus on economic sustainability in the short run, it is possible, argued one employer that the measures that are now being taken will make the world economic order more sustainable in every sense of the word after the crisis.

The financial crisis and its aftermath

The global financial crisis that began to take hold as early as 2007 and which culminated in the collapse of a number of iconic financial institutions as well as stock markets around the world in 2008 has generated a global recession that is quite unlike anything that has been seen in the post-war period. The world's "inter-connected vulnerability"[14] has been thrown into sharp relief: an exogenous shock which looked initially as though it could be restricted to the financial markets rippled around the world with unprecedented rapidity as a result of the globalisation of the financial and the real economy that had been seen as a source of wealth creation for so long.

The global economy was expected to shrink by 1.4% during 2009 and then to expand in 2010 by 2.5%[15]. This was an improvement on forecasts given in April 2009, and as Angel Gurria of the Organisation for Economic Cooperation and Development (OECD) points out in a submission to the G20 Summit in Pittsburgh, there are signs that the world economy is stabilising and that output and trade are recovering.[16] By its October 2009 World Economic Outlook, the International Monetary Fund was reporting a return to growth across the world led by the emerging and developing world, especially in Asia.[17]

Even so, the implications for jobs, employment and sustainability are likely to be felt for many years to come with the OECD estimating that some 57 million people possibly being out of work in 2010 in OECD countries,[18] the International Labour Organisation arguing that unemployment could rise by as much as 61 million worldwide representing 7.4% of the labour force globally by the end of 2009 and a commensurate reduction in

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[14] Schmidt, A with Arancibia, P., Kahlon, R., Komoto, N., Myers, J., Munyi, M., Ngororano, T., Omondi, G., Sepaha, P and Yeojeong, K. (2009): "Geopolitics, Global Governance and Crisis Narratives" *Institute of Development Studies Bulletin, August 2009, Vol 40 Issue 5* Blackwell Publishers, Oxford

[15] International Monetary Fund (IMF) (2009): *World Economic Outlook* July 2009. The predicted global GDP growth for 2010 is 0.6% higher than predicted in the April forecast reflecting a swifter than expected return to recovery reported in the July Outlook.

[16] OECD (September 2009): "A Strategy for Economic Growth". G20 Research Group, Munk Center for International Studies, University of Toronto, September 2009. http://www.g8.utoronto.ca/newsdesk/pittsburgh/gurria.html.

[17] IMF (October 2009): World Economic Outlook.
http://www.imf.org/external/pubs/ft/weo/2009/02/pdf/exesum.pdf

[18] OECD (September 2009):
http://www.oecd.org/document/35/0,3343,en_2649_201185_43731875_1_1_1_1,00.html.

productivity of between 1.3% and 2.3%[19] and the World Bank arguing that because of the combined and inter-related effects of unemployment and reduced remittances, more than 90 million people will be living on less than $1.25 a day by the end of 2010.[20]

This is not the world's first downturn, nor will it be its last, yet it is unique in a number of ways:

1. ***The scale and cost of the financial crisis in the developed world are still unclear since the full exposure to credit risks across the financial system have not yet fully worked through the financial and non-financial system***:[21] The crisis originated from the "sub-prime" lending of two large US mortgage houses, Fannie Mae and Freddie Mac, who packaged up loans to low income/poor credit history clients as "prime" loans. The sub-prime market grew to 20% of the total market for home loans in the US by 2005 and had metamorphosed into a complex global system of insurances (securities) to spread risk from 2000 onwards and to the trading of sub-prime risk by 2006. Because the credit history of borrowers was poor on these types of loans, the usual form of repayment was through re-financing. This is effective during times when house prices are rising since the equity available in the house means that properties can be profitably repossessed in the event of a default. Finance houses, persuaded by the profits they could make through Securitisation, engaged fully with the market. Merrill Lynch alone bought 12 residential or commercial mortgage-related companies or assets from South Korea, Germany and Britain as well as a loan servicing operation in Italy and a mortgage lender in Britain. The biggest acquisition was First Franklin, a US sub-prime lender. However, as house prices started to stagnate in the US during 2006, defaults on loans grew exposing the sub-prime loans for what they were: ratings agencies began to downgrade the securities that had developed and any company or financial institution with heavy exposure had their loan values and credit rating

[19] International Labour Organisation, Key Indicators of the Labour Market, Edition 6, September 2009, Section A: Economic Crisis and Labour Market Impacts
[20] World Bank Economic Crisis Round-up: http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22335223~pagePK:64257043~piPK:437376~theSitePK:4607,00.html; October 1st 2009.
[21] London School of Economics (2009): Credit Crunch 101 – working powerpoint document available from www.lse.ac.uk. Centre for Economic Performance.

downgraded accordingly causing the collapse of finance houses and stock markets around the world. The extent of total exposure is still not clear – for example, the administrators of Lehman Brothers, Price Waterhouse Coopers, recently said that they would expect the full investigation into what went wrong to last up to ten years.

The financial origins of the crisis had implications for consumers and businesses across the world simply because they were no longer able to access ready credit to finance consumption and investment in the way they have been able to for the last 25 years. This created, in the words of one banker, a "perfect storm" for micro and small and medium-sized companies (SMEs): the credit crunch and the resultant recession as consumer and investment demand, "fell off a cliff." While this immediately affected some countries and some sectors more than others, the inter-locking nature of the world's economy generated spillover effects throughout.

2. **The immediate lock-down of credit has caused a global demand-side slump:** What is clear is that the mistrust that has arisen between financial institutions themselves, between financial institutions and businesses and between individuals and the entire private sector has created a global demand-side slump that accompanies the slump in available credit on the supply-side. According to the interviews conducted for this report, financiers themselves are not certain as to why the severity of the slump has occurred. They acknowledge that they are less likely to lend to each other and to individuals and small businesses because their lending criteria have changed and their risk aversion increased.

   However, a number of business surveys across the world suggest that demand for finance has fallen, especially amongst small and medium sized companies (SMEs).[22] This was corroborated by interviewees who argued that SME owners with high levels of indebtedness or weak cashflow are unable to access

[22] See for example, the Grant Thornton Enterprise Index survey conducted in September 2008 and February 2009; the UK's Small and Medium Sized Business Barometer in June 2009 (http://www.berr.gov.uk/files/file52404.doc) , the EU's survey of small businesses (DG Enterprise, forthcoming, September 2009) and the Australian survey of SMEs at http://www.prlog.org

additional financing to restructure their debt while those who do not have existing debts are keen to keep costs as low as possible in order to ensure their long term economic sustainability.

The effect of a global slump in demand for credit has affected consumers and businesses alike – consumers are repaying debt in OECD countries while businesses appear to be absorbing the economic shock by avoiding risk and keeping costs low.

3. **Because the crisis originated in the financial markets it is immediately global:**[23] Initially it was thought that the impact of the crisis on the financial systems in the developing world was likely to be limited since the exposure to global financial markets is low and the majority of businesses are domestically based. As a result, micro businesses with very local markets were seen as relatively protected from the downturn. However, as the effects of the crisis have started to work through, the importance of trade to the developing world has become apparent.[24] Authors argue that although the crisis did not originate in the developing world, it has spread to the developing world through trade: overall demand has reduced and this has impacted on exports and commodities. The effects are not evenly spread across countries, but it is clear that this could have two effects: to restrict the cashflow of export dependent small businesses in the developing world because of an overall reduction in trade volumes and potentially to restrict trade finance. Although evidence of this is limited at this stage, the research conducted for this report suggests that the deterioration in domestic currency values has made import costs of materials more expensive and this is putting pressure on margins which ultimately could affect sustainability in the long run.

[23] McCulloch, N. and Sumner, A. (2009): "The Global Financial Crisis: Developing countries and policy responses." " *Institute of Development Studies Bulletin, August 2009, Vol 40 Issue 5* Blackwell Publishers, Oxford

[24] Naude, W (2009) 'How will the financial crisis impact upon the developing world and what can be done about it?', World Institute for Development Economics Research (UNU-WIDER), Working Papers: Wider Angle newsletter Feb 09; Robinson and Willenbockel (2009): The OECD recession and developing Country Trade: A Global Simulation Analysis." *IDS bulletin, August 2009, Vol 40, Issue 5, pp 14-27;* Humphrey, J. (2009): "Are exporters in Africa Facing Reduced Availability of Trade Finance?" *IDS Bulletin* August 2009, Vol 40, Issue 5, pp 28-37.

While the forecast of global meltdown that accompanied the first few months after the financial crisis of Autumn 2008 has arguably not fully materialised, this has largely been because of the fiscal stimulus packages that governments around the world, particularly in OECD countries, have undertaken in order to ensure that aggregate demand and employment do not collapse. From the research conducted for this report, there is little sign that pre-crisis levels of employment will be reached for some time to come, even though unemployment and employment have not been as affected as was originally anticipated. As economies start to grow again, the challenge for policy makers is to ensure that economic growth is not at the expense of decent work or economic, social and environmental sustainability. As the Financial Times argued back in April,

> "We have learned at great cost the need to manage the global economy better – global financial markets in particular. We have rediscovered some old truths. People are not always rational; they make mistakes and are carried away by euphoria. Speculating with borrowed money is inherently risky – and riskier the more complex and interconnected are the assets. When external rules and internal ethics are both weak, self-interested actors push costs and risks on to others. Therefore markets are not always self-correcting. Unregulated markets may reduce, not improve, social efficiency."[25]

[25] http://www.ft.com/cms/s/0/bc888496-2856-11de-8dbf-00144feabdc0.html?nclick_check=1

How has the recession impacted SMEs and entrepreneurs?

The complexity of the downturn's causes and the global interdependence of the world's economic order mean that the impact has been both profound and uneven across the world. From the interviews conducted for this research project, there does not seem to be one country, one sector or one type of company that has been affected disproportionately to others. Although some sectors, such as construction, mining and finance and real estate, were affected immediately and directly by the lock-down of finance to them, it is the spill-over impact on both the economy and the broader SME and entrepreneurial sector that has been especially hard to predict.

In the views of experts, these effects will take some time to work through the global economic system. For example, although OECD countries were affected immediately by the credit crisis and the subsequent slump in demand, fiscal stimulus measures alongside measures to ease the supply of credit to small businesses has mean that many OECD countries are now beginning to see embryonic signs of recovery. In the words of one banker, "Since August, we have seen the first twitching of the kitchen curtain: people are beginning to ask, 'Is it safe to come out?'" The IMF[26] and the European Union[27] are stressing the importance of reducing the dependence on government stimulus packages as the world's economy starts to grow and of addressing issues concerning the weak state of public finances which may threaten the long term sustainability of the current upturn but nevertheless the IFO research institute in Germany reports that business confidence world-wide rose for the second quarter in succession at the end of August 2009[28] and that enough has been done at present to ameliorate the effects of the slump in demand on the real economy in the form of job losses.

[26] http://www.imf.org/external/pubs/ft/spn/2009/spn0925.pdf
[27] http://ec.europa.eu/economy_finance/pdf/2009/autumnforecasts/overview_en.pdf
[28] http://www.cesifo-group.de/portal/page/portal/ifoHome/a-winfo/d1index/20indexwes

Emerging economies appear at a macro level to have done relatively well over the past year. The Asia Development Bank has reviewed its growth forecasts upwards for 2009/10 and argues that much of the growth in these export-dependent economies can be attributed to "preparation and reaction:"[29] in particular, lower levels of indebtedness and policy responses to generate liquidity and ease lending, especially to small businesses.

"The key to recovery, anywhere in the world," argued a senior OECD official, "Is enterprise. For example, in the last ten months, 25 million migrant workers in the country have lost their jobs and returned to the provinces. What other option do they have?" Similarly in the developed world, argued several interviewees, labour market conditions are never likely to return to their pre-crisis levels and structures. "Companies will have got used to working more flexibly and with lower costs and will prefer to keep people on self-employment contracts rather than pay the costs of employment. This makes them more nimble if anything like this ever happens again," argued one.

Impact on global regions

The consequence of this depends on the stage of development of each country. Individuals themselves will need to develop 'employment/employability' skills that equip them to create at least sustainable portfolio careers if not growth-oriented businesses as employers move towards this new type of labour market flexibility. While this in itself is not a new trend, it has been accelerated by the current downturn. The danger is that large numbers of workers will find this more "entrepreneurial employment" difficult to access or badly paid and in terms of economic development the real danger rests in the fact that a more entrepreneurial labour market actually means a more vulnerable labour market.

Thus, in a country like Australia, with a large number of self-employed workers reliant on contracts from larger employers, there is a risk that individuals will perceive this risk as too great and retreat into lower-paid employment simply because it generates job security. Conversely, in a developing country context where much of the self-employment/own-account work force is in the informal economy, the consequence of

[29] http://blogs.worldbank.org/eastasiapacific/regional-finance-roundup-is-east-asia-leading-the-world-out-of-the-crisis

this model is that more people are trapped in poverty and do not have the clear financial and business support routes to growth that they need to lift them out. In the words of one, African interviewee, "Microfinance here is used for consumption. It is not a vehicle either for business growth or sustainability and as incomes are squeezed by the big contracting companies, the result is a greater reliance on microcredit that cannot be repaid."

Similarly, the fact that it was a financial crisis that instigated the whole downturn is significant. Consumers and businesses alike are dependent on a liquid and fully functioning financial system in order to be able to access growth and development finance. In emerging economies, 80% of the informal employment sector is unbanked and 70% of the small business sector but the knock-on effects of a reduction in lending to key sectors in the developed world (such as construction and real estate) has been to limit capital inflows and credit availability to entrepreneurs in the emerging world as well.

Further, reduced trade volumes across the world have been the means by which the impact of the downturn has spread.[30] This has had two effects: to reduce overall demand for exports and to take away many of the beneficial trade terms for export-oriented indigenous entrepreneurs, particularly in commodities sectors. This has created major currency devaluations in some parts of the world and, combined, the net effects of currency risk, reduced demand for exports and reduced capital flows means that, especially in sub-Saharan Africa, "the sources of our economic growth over the past few years have been taken away overnight," as one interviewee argued.

Yet the effects have not been felt uniformly across or within global regions.[31] Much has depended on the state of a country before the recession: where countries are heavily aid dependent or dependent on commodity prices, as is the case in Sub-Saharan Africa, the business sector and the economy as a whole have been severely affected, perhaps for the long term. However, in middle-income countries (such as China) where governments have managed to draw on financial reserves to ameliorate the effects of the crisis, the long term impact of the recession is less severe.

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[30] Robinson, S and Willenbockel, D. (2009): "The OECD Recession and Developing Country Trade: A Global Simulation Analysis." *IDS Bulletin* August 2009, Vol 40, Issue 5, pp14-27. Blackwell publishers, Oxford.
[31] Gottschalk, R with Bolton, L. (2009): "Macroeconomic Policy, Stimuli, Aid and Budgeting: What options?" *IDS Bulletin* August 2009, Vol 40, Issue 5, pp78-88. Blackwell Publishers, Oxford

The emerging regions

A summary of the impact is illustrated in Figure 2 which is derived from interviews and secondary sources and shows the impact of the recession on emerging regions. Figure 2 is a summary, but it does suggest that the impact of the recession in emerging regions of the world on the poorest segments of society is similar and, critically, combined with the broader impact of higher food and fuel prices to create real hardship for these communities:

- Household incomes have been reduced because of reductions in remittances and a fall in informal earnings in key sectors (especially textiles). This means that households are more likely to use any micro-credits or available finance for subsistence consumption rather than sustainable employment.
- Liquidity in the microfinance sector has been hit but the overall volumes of micro-credit are strong with a trend growth rate of 24% between 2007 and 2008 while investments in other forms of capital were decreasing.[32]
- Emerging region banking sectors appear less exposed to toxic assets but liquidity issues, even in micro-credit, have arisen from the fact that banks, accordingly to interviewees, are less likely to be doing cross-border financing in some of the riskier environments, particularly Africa and Central and Eastern Europe. According to the World Bank, these are the two regions of the emerging world that are experiencing the most severe lagged effects of the downturn.
- Weak export demand is affecting employers of informal workers and, as a result, salaries are being reduced which has an effect both on overall household incomes and on net savings. It also means that households are less likely to be able to repay any loans that they do have.
- High levels of inter-dependency between individuals and the global economy through remittance incomes have meant that the effects of the crisis have been felt on the ground more rapidly and severely. These are likely to persist as unemployment is not predicted to accelerate to its pre-crisis levels according to interviewees and thus remittance incomes will take a long time to recover.

[32] CGAP (2009): Microfinance funder survey. http://www.cgap.org/gm/document-1.9.40544/Funder%20Surveys%20Snapshots%202009%20Global.pdf

Figure 2: The summary effects of the downturn: emerging region analysis

Source: Own interviews, CGAP,[33] various documentary sources

Region	General recessionary impact	Selected country characteristics
East Asia and the Pacific	Region "rebounding" but growth has slowed from 8% in 2008 to 6.5% in 2009. Region hit by slump in global demand but less exposed to credit crunch and toxic assets and at a macro level, apparently recovering relatively quickly. At a micro and individual level problems are evident: • Reduced level of savings as household incomes decline • Impact of recession less important than food price inflation (Indonesia – 16.3%) • Women affected disproportionately for two reasons: reduced remittances and reduced income from informal employment (for example, child labour in the garment sector)	China: Regional GDP growth driven by China but mass job losses and internal migration likely to have impact on rural poor; entrepreneurial sector under-supported by financial institutions who have hitherto focused on large business finance. Sector is developing and Chinese firms are investing heavily in Africa.[34] Chinese government has made reducing the overall financial and regulatory burden on SMEs a key part of its recovery plan. Even so, exports have reduced by 25% and credit terms and bank loans are difficult in a risky climate. Thailand: evidence from previous recessions suggests that self-employment is a reaction to general labour market conditions[35] - those companies that survive are those with substantial resources of their own. Singapore: entrepreneurial sector heavily supported by government and not seen as risk-takers
Latin America and the Caribbean	Latin America did not experience a financial crisis but has inevitably experienced a recession. It does appear to be recovering relatively quickly[36] but the	Interviewees stressed that Latin America was doing well and that the high take-up of micro-credits, plus a focus on sustainability amongst its micro and SME sector (including environmental sustainability)

[33] http://www.cgap.org/ The Consultative Group to Assist the Poor: global microcredit organisation with strong links to micro-credit funds around the world including the IFC and World Bank.

[34] This activity is seen as controversial and is potentially a mechanism for the Chinese government to increase its strategic power. Interviewees argued that it has been responsible for crowding out African entrepreneurs in Southern Africa in particular, particularly in the construction of large infrastructure and mining projects. Others argued that this does not damage over all levels of inward investment, however, and overall the net effects on growth are positive. See alos Gu, J. (2009): "Where Western Business sees risk, Chinese entrepreneurs see opportunity." Institute for Development Studies, ongoing research. http://www.ids.ac.uk.

[35] Paulson, A and Townsend, R (2005): "Financial Constraints and entrepreneurship: evidence from the Thai financial crisis."

[36] The World Bank, Latin America and the Caribbean Region, Chief Economist's Office, 2009: "The global financial and economic storm: how bad is the weather in LAC?" see also *Financial Times* 19th August 2009: reports that, according to the global economic climate index, recovery is already underway in the region. This is further supported by the Financial Crisis Roundup conducted by the World Bank whose most recent statements suggest the same

	effects are uneven and 34% of the population lives in poverty. In terms of "bottom of pyramid" entrepreneurship, then: • The LAC microcredit market is the largest in the world and has been hit by liquidity constraints. • Business activity amongst micro-enterprises appears to be decreasing, partly as a function of reduced demand • Women most affected by severe downturn in household disposable incomes because of reduced remittances from abroad and high food prices. The result is a reduced ability to repay loans	meant that the region's development after the crisis was likely to be strong. Strong economic policies and a clear sense that lessons have been learned from past macro-economic experiences, especially in Brazil are fuelling optimism about the region.[37] Inter-America Development Bank is calling for Latin American SMEs to be integrated into large firm and government procurement programmes in order to quicken the pace of recovery from the indigenous entrepreneurial base.
South Asia	The banking sector has been largely shielded from the financial crisis because it is not exposed to toxic assets and has been conservative in the past. However, growth has been affected because of overall reductions in global trade; problems of under-development persist across the region: • Large micro-finance markets in India, Pakistan, Afghanistan • Weak export demand being felt acutely, especially in garment and agriculture sectors. • Savings diminished and household incomes squeezed by reduced remittances	The effect of reduced remittances is especially severe and is a spillover effect from the downturn both in the developed world and in the Middle East and North Africa region, according to the expert interviews. Here, the non-indigenous and non-European entrepreneurial population, that had been servicing the construction and real estate sectors in particular, have been severely hit by lack of credit. This has meant that many have either seen their turnovers drastically reduced or have gone out of business altogether. Growth in own account working in informal sector as employment has been squeezed by larger businesses. Informal employment is seen as a refuge but as more individuals go into it, the market becomes tighter and incomes are also squeezed through this. This is being helped by the emerging "micro-credit insurance" sector which is providing trade insurance especially to farmers in rural economies to protect them against non-payment and natural disasters.
Central and Eastern Europe and Central Asia	The regional economy was vulnerable before the crisis with high levels of consumer indebtedness and reliance on Direct Foreign Investment. Growth had been fuelled by an embryonic entrepreneurial	The lock down of cross-border lending has severely affected economies in central and Eastern Europe and there is substantial de-leveraging going on: banks outside the region are calling in debts thus further tightening credit.

[37] Deutsche Bank Research (August 2009): Could Brail become a model for poorly managed Latin American countries?

	sector which governments across the region had been keen to encourage. Now: • Unemployment is on the rise so household incomes are squeezed • Exports and DFI have fallen • Urban areas particularly severely hit because of their exposure to credit boom	
Middle East and North Africa	Region is resource rich and less exposed to the global financial system so the banking sector has remained largely intact. Some cross border investments have been affected. However, poorer countries within the region have been affected in similar ways to their counterparts elsewhere in the world; • Morocco and Algeria have been impacted by downturn in Spain and France where unemployment and entry barriers have increased. This affects remittances	Banked SMEs in the construction and real estate sectors in the UAE have been severely affected by the over-leveraging of the government sector, especially in Dubai.
Sub-Saharan Africa	The region is least integrated into the global economy but is now feeling the full effects of the downturn and likely to be the most affected in the long term with growth expected to fall further according to the World Bank: • High food and commodity prices alongside reduced remittances everywhere except Senegal have constrained household incomes. • Savings have reduced • Bad debts on repayments of micro-credits have increased	Level of banking in the consumer and the business sector is real issue; big companies have exacted tighter payment terms from indigenous businesses meaning that cash flow is tight and non-payment of debts likely.

Figure 3
Case study: The Middle East and North Africa (MENA)
Source: interviews

Ostensibly, the MENA region has been shielded from the global economic downturn. Only three of the region's banks have reported losses. But, according to one interviewee, the picture hidden under the surface is one of fire-fighting to keep a lid on the actual exposure both to international lending and to currency speculation, the effects of which are still to work through the region. Large amounts of cross border lending, particularly to banks in Central and Eastern Europe, are now being written off and this has greatly restricted the ability of the financial sector to lend because liquidity is tight. Banks that still have aspirations to work outside of the region are increasingly working with local, national banks in order to ensure that local knowledge is integrated into any future business development model.

The region has a lot of SMEs and entrepreneurs whose businesses have diversified away from oil as the influx of tourists and investment from outside have come into the region. The entrepreneurial base is mixed: some are Europeans and from the indigenous population and they have suffered relatively little from the tightening of credit. However, entrepreneurs from the Indian sub-continent, which are also a vital part of the construction and real estate economy, have found it increasingly difficult to get cash, often because of a basic lack of trust according to one interviewee. There are surprisingly few SME "delinquencies" because much of the money has to be put in by the entrepreneur meaning that the business model has to be robust.

Overall, the banks in the region do not cater for SMEs. They have tough lending criteria which militate against start-up companies in high growth and risky sectors; entrepreneurs are expected to deposit as much themselves as they are asking for which renders the growth market inefficient. There are no credit ratings agencies to enable a more flexible system to be developed.

Credit locked down in the region in the Summer of 2008 in the wake of the dirham speculation. But twelve months on, the SME sector, as a source of deposits to the banks, is seen as an attractive source of growth potential and there is increasing interest in growing the sector with the government and banks working together to develop a risk capital market in the region as well as strong advisory relationships between small businesses and their banks.

Figure 4
Case Study: Africa
Source: own interviews

"The financial crisis doesn't have anything to do with Africa," argued one NGO official, "but the effects do. The key question, is will the region have the resilience to survive? And the Jury is out on that one." For many of the interviewees spoken to as part of the research on Africa, the key issue was how to solve the problem of poverty rather than how to ameliorate the effects of the recession. At the time of the interviews, banking in Africa was largely unaffected and the full impact of the downturn had yet to be felt in their full force. There had been a big increase in micro-credits to the region, which

Comment [DH1]:

helped with general subsistence and survival, argued one, but little was happening to ensure that the economy could grow after the crisis.

The view that "bottom of the pyramid" development, or trade not aid, is a more sustainable way of creating economic development and ultimately growth was gaining momentum in the international support community but although the philanthropic and microcredit sectors have grown, less has been done to provide the robust business infrastructures, like regulatory frameworks, to support small businesses. One notable exception is Rwanda which was the world's most reforming nation in the World Bank's 2010 *Doing Business* report (published in October 2009).

Interviewees were keen to stress that the recession was only part of the problem in Sub-Saharan Africa. "Demand is predominantly domestic and centred around the consumption of necessities. The small business sector largely serves this market and so is likely to be both informal and unaffected by the bigger global picture." Many commented that the fact that the majority of businesses are unbanked and therefore cannot get ready access to credit means that the lock-down of the financial system has similarly made no difference.

However, Sub-Saharan Africa's larger small businesses are affected by the drop in global demand for exports. For example, the Madagascan Textile industry has suffered from the collapse of its markets and many informal and own account workers are now experiencing lower pay for the same work. Similarly, Nigeria and Kenya have been affected by falls in capital inflows which, in turn, affects small businesses and although there has been substantial innovation in structured finance to SMEs with a greater focus on encouraging formal banking as a way of growing the business, the extent to which this is sustainable will depend on the speed with which the region can pull out of the downturn.

In the end, argued many, the real risk of the food, fuel and financial crisis is that the historical political instability in the region will create a long term social crisis. "While the economic times are good stability is less vulnerable but when workers see banks making good profit while small businesses go to the wall, this creates problems."

South Africa is witnessing growth in a form of community finance for small businesses which has emanated from the fact that there is little in the way of growth finance in the region. This suggests that there is, as one interviewee maintained, "a new generation of entrepreneurs coming through who really want to get out of the cycle of poverty and social/political unrest."

In the words of one investor in South Africa, "Somebody packaging up bad debt in London has had a terrible effect on workers, in, say, the Cape. They didn't realise what they were doing" and it has been this ripple-effect going around the world that has made the crisis so different to previous crisis and pointed out just how inter-dependent the world's economy is. The material presented above demonstrates that there has been an impact on the sustainability of the "bottom of the pyramid" enterprise sector in emerging regions and the confidence in this approach as a means of real economic development has to be rebuilt swiftly if vast regions of the world are not to be left behind in the wake of this crisis. "Private business and banks have been blamed for all of this. We need to rebuild our reputations and we can only do this if we make sure that sustainability is at the heart of everything we do as we move forward."

Figure 5
Case Study: Women in emerging economies
Source: Own interviews

"What's vulnerable," suggested one interviewee, "Is the informal economy, not women especially, although obviously they are more represented in this sector. The informal economy is seen as a refuge from the labour market where incomes can be maintained and boosted. During the downturn, we have seen more people enter the informal labour market and, as a result, it has become more competitive so incomes have reduced."[38]

Women generally speaking are half as likely to set up businesses than men but this relationship is reversed in emerging economies where women, charged with maintaining household incomes and providing support for their families, are as likely if not more likely to set up men than their male counterparts.[39] Micro Finance Institutions (MFIs) are more likely to lend to women as women have charge of the domestic budgets and therefore more likely to repay the debts. Entrepreneurial activity amongst women in a development context, then, should be seen as necessity based and frequently in the informal economy[40]: a response to poverty rather than a direct route out of it.

Despite the drop in remittance incomes and informal economy earnings that create difficulties in repayment of microcredit loans, interviewees were keen to stress that the crisis itself was changing very little. Access to credit was seen as already difficult for women entrepreneurs to get themselves out of the microcredit trap because they tend not to have bank accounts and credit histories. What is essential is to develop access to business support, even in the informal economy, so that women have the potential to grow their businesses into a sustainable means of income for them, and potentially their communities too. "This is happening in Tanzania, Uganda and Ethiopia but what is really needed is something that is integrated with the finance system takes people beyond poverty and subsistence to sustainability and growth. Women are vital to emerging economies and although microfinance is important, it cannot support substantial growth."

[38] Harvard Kennedy School: "Inclusive Cities" report; forthcoming 2009. See also Chen, M. (2009): "Is informality a cushion: global recession and the informal economy." Paper to the World Bank-BMZ-GTZ-IZA Policy Forum Bonn, Germany May 6, 2009
[39] This is a point argued by successive GEM women's reports, www.gemconsortium.org.
[40] According to one interviewee, 90% of all entrepreneurship in sub-saharan Africa amongst women is in the informal sector

There is an over-riding sense that in Sub-Saharan Africa in particular there are real commercial opportunities to created sustainable growth in the region from a community of commercial investors who are investing on a “mission-related” basis. In the words of one, “a lot of small businesses do have a future but their confidence has dropped. They are depending on a very small community of people and while this makes them reluctant to let people go during the recession, it also means that they have growth potential afterwards. They have absorbed a lot of the shock themselves.” “Africa is suffering,” suggested another, “because of the flight of capital and the drop in investments.” The key to this approach is to provide exactly the long term relationship-based business support alongside financial support to allow companies to develop both management and business expertise. It is “patient capital” and often works in conjunction with Diaspora communities who, in the view of one, were more willing to bring their skills and experiences back from a developed country context at the moment than they would be during boom times.

This is an embryonic but important sector and the extent to which it, and the Diaspora, can realistically make a difference to the long term sustainability of the entrepreneurial and small business base in developing countries generally and Africa in particular will depend, to a large extent, on the rate at which new markets, for example in communications or environmental sectors, can be developed. What is important in the meantime, however, is the fact that there is a growing awareness that business and financial support go together in building sustainable business models that will develop a strong private sector in emerging economies. While the world is a long way from achieving this, these are steps in the right direction.

Figure 6
Case Study: Delhi’s entrepreneurial cycle-rickshaw pullers
Source: Delta Economics Intern[41]

Delhi is nothing if not diverse. Ten tonne Tata trucks, auto-taxis, scooters and motorbikes all wait for the lights to change. As they do, drivers and riders jostle for pole position. Left at the back of the grid, pushing all the weight of his skeletal frame down on each pedal, is the man with one of the hardest, dirtiest and most dangerous jobs in the Indian capital: the cycle rickshaw puller.

[41] Delta Economics Intern, Simon Harding, is placed with AMAN Trust in Delhi ….

There are around 600,000 cycle rickshaw pullers in Delhi, who earn a living by carrying up to three passengers around on the bench seat fixed over the two back wheels of their rusty heavy framed bikes. They are in demand. The middle classes of Delhi hate to walk. The cycle rickshaw sits at the foot of the transport hierarchy. Longer journeys of 10km or more are taken in taxis and shorter hops in auto-rickshaws which weave their way down even the tightest backstreets. The shortest trips, most of which are walkable, are reserved for the cycle rickshaws. Sadly, the cycle rickshaw pullers are also at the foot of the socio-economic hierarchy: they are amongst the poorest of the city's migrant labourers, who have fled from poverty, poor harvests and natural disasters in their home states over the course of several decades (mostly Bihar and eastern Uttar Pradesh). Some return home during harvest time to work the fields, others earn their living in the capital and hardly ever see the families they have left behind. Either way, they arrive in Delhi not merely looking for work, but seeking to secure their own survival and the survival of their families.

For the casual traveller, the weary figure lying on the back seat of his rickshaw taking a hard earned break before another long stint in the saddle may appear as the perfect small businessman: he had nothing, somehow he buys a rickshaw - the cheapest mode of transport going, now he's putting in the hard work, taking passengers, earning and saving. Eventually he'll have enough money to get a better job, move out of the slums, maybe buy an auto rickshaw, put his kids through private school and perhaps get a 'proper' job with a regular wage. It's just him and his bicycle versus the world: the ultimate example of the free market at it's best. Right? Wrong.

Look a little closer and a completely different picture emerges. One of corruption, exploitation and entrenched poverty.

Virtually none of the rickshaw pullers actually own their vehicles. Instead, powerful local businessmen own multiple rickshaws and rent them out to the poor pullers at around Rs.25 per day. A recent study by a Delhi-based NGO found that in the Jamia Nagar area, one individual was renting out 200 rickshaws and two others nearly one hundred each[42]. Each rickshaw costs about Rs.3,500 to buy new (as cheap as Rs.1,500 second hand), or Rs.25 per day for 4.5 months: not a totally unobtainable sum. So, why do so few pullers buy their own rickshaws?

According to the 1960 Cycle Rickshaw By-Laws, licences are limited to one-per-person: a puller may have one licence and one rickshaw only. So, in theory the rickshaw puller should be that perfect small businessmen working to fill his own pockets. However, in reality transport officials sell licences to anyone wealthy enough to pay a decent bribe. How many licences an individual is allowed depends on the size of the bribe. Corruption within the state institutions set up to regulate the trade allows a small number of businessmen to buy as many licences and run as many rickshaws as they like. The cost of the bribe is then recouped in the daily rental cost demanded of the puller. Consequently, the migrant rickshaw puller cannot afford to buy licences on top of the cost of the rickshaw and must be content with paying a hefty daily rental charge which eats into his daily wage and destroys what little chance he had of upward social mobility.

So the rickshaw puller is not somehow imbued with a burning entrepreneurial zeal, rather a pressing need to survive: a need for maintenance, for food, shelter and a little money to send home, rather than a desire for upward mobility. He is powerless to improve his situation, caught between bad times back home and exploitation and corruption in the city. Without massive changes in transport policy and a thorough clean-up of government operations, the road for Delhi's rickshaw pullers is going nowhere.

Figure 7
Case study: India's invisible army
Delta Economics Intern

'What did you do?', exclaimed my host, staring in disbelief at the sparklingly clean crockery stacked neatly on the rack. Cleaning lasts night's plates, pots and pans was supposed to be my way of making myself useful around the flat. It had taken me twenty minutes, half a bottle of radioactively red 'Vim' and a couple of sore fingers. 'You should have put it in the sink. The maid comes tomorrow morning', explained my host, 'she should have done that'. The maid comes about five times a week to this small flat in Malviya Nagar, a modest middle class suburb of south Delhi. She sweeps and mops the floors, washes the dishes and the clothes, all for a few hundred rupees a week. Some domestic workers, like her, work in several households earning a small amount in each, whilst some more wealthy families may employ half a dozen and house them in special quarters in their sprawling properties.

As it becomes increasingly acceptable for middle class women to go out to work and pursue careers, maids, cooks and cleaners are becoming a more common sight in India's major cities. Withdrawing from everyday household chores has also become a badge of upward mobility, transforming domestic workers into valuable status symbols. The ILO estimates that there are around 100,000 such workers in Delhi alone, although accuracy is impossible because domestic workers are unregistered: they arrive, depart and work on an informal basis. For these people, the ILO's vision of 'decent work' for all – work which fulfils 'aspirations for opportunity and income; rights, voice and recognition; family stability and personal development; fairness and gender equality' - is a long way off.

A large number of Delhi's domestic workers are poor women who have moved to the capital from impoverished areas of northern India, such as Bihar, which have not only been largely excluded from the nation's decade long economic boom but have also been ravaged by flooding and drought in recent years. Many domestic workers are driven from their villages by poor harvests, family tragedies and unemployment. Illiterate, disadvantaged and often widowed, they have few saleable skills other than cooking, cleaning and doing household chores. The promise of earning a decent wage in Delhi prompts many rural women and girls to sign up to one of the city's one hundred or so agencies which operate in rural areas.

The National Domestic Workers Movement, a Mumbai based NGO, calls these domestic labour agencies 'well organised rackets'. They cream off a large percentage of the domestic worker's daily wage, or take the entire wage direct from the client, until the 'agency fees' have been paid-off. Even if women travel independently they often fall prey to predatory recruiting agents who roam Delhi's main stations, looking for girls to hand over to local labour agencies for a commission. Wages are typically Rs.1,500-2,000 a month (£18-£25) before hefty deductions: nowhere near a living wage in one of India's most expensive cities.

Once a migrant worker has been placed in a rich household and the 'placement fee' has been paid, the agency loses interest. With no formal registration procedure, hardly any organisations or unions, domestic workers have few options when facing exploitation and physical, emotional and sexual abuse at the hands of the families employing them. Domestic workers are not covered by national labour laws which govern pay, conditions, compensation and holidays: even the Child Labour Act of 1986 does not include child domestic workers. In the households themselves, the 'master-servant' attitude frequently holds sway over the 'employer-employee' approach. They remain invisible and under-valued.

But all this could be about to change. Last year the Construction Workers Union & Car Cleaners Union and the fledgling Delhi Domestic Workers Union called upon the National Commission for Women (NCW) to raise the plight of domestic workers at the national level. So the unions and NCW have drafted a proposal for the creation of a board to register all employers, agencies and domestic workers. The board would provide domestic workers with identification cards, bank accounts and medical services. It would also monitor working conditions, the practices of agencies and oversee collective bargaining.

In July this year a joint venture between the ILO, India's Ministry for Labour and Employment and the Delhi government was unveiled. The scheme aims to enhance the incomes, skills and upward mobility of domestic workers by providing them with formal education and training. It is estimated that 90% of domestic workers have had no formal education.

Participants in the scheme will study personal hygiene, communication skills, kitchen management, first aid and basic electronics. Certificates and ID cards mentioning their new skills will be issued to all those successfully completing the initiative. "The employability of workers is enhanced as they have better skills to offer and employers too get trained assistants", said Sharada Prashad, Director General of Employment and Training at the Ministry of Labour and Employment. The plan represents a small but significant step towards organising and professionalizing the sector. Domestic workers and their unions have taken the first steps in a long uphill struggle.

The developed world

There is very little evidence or systematic/comparative data that allows a full understanding of how entrepreneurs across the developed world have been affected by the downturn so what follows is something of a stylised overview. This section therefore again relies heavily on the testimony of experts, the documentary evidence search and the results of a survey of 2120 founders of growth-oriented businesses in the United Kingdom conducted annually between the middle of August and middle of October each year.

The economic crisis that we are currently experiencing has had a different impact on the start-up market and on the small business sector compared to previous ones. There is a general view that previous recessions have had structural causes and have resulted in major efficiency gains by business. "This recession," argued one French employer, "Is not about efficiency, it's about business models. Money is just as tight as it was in the early 90's but we can't respond to that fact in the same way by increasing margins. This is all about ensuring that we can prove that our businesses are sustainable."

Another interesting feature of this current recession, especially in developed countries, is the extent to which policy by governments has been able to maintain employment and ameliorate the effects of the downturn on unemployment. In the words of one Australian expert, "The government stimulus package has kept demand going so we've really not seen the downturn in consumer demand that has happened elsewhere."

Rescue packages have made lending to small businesses by state-run banks mandatory, or at least subject to heavy targets and attempts to ameliorate the temporary imperfections in the credit market for small firms through credit guarantees. Access to finance has been at the heart of rescue packages in the OECD.[43] As these have worked through, they have meant that, in the words of a banker, for companies that can demonstrate a strong business model, there are no issues around the supply of finance." Banks do admit that there has been a problem in lending to key sectors such as construction, manufacturing and real estate but, many countries have had dedicated

[43] See OECD (2009): "The Impact of the Global Crisis on SME and Entrepreneurship Financing and Policy Responses" OECD, Centre for Entrepreneurship, SMEs and Local Development, Paris.

rescue packages for key sectors of the economy or, indeed core national employers like the US car industry.

Figure 8
Case Study: European Policy
Source: various EU publications and interviews

The European Union (EU) economy has been affected by tight credit, collapsing confidence and a sharp reduction in output which has reduced investment, output and capacity utilisation. Because of the export dependency of two of its major economies, France and Germany, the Eurozone's growth shrank rapidly in the first two quarters of 2009 but has since recovered as growth has been restored in these large economies.

Measures to support employment vary across Member States but most have policies to encourage flexible and short-time working which have maintained headcount and reduced the total numbers entering unemployment. The key in policies at a European level has been to maintain the momentum towards encouraging more flexible labour markets enshrined in the Lisbon Agreement of 2000. Where there are no national collective bargaining agreements, as in some sectors of the UK, agreements have been reached at an individual company level on short-time working.

There is no evidence that start-up activity has been affected in the EU but anecdotal evidence suggests a sharp increase in insolvencies between the 2nd and 3rd quarters of 2009. SME support has largely been largely implemented through access to finance and liquidity measures and there is a strong argument within the Commission that stresses the need to make these measures short-term in order not to distort the market over the longer term. Non-financial measures, such as training, R&D support or business support are not seen as having a major impact on the course of the recovery.

Two features of the recovery package at a European level are interesting, however, as they build in future competitiveness and sustainability. Resources have been dedicated to environmental measures and to innovation and R&D as mechanisms for ensuring long term endogenous growth.

There are several common features to have come out of the discussions with experts across the world:

- Finance for small business was tight between the middle of 2007 and the beginning of 2009 but substantial rescue packages by governments to improve liquidity generally and the integration of policies to support SMEs with the rescue for banks through guarantees means that in principle the supply-side is looser than it was a year ago. However, banks do admit that they are now "pricing for risk" (in other words, assessing the sector, the track record, the business plan and the management team) for all loans and this could help to explain why the take up of loan packages has been lower than expected.

- Companies that have had high levels of indebtedness and/or weak cash flow have found it hard to access finance. One financier pointed out that during the boom times, the asset valuation ratios of small companies had been unrealistic and that many businesses had been able to launch, and keep in business, on the back of business models that were not cash generating. These businesses have either had to revisit their business models or have gone out of business.
- Entrepreneurs and business owners themselves have absorbed the costs of staying in business. This is particularly true of family businesses, according to several interviewees, who argued that the desire to keep the business running was integrally inter-woven with the need to keep domestic finances solvent as well. Similarly, wealthy business families are said to have drawn down assets rather than to have asked for additional finance.

This suggests a degree of mistrust amongst the entrepreneurial community of the financial sector which is, in the views of one business angel, an inevitable consequence of the fact that banks have been through so much trouble themselves. But the issue is deeper than that. According to experts, entrepreneurs and SMEs that have had a robust model have focused on tightening up their cash flow management, on making sure that they retain people in anticipation of a future upturn by keeping them on flexible contracts, of using their networks to barter in the interests of keeping costs low and of drawing heavily on their own resources to ensure that they have reduced their overall levels of indebtedness. In short, argued one business support expert, “They have built their own sustainability by drawing on other sources of capital: social, human, knowledge and networked capital. People realise that money is only part of the equation and business is about sustainable value as well.”

The qualitative evidence for this research suggests that financiers, business advisers and entrepreneurs have witnessed a reduction in overall turnovers, something which is of little surprise given the severity of the downturn globally. This is corroborated in the UK by the Delta Economics *Challenges and Opportunities for Growth and Sustainability (COGS)* survey of 2120 entrepreneurs which suggests that turnovers of entrepreneurial and small businesses have dropped by 18.5% between 2008 and 2009. This is illustrated in Figure 9.

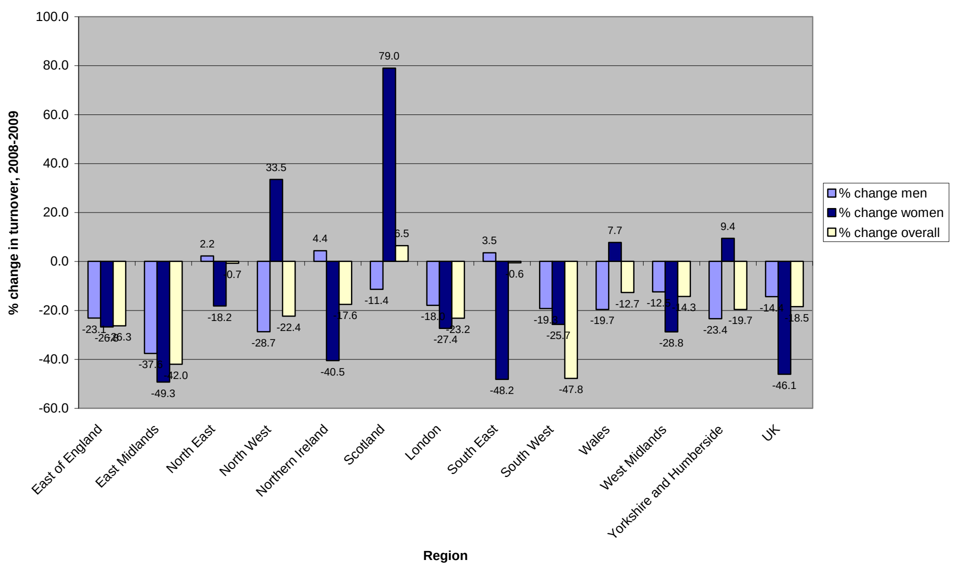

Figure 9

Percentage change in turnovers, 2008-2009 by UK region

Source: Delta Economics COGS survey, 2008 and 2009

Figure 9 certainly corroborates the view that turnovers have fallen in the UK and have fallen more substantially for women-owned businesses than for men's.

Unsurprisingly, then, only 15.3% of entrepreneurs were looking for finance in 2009. and the fact that demand is weak for commercial credit is not unique to the UK. For example, the European Central Bank's Flashbarometer survey found that more than half of the entrepreneurs surveyed were not expecting a major change in their requirements for finance over the next year and the UK's Department for Business Innovation and Skills' survey in July found that only 17% had sought finance in the last six months.

Figure 10
Case Study: Australian policy
Source: interviews and documentary search

Technically, Australia has not had a recession and 42% of SMEs believe that a recession can be avoided in 2009/10. According to employers representatives, the environment is still “soft” but as the economy globally starts to pick up, it is probable that growth will be positive throughout the period. There has been no major collapse in demand largely because the government provided a one-off cash payment of Aus$900 to everyone in the economy and the total stimulus package to stave off recession amounted to 3-4% of GDP.

Like elsewhere in the world, the existence of government loan guarantees has not stimulated demand for credit substantially. Larger companies are being more demanding of smaller companies in terms of their payment schedules and contracts while also placing more exacting requirements for proof of a business’s sustainability before procuring more businesses. Smaller firms with weak cash flow have experienced major difficulties in getting finance. The government has sought to address the issue of payment terms by ensuring that it leads by example and setting a 30 day payment term on invoices.

The market as it is at the moment is both a threat and an opportunity for Australia’s small business and entrepreneurial community and its own account workers. If business models, argued one interviewee, can be adapted to meet the requirements of leanness and flexibility then the chances are that it will come out stronger.

Concluding remarks:
Company Responses

In the last two years it has become clear that old models of financial Capitalism built on high risk credit markets is unsustainable in every sense of the word. In the words of Sir Martin Sorrell, Chief Executive of the Media and Communications group, WPP, "It must be said plainly that Capitalism messed up – or, to be more precise, Capitalists did. We – business, governments, consumers – submitted to excess; we got too greedy…. Yet just as the crash was inevitable, so will be the pendulum swinging the other way."[44] In other words, the old models that take a short term perspective on rewards and returns will become less important as a new, responsible, approach to investment takes hold. Some of the impetus will come from governments who will inevitably regulate for greater financial discipline, but much will come through the market mechanism itself. In the words of Joseph Stiglitz, the global regulatory and financial system needs more transparency but also more responsibility in order to be sustainable. Inevitably these must mean more dialogue between the social partners and investor communities.[45]

At a named and individual level, companies have, understandably, been reluctant to discuss their responses to the downturn in terms of how they have managed any redundancies or how they have managed to motivate people while others are losing their jobs. These are internal matters and should remain so. However, a number of factors did come out of the interview process that appear to suggest that companies have, if anything, strengthened their long term attitudes towards sustainability (especially environmental responsibility) and this, combined with more flexible business models, as discussed above, does suggest that the post-crisis world may indeed have long term sustainability in every sense of the word built into its thinking:

1. *Economic sustainability:* large and small companies have taken the opportunities to address any slack in their business operations and to "scale back" where necessary and to improve productivity. In the words of one global company HR

[44] Sorrell, Martin, (2009): "The pendulum will swing back: A new, more responsible Capitalism will emerge from the wreckage of the old." Financial Times *The Future of Capitalism – The Big Debate* May 12th 2009. p42.
[45] Stiglitz, J (2009) 'The global crisis, social protection and jobs', International Labour Review, 148, 1-2

director, "you build up a lot of slack during boom times – you get lazy and flabby as a company. When your own resources are pinched, and when the stock markets are putting pressure on you to downsize, redundancies are an inevitable outcome. This does not mean that the process has either to be unsympathetic or that it should make people work harder for less. There's already slack there: we can improve performance and reduce headcount at the same time. This ensures our long term viability."

2. *Corporate Social Responsibility:* there is no systematic evidence that CSR budgets have been cut and company managers are themselves keen to point out that where they are integrated into the daily operations of the company (for example in supply chain management and ethical practices according to OECD or ILO guidelines) it is not in the company's best interest to cut them. Many governments require the reporting of non-financial impact (sustainability reporting) and this ensures that companies continue to behave in a responsible way.
3. *Environmental sustainability*: company surveys in the EU and the UK suggest that investment in environmental measures has continued.[46] There was some feeling that environmental sustainability had suffered in terms of direct investment but as governments increasingly impose regulations on emissions it is likely that investments will be made.

The solutions to environmental and social problems for the public sector are too costly to bear alone. Already some €300bn has been invested in new environmental measures world wide as part of public sector economic rescue packages.[47] But in order to make a real difference to climate change and to the social problems of unequal economic development worldwide, long term and sustained investment is also necessary. Socially responsible investment (SRI) is a key mechanism for ensuring that the private sector is building in social and environmental criteria into investment decisions, but, equally as importantly, also providing investment funds for investments in specifically themed social or environmental projects and businesses. These considerations have led to an

[46] Grant Thornton: Entrepreneurs' Index, February 2009
[47] HSBC (2009): "A climate for recovery – the colour of stimulus goes green" http://www.globaldashboard.org/wp-content/uploads/2009/HSBC_Green_New_Deal.pdf

increase in both volumes in SRI markets and the integration of "Environmental, Social and Governance" (ESG) issues into mainstream investment decisions and behaviours.[48]

There is no lack of willingness to address issues of social, environmental and economic sustainability according to the research conducted for this study. Company directors and entrepreneurs alike stress their focus on good work, on social responsibility and on longer term measures to address climate change. Much has been done, they argue, to address these issues over the past 10-15 years. Although the crisis has the potential to undo much of this as people focus on economic sustainability in the short run, it is possible, argued one employer, that the measures that are now being taken will make companies more sustainable in every sense of the word after the crisis.

All of the interviewees were keen to stress that the post-crisis business model has to be built in partnership across the social partners. If through the crisis the world has been shocked into wanting to build on the basis of consensus in the future then this has to be positive. Yet there are clear responsibilities within this overall principle:

1. Governments across the world must develop clear regulatory systems and infrastructures that encourage sustainable enterprise. Alongside obvious the infrastructures that contribute to the "Ease of Doing Business" indicators and the ILO's own sustainable enterprise indicators, this includes measures to support the transition from own-account working to sustainable entrepreneurship through the growth financing system. Microfinancing is a critical part of the equation but it is by itself insufficient if it increases dependency on subsistence amounts of money: good and sustainable business ideas should have access to growth finance as well. Further, guidelines on "intangibles reporting" (such as people management, environmental impact or social investments) represented in the UK's "Operating and Financial Review, could be considered on a global basis.
2. Employers should put sustainability at the core of business planning. Good intangibles management (environment, innovation, people, social impact and supply chain management – for example links with SMEs) have been shown in studies to improve long term business productivity since they are proxies for

48 Harding, R (2009): "SRI in Europe" paper for the Bundesministerium für Arbeit und Soziales,

good management practice. Productivity is more than efficient resource allocation.

3. Employee representatives should work closely with employers to ensure that productivity is “good” productivity – this is the only way of addressing income inequalities in the long run – but also have a responsibility to signpost individuals towards training and development opportunities that will help the sustainability goals. One representative spoke sceptically about the usefulness of entrepreneurship as a route out of unemployment yet employment contracts have been changing over the past 20 years so that “jobs for life” are now a rarity rather than commonplace. Accordingly economic risks are increasingly passed down to the individual by society and the need for flexible, entrepreneurial, training and thinking become paramount.

Appendix 1
An analytical framework:
Entrepreneurship and its role in sustainable development - the key research questions

All too often, the phrase “entrepreneur” is taken to mean the “heroic” individual who seizes a chance market opportunity to innovate and build a global business.[49] The global celebrity status of well-known entrepreneurs like Bill Gates or Mark Zuckerberg means, in *The Economist’s* words, “The entrepreneurial idea has gone mainstream, supported by political leaders on the left as well as on the right, championed by powerful pressure groups, reinforced by a growing infrastructure of universities and venture capitalists and embodied by the wildly popular business heroes such as Oprah Winfrey, Richard Branson or India’s software giants.”[50]

Many major research projects and studies have attempted to address the issue of the link between entrepreneurship and economic development as a result of the compelling image of the successful entrepreneur and innovator fuelling wealth creation:

1. The Global Entrepreneurship Monitor has suggested a “U”-shaped relationship between entrepreneurial activity in the general population in specific countries and per capita GDP[51]. This suggests that lower levels of income will generate high levels of subsistence (or “necessity”) entrepreneurship that are a reaction to a failure in the labour market’s capacity to produce sustainable jobs in these countries.
2. The links between innovation and long term economic development have spawned a literature which looks both at the relationship between innovation and

[49] The Economist (March 2009): “Global Heroes: A special report on entrepreneurship” www.economist.com.
[50] Adrian Wooldridge, (March 2009): “Global Heroes: A special report on entrepreneurship” *The Economist*, London.
[51] Wennekers, S., A. Van Stel, R. Thurik, and P. Reynolds (2005), ‘Nascent entrepreneurship and the level of economic development’. *Small Business Economics* **24**(3), 293–309

economic growth[52] and approaches linking innovation to stages of economic development. Michael Porter, for example, argues that economic development can be seen in three phases: the factor-driven stage where much activity is driven by high rates of agricultural self-employment, the efficiency-driven stage where larger companies exploit economies of scale in larger markets, and the innovation stage marked by individually-led innovative activities either in firms or by individuals acting entrepreneurially outside of firms.[53]

3. Attempts to link economic development and entrepreneurship are reviewed by Acs and Laszlo (2009) and integrated using GEM data into an "S shaped" curve that suggests that at the factor-driven stages of development entrepreneurship is of "poor" quality and a reaction to labour market failure while at the innovation stage, it is of a higher quality value generating wealth in a developed economy context.[54] This approach estimates the importance of institutional frameworks as drivers of entrepreneurship and economic development. These institutions are consistent with the framework conditions for entrepreneurship identified by the ILO (2007).

Yet these interpretations are fraught with difficulties since they are predicated upon a definition of entrepreneurship that is "heroic" and focused on innovation as a mechanism for generating economic wealth. While innovation is of course critical, it does not allow us to understand how individuals react to under-development through entrepreneurship from the "base of the pyramid," in other words understanding the policy challenges of how a innovation-driven developed economy based on sustainable enterprise can be created out of one where the majority of the population live on less than $1.25 a day. In the context of how the world emerges from the recession through led by a private sector embodying sustainable enterprise and decent work, this is surely critical.

Woolridge, writing in *The Economist* piece cited above, explores some of the myths around entrepreneurship: entrepreneurs do not always set up large businesses, they can be found anywhere, they are not misfits, they are not all young, venture capital is only a

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[52] Freeman, C. and Louca, F. (2001): *"As time goes by: from the industrial revolution to the information revolution."* Oxford University Press, Oxford.
[53] See Porter, M. (2002); Romer 1990
[54] Acs, Z and Laszlo, S (2009): "The Global Entrepreneurship Index." Foundations and Trends in Entrepreneurship Vol. 5, No. 5 (2009) 341–435

part of the mix for supporting and growing entrepreneurial entities and many entrepreneurial firms focus on processes rather than products (such as online delivery for example). He goes on to argue, the contract between employers and employees is changing meaning that more workers need to have entrepreneurial skills to survive in the labour force – in essence, we are all entrepreneurs.[55] More than this, there is a growing awareness that social enterprises have a vital role to play in "fixing" some of the world's most intractable social and environmental problems.[56]

This means that we need a more inclusive view of entrepreneurship that acknowledges that the "heroic" concept is, perhaps, not fit for purpose in understanding the role that the individual across the world plays in their own labour market engagement as well as in building sustainable enterprises. Thus for the purposes of this paper the following definitions are used:

1. ***The Entrepreneur****:* the entrepreneur is defined as a "change agent" and can thrive either individually or in an employed context. They fix personal, economic, social or environmental problems through enterprise activity or their own labour market engagement.
2. ***Entrepreneurship:*** the process of setting up an activity or venture whether in the social, environmental or economic/technological space that becomes sustainable.
3. ***Sustainable development:*** forms of progress that allow entrepreneurs to meet the social, environmental or economic needs of communities now without compromising the capacity of future generations to do the same.[57]
4. ***Sustainable enterprise:*** the organisational form (either private sector commercial, private sector but not for profit or public sector) that enables sustainable development.

[55] Ibid. See also, the discussion of entrepreneurs and entrepreneurship in Harding, R. (2006): "Entrepreneurs – the world's lifeline?" *Business Strategy Review* December 2006.
[56] Bornstein, D. (2004)): "*How to change the world: social entrepreneurs and the power of new ideas."* Oxford University Press, Oxford.
[57] Buckley, G., Salazar-Xirnachs, J-M; Henriques, M. (2009): *The Promotion of Sustainable Enterprises,* ILO, Geneva

These definitions allow us to examine the current economic crisis as an opportunity for a new "development paradigm" across the world. This new paradigm, according to the research for this report, should include the central role that entrepreneurs and their sustainable enterprises have in enabling sustainable development across the world. The "Future of Capitalism", in the words of one interviewee is not just about financial capitalism anymore. "We have forgotten the importance of other forms of capital which are just as important in driving entrepreneurs and sustainable enterprises." These include social capital, knowledge capital and human capital which are demonstrated in the literature to lead to long term productivity growth and value creation.[58] The construction of a post-crisis sustainable development paradigm is argued by McCulloch and Sumner (2009) to include changes to global economic governance, new thinking on development policy, opportunities to institutionalise social protection and greening employment and enterprise development.[59] Supporting entrepreneurs, in whatever form they take, is central to this.

There is compelling econometric evidence to suggest a link between labour productivity[60] and reducing income inequalities, but a sustainable enterprise should mean that work is "good" work, not just productive work, and reducing income inequality is about quality of life as well as per capita GDP. Hossein (2009) points out that garment manufacturers in Dhaka have had their incomes halved during the current crisis and their workload increased – producing better output per employee but worse outcomes in terms of a decent work agenda.[61] Interviews conducted for this research corroborate this suggesting that the poorest informal workers are being pushed to be more productive while having their incomes squeezed.

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[58] See for example, Keilbach, M. , Tamvada, J.P. and Audretsch, D. (eds) (2008): *"Sustaining entrepreneurship and economic growth: lessons in policy from Germany and India"* Springer Verlag or Audretsch, D., Keilbach, M. and Lehman, E. (2006): *"Entrepreneurship and Economic Growth"* Oxford University Press, Oxford. See also Casson, M., Yeung, B. and Basu, A. (2006): *"The Oxford Handbook of Entrepreneurship"* Oxford University Press, Oxford.

[59] McCulloch, N. and Sumner, A. (2009): "Will the global financial crisis change the global development paradigm?" Institute for Development Studies, Sussex.

[60] This includes the International Labour Organisation's own work on this, most recently reported in the May 2009 Global Employment Trends document, but see also Paulson and Townsend (2005): "Financial constraints and entrepreneurship – evidence from the Thai financial crisis"

[61] Hossein, N. (September 2009): "Crisis Revisited: global recession, flash floods and food inflation in Dhaka – the case of Notun Bazaar.

Yet there is equally compelling evidence that "good" work is more productive work[62] and that managing people, social and environmental responsibility and supply chains effectively can generate higher total factor productivity (TFP) outcomes[63]. This leads to differences in levels of *endogenous* growth potential between countries[64] - in other words, the growth that is generated by the institutional capacity of an economy to generate entrepreneurship, innovation, higher level skills and investments.[65] These institutional structures align broadly with the ILO's agreed pillars for supporting sustainable enterprise.

The key issue, then, is how to drive post-crisis productivity improvements through good work, sustainable enterprise and entrepreneurship. Evidence from previous recessions points to the fact that in emerging economies, entrepreneurship may often perpetuate labour market vulnerability and exploitation in that it is driven by unemployment "push" rather than the opportunities offered by sustainable enterprise[66] which contrasts sharply with the "heroic" view that the pull of opportunities in a downturn will attract people into entrepreneurship.[67] This leads to the following research questions:

1. How can the private sector generate and lead economic recovery and sustainable development and growth?
2. How can those who have taken up self-employment or enterprise triggered by unemployment be provided with the infrastructural support to make their endeavours sustainable and value creating?

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[62] See for example Harding, Cowling and Turner (2005): *"The Missing Link – from productivity to performance"* The Work Foundation, London.

[63] Total Factor Productivity is the residual that is left over in national income accounting when all allocative efficiencies are included. It is often said to be determined by innovation so gaps in total factor productivity represent intrinsic differences in the way in which innovation and entrepreneurship are managed in an economy.

[64] Townsend (2007), Phillips and Aghion, 2002, Aghion et al 1998.

[65] Schumpeter, 1954, Freeman 1982, HM Treasury 2002, Harding 2007, Romer 2000, Audretsch, Keilbach and Lehman, 2006.

[66] Kim, G and Cho, J (2009) 'Entry dynamics of self employment in South Korea', *Entrepreneurship and Regional Development*, 21, 3, 303-323. Takahashi, Y (1997) 'The Labour Market and Lifetime Unemployment in Japan', Economic and Industrial Democracy, 18, 1, 55-66. ILO (1987) 'World Recession and global interdependence: Effects on employment, poverty and policy formation in developing countries', ILO.

[67] See, for example, Stangler, D. (2009): "The Economic Future Just Happened" Ewing-Manning Kauffman Foundation, Kansas. June 2009.

3. How can the social partners work together to ensure that the current reduction in working hours through short-time working and shorter term contracts can be used as an opportunity to benefit employees through training?
4. How can existing self employment, portfolio careers and micro-entrepreneurship become sustainable so that they lead to benefits that accrue value globally rather than just in the developed world?

The role of a consensus-based approach to this cannot be understated. The interface between the social partners in generating a solution to the crisis is illustrated in Figure 1.

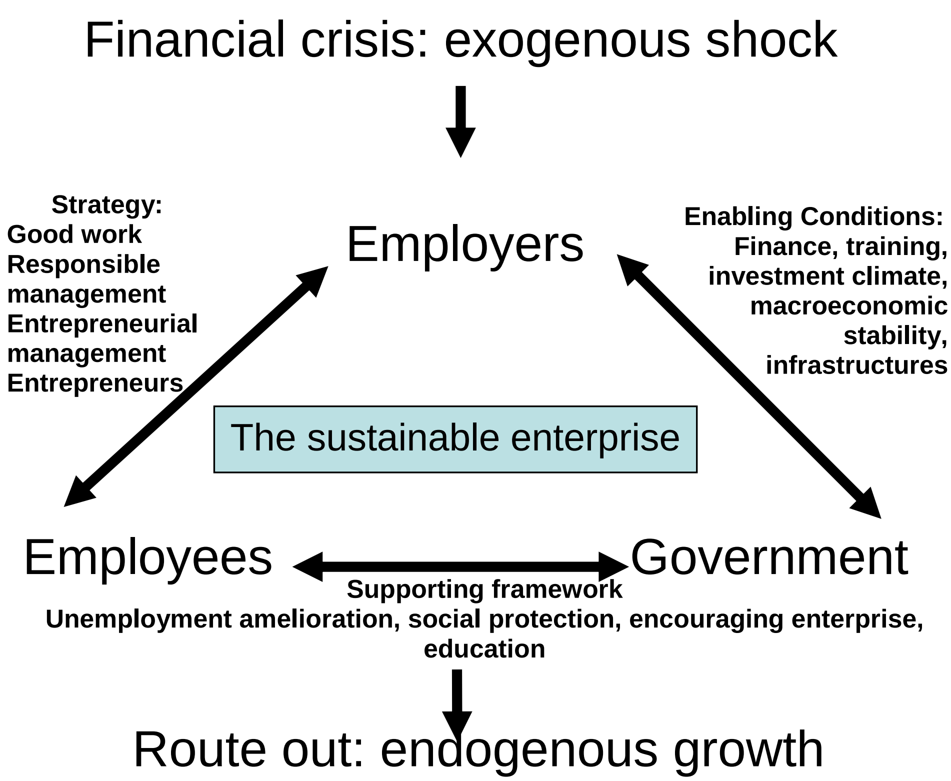

Figure 1: The role of the social partners in generating recovery through endogenous growth

Terms of Reference

The International Labour Organisation (ILO) is the tripartite United Nations (UN) agency that brings together governments, employers and workers of its member states in common action to promote decent work throughout the world. Its 90th Anniversary celebrations and the 2009 Governing Body meeting were conducted against a background of global recession and economic downturn on a scale not seen in the post war period.

The ILO and its constituents are now concerned about the lack of quality analysis and data that address the ways in which businesses and work are affected by changing economic circumstances, in particular the global economic downturn. This prevents the ILO from responding as swiftly and flexibly as would be wished to these changes. This research paper attempts to examine these data needs and develop a methodology for collecting data in the future in order to begin to fill the information gaps.

The Terms of Reference of the 22nd May 2009 were agreed in mid-June 2009 and that the report should look at the following:

- The impact of the crisis on enterprises and their workers
- The constraints (or otherwise) on Small and Medium Sized Enterprises (SMEs), micro enterprises and own account workers caused by lack of credit, lack of demand, high levels of indebtedness and by shrinking assets on company balance sheets.
- The best methods for Governments and the social partners to support SMEs and their workers
- The strategic reaction of responsible enterprises to the crisis in terms of their employees and the communities in which they live and work.
- The importance of the concept and promotion of entrepreneurship at this time. For example, how the crisis is affecting the community's perception of

entrepreneurship and whether or not the crisis has turned the clock back on the development of entrepreneurship.

Since these terms of reference were agreed, the ILO agreed on a Global Jobs Pact (GJP) with its partners as a response to the current crisis.[68] The GJP is a tripartite agreement to principles that, "the world should look different after the crisis." It agrees to the following:

- ***A decent work response to the crisis***: particularly protecting and growing employment, better and improved support to vulnerable workers, maintaining core labour standards and maintaining employment through smooth transition between work or from unemployment into work.
- ***A set of principles to promote recovery from the recession:*** including support for innovation, training and skills development, avoiding protectionism and deflationary wage spirals.
- ***Suggestions on how to accelerate job creation, employment recovery and sustainable enterprise:*** promoting legal and regulatory frameworks that provide the environment for the creation of sustainable enterprises through entrepreneurial activity and that promote employment.
- ***Mechanisms for embedding social protection:*** including protecting workers' rights and fair and decent work (as outlined in the World Commission on the Social Dimension of Globalisation in 2008) as key parts of recovery packages across the world.
- ***Strengthening regard for international labour standards:*** including promoting social dialogue and recovery responses compatible with social, environmental and economic sustainability post crisis.
- ***A way forward out of the crisis through sustainability and fairness:*** the benefits of globalisation did not distribute evenly across the world and the economic downturn is already documented as having a bigger effect on "blue

[68] International Labour Organisation (ILO 2009): "Recovering from the Crisis: A Global Jobs Pact" ILC98-Partial-2009-07-0115-1-En.doc. 19th June 2009.

collar" and vulnerable employees (contract workers, informal workers and low income groups) across the world.[69]

In addition to the Terms of Reference outlined above, this report aims to take into account the declaration of the GJP from the perspective of sustainable enterprise and entrepreneurship.

[69] International Labour Organisation (ILO 2008): "The World of Work Report 2008: Income inequalities in the age of financial globalisation." And International Labour Office (May 2009): "Global Employment Trends Update."

Research rationale

There are three principle reasons why a paper that encompasses the issues outlined above is now necessary:

1. There has been a lot of talk in the media and in public policy circles about the impact of the recession on decent work, sustainability and corporate responsibility agendas, SMEs and entrepreneurship but much of this has been based on anecdotal evidence rather than a firm evidence base, whether qualitative or quantitative. This is an inevitability since data around these issues is in any case limited and, of course, the full impact of the recession will not be known for at least another 3-4 years. However, a document that synthesises the relevant data and literature on the topic and compares now with previous recessions would add both insights and evidence to the debate allowing policy makers to make decisions on the basis of robust information.
2. The crisis itself offers opportunities for placing a greater emphasis on the ILO's decent work, corporate responsibility and small business/entrepreneurship agenda. There is evidence in national polls across the world that there is a public mistrust that has arisen of global business generally and the financial sector in particular. This has prompted a debate around the "Future of Capitalism"[70] that focuses on the need to build new models of business centred around sustainability, socially and environmentally as well as economically. As Stiglitz (2009) argues, "policy responses to the global financial meltdown of 2008 and the collapse of aggregate demand have largely been driven by domestic interests. Resurgent protectionism, bank bail-outs and national-level stimulus packages are distorting competition and incentives to the detriment of developing countries, much-needed spending on social protection and, ultimately, rapid global economic recovery." He goes on to say that the likely impact on jobs will be bigger than current estimations and that a global response that places sustainability at its heart is necessary.[71] This insight, as a backdrop to this report, provides the ILO with a vehicle for promoting its agenda further.

[70] http://www.ft.com/indepth/capitalism-future.
[71] Stiglitz, J (2009) 'The global crisis, social protection and jobs', International Labour Review, 148, 1-2.

3. There is little in the way of systematic and comparable data that focuses on sustainable enterprises and entrepreneurs and that allows us to understand the effects of economic conditions on their growth and development path over time. To some extent, this lack of data, alongside the timeliness of the questions being asked, has frustrated the attempt to inject numerical rigour into the research. By identifying the gaps in the data and by suggesting mechanisms for providing flexible and current information on an on-going basis, the research provides a platform for addressing these information gaps in the future.

Methodology

The research took place between July and September 2009. During this time, opinions about the state of the world economy have changed. This is a function of the unpredictability of the downturn and, thus, the uncertainty about its effects, as outlined below. Reports were emerging by the end of August that suggested that, in macroeconomic terms, the recession in some parts of the world was formally "over" yet alongside this, reports from major international aid and finance agencies suggested that the effects on the developing world were only just beginning to be felt.[72]

Because of its very topicality and because of the lack of "hard" data, this report has taken an iterative methodology to investigate the effects of the crisis using standard documentary and literature search techniques alongside qualitative research tools to provide insight and corroboration of documentary evidence. The following techniques have been used:

1. Desk research (documentary, media and online evidence through general and bespoke search engines). This included the use of the Delta Economics dedicated media search service.
2. 50 telephone and face to face interviews with government officials (UK and European Union [EU]), non-governmental organisations such as the World Bank, International Finance Corporation (IFC), United Nations Development Programme (UNDP), the EU's Centre for Enterprise Development (CDE) and the ILO, international employee representatives, employer representatives, senior bankers and venture capitalists, academics and entrepreneurs.
3. A round table discussion on data with the Head of the UK government's Statistics Directorate and team.
4. Data acquisition and data mining (published anecdotal or case study data, formal statistics, survey and aggregated data where available).

[72] The International Monetary Fund (IMF) (October 2009): *World Economic Outlook: Sustaining the Recovery.* http://www.imf.org/external/pubs/ft/weo/2009/02/pdf/exesum.pdf

Despite as comprehensive a methodology as was feasible within a short space of time, the report represents a snapshot of where the debate on the impact of the recession on sustainable enterprise, entrepreneurship and decent work is at the current time. In some senses, this is inevitable and it does point to the need for combining flexible mechanisms for tracking sustainable enterprise development and growth with more robust data collection and survey vehicles for any work and analysis in the future.

Appendix 2

Towards a methodology for studying the impact of economic conditions on entrepreneurs

The research for this project has been limited by the availability of current and up-to-date numerical data that tracks how businesses are performing over time. Surveys can be categorised to three groups:

- National surveys: membership organisations (such as Employer's Associatons), government departments responsible for SMEs or single country surveys of small firms. For example, a range of surveys exist in the UK: membership organisations like the Confederation of British Industry, the Federation of Small Business, the British Chambers of Commerce and the Engineering Employers' Federation all produce regular tracking surveys of their members' attitudes towards finance. The UK government's Department for Business, Innovation and Skills runs a Business Barometer which focuses on performance expectations and requirements from the support infrastructure (such as finance or skills). This is a small sample of 500 small businesses. Similarly independent studies, like the Delta COGS study do have a reliable sample size of growth-oriented businesses and ask questions on performance as well as current challenges but are not international and therefore cannot provide comparative data.
- International barometers: such as the European Union/European Central Bank Flash Barometer. This is a survey of 9000 business owners across the EU's member states but does not cover all member states and does not contain hard performance data. Other international surveys, such as the World Bank's *Doing Business* and *Enterprise* surveys are more comprehensive in their coverage but they are not regular barometers of performance focused on turnover, jobs and support infrastructures. They are conducted annually but results for 2010 are published at the end of 2009, for example, and are based on survey evidence collected in 2008. This militates against tracking. Similarly, these surveys do not have sufficient participation on a regular basis to track changes in emerging regions reliably.

- Academic studies: such as the Global Entrepreneurship Monitor. This is an annual survey of households in the general adult population and now has ten years of data. It suffers from two major limitations for the purposes of tracking business performance: 1. It was designed to establish the prevalence of entrepreneurial activity in the general adult population. As such it is a survey of households and not businesses and 2. it is conducted annually and does have sufficient global coverage to provide analysis of performance; further, the number of individuals running companies in the sample is small so any changes are often attributable to sampling error.

Interviewees were asked to comment on the key issues that should be tracked over time if a real understanding of how the business base is affected by changes in the macro-economic climate. There were a number of common themes that arose from this:

1. Any survey should be of growth-oriented businesses or, preferably business founders. This captures the engine of economic development from the base of the pyramid.
2. The survey should cover key issues such as turnover growth and expectations of growth, employment and employment growth, challenges and barriers (macroeconomic climate, access to finance, cash flow, profitability etc.), relationships with key suppliers to establish the diversity of demand (contracts, sources of work, number of clients etc), hours worked, capacity and need to access finance; type of business (eg family, social, PLC) and relationships on family, stakeholders or shareholders
3. Any survey should be conducted reliably in a core of representative countries representing each global region and, critically, should be conducted with sufficient regularity and longitudinally to allow tracking over time. The UK government's business barometer, even though it is based on a small sample, is statistically relatively stable and, argued officials, is relatively cost effective to run.
4. Survey material should be supported by regular qualitative interviews with a panel of experts globally. Qualitative approaches for inclusion in indices, such as those conducted for the World Economic Forum's Global Competitiveness Index or the IMD's Global Competitiveness Yearbook are open to criticism as the sample sizes are small and therefore insufficiently representative to be included

in a quantitative approach. However, in-depth interviews or regular panel focus groups provide rich data, as this report has demonstrated and be used to supplement hard survey data.

5. Big NGO organisations have had tracking pages on their websites where Economists have commented on the current state of the world economy and its impact on core constituents. This provides a flexible and responsive tracker that can be updated on a regular basis with thought pieces and data from core constituents.

The relationship between the external economic environment and sustainable enterprises is so complex that one single methodology is insufficient to provide evidence on performance over time. Multiple approaches, as outlined above, offer a way of ensuring that it can be tracked both effectively and comprehensively.