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## Examining ethnic entrepreneurs' funding access in post-crisis Ireland

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### Synopsis

This paper explores whether ethnic entrepreneurs in Ireland experienced credit rationing post the global financial crisis (GFC) and the extent to which their social capital inhibits their funding opportunities. Ethnic-minority SMEs (hereafter eSMEs) were found to have significantly higher rates of credit refusal than other SMEs and comparatively limited funding opportunities. While eSMEs' funding preferences followed the Pecking Order Hypothesis, their social capital inhibited their choices and access to government entrepreneurial supports. This paper sheds light on ethnic-entrepreneurs' awareness, understanding and experiences of accessing bank finance, microfinance and other government supports in Ireland. National policy recommendations to more effectively support ethnic-minority entrepreneurs in accessing finance are identified and discussed.

### Introduction and Background

Despite the constrained post-GFC economic environment, the Irish SME sector is economically important (Lawless and McCann, 2012), with eSMEs numbers establishing businesses in Ireland growing to their highest level in 2013, while the number of immigrants intending to set up a business

in the subsequent three years at the highest level since 2010 (Amorós and Bosma, 2014). This research explores the eSMEs' sources of finance in post-crisis Ireland, where bank lending was severely disrupted (Holton, et al., 2014). Holton and McCann (2012) found that the loan/overdraft rejection rate of Irish businesses was the second highest in Europe and some Irish businesses did not apply for credit due to fear of rejection. According to the Irish Small and Medium Enterprises Association (ISME), there was a 32 per cent reduction in demand for bank credit and a high refusal rate of 52 per cent of SME bank credit from March to May 2014 (ISME, 2014b). However, there is no specific information on how the GFC crisis impacted funding requests by eSMEs post the GFC in Ireland. Therefore, this paper examines the case of the Irish eSMEs and their funding experiences at a point in time (2013/2014) when access to bank loans was problematic for the entire Irish SME sector (ISME 2013, 2014).

### Issues and Questions Considered

Contemporaneously, ethnic-minority entrepreneurship was a growing phenomenon in Europe (Rath, 2010; Krieger, 2011), most evident in Ireland with strong economic growth (NiChonáill, 2009)

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heralding dramatic demographic changes, attributable to Irish emigrants returning but also new immigrants making Ireland their home (Mottiar and Walsh, 2012). According to the Global Entrepreneurship Monitor Report (GEM) (Fitzsimmons and O’Gorman 2014), eSMEs in Ireland are more likely to set up in business when compared to their Irish counterparts as the early stage entrepreneurship participation rate amongst immigrant groups is now at 11 per cent compared to 8.8 per cent amongst the native-born population. This research adopted the definition proposed by Cooney and Flynn (2008) of an ethnic entrepreneur as a foreign national who creates an enterprise in Ireland.

Within this context, this paper explores the eSMEs’ funding choices, their experiences of raising external debt finance and their accessibility of post GFC SME-focused government initiatives and employs social capital theory to explain gaps in the eSMEs’ funding patterns. While native-born (Irish) entrepreneurs are outside the scope of this research, we endeavoured to make comparisons to the wider SME sector by employing the contemporaneous ISME survey statistics on bank lending experiences of the Irish SME sector, to contextualise our findings for these eSMEs within the wider SME sector. In the context of the Irish policy focus on SMEs and the growing importance of the ethnic-minority SMEs to the Irish economy, the key question addressed by this paper is to explore the funding choices of eSMEs in post-crisis Ireland, employing social capital theory to explain the presence of any potential deviations from the pecking order hypothesis (POH) for funding sources of the Irish-based eSME. This paper contributes to academic research on the eSME sector in Ireland and the ethnic-minority entrepreneurship literature worldwide, by exploring the key question of eSME finance accessibility, through the theoretical lens of the POH, mediated by social capital theory. By giving voice to the experiences of these eSMEs when sourcing funds, this research offers specific policy recommendations to support the eSME sector in Ireland.

## Methodology

All surveyed and interviewed eSMEs for this study operated in the Midlands region of Ireland. The Midlands region was selected for the following reasons: a strong ethnic-minority presence and a then higher than normal unemployment rate, which still persists (25 per cent higher than the national average in 2017 (Solas, 2017) and 10 per cent higher again among the migrant population

(CSO, 2018)). Data was gathered through semi-structured interviews and survey questionnaires administered to 30 midlands eSMEs. The main body of the survey asked the eSME about their sources of finance, their experiences trying to secure bank loans, their awareness of initiatives like microfinance to fund their business and their perceptions of the key barriers of doing business in Ireland.

## Outcomes and Findings

Some 70 per cent of respondents sourced capital from friends and family (apropos Hussain and Matlay (apropos Hussain and Matlay, 2007), solely or in combination with other sources, contrasting with prior findings of 30 percent from the same source (Cooney and Flynn, 2008: 78). Surprisingly, only one third of respondents used their own savings starting a business, contrasting GEM global report findings that most Irish entrepreneurs use their own funds with other sources to start their businesses (Amorós and Bosma, 2014). While 76 percent of eSMEs approached banks for funding, only 13 per cent of respondents successfully secured bank loans, contrasting with previous findings (Cooney and Flynn, 2008: 78), where 60 percent of their eSME sample obtained bank finance successfully (78 percent). These findings indicate bank finance is approaching a non-choice for Irish eSMEs.

The state sponsored microfinance initiative (MFI) was the second most successful eSMEs external funding source, with almost 1 in 5 of all successful applicants between 2012 and 2018, indicating Microfinance as a policy intervention was very beneficial for the Irish eSMEs.

In light of these findings, we recommend that lending institutions take specific measures to lower funding barriers for eSMEs. Retail banking teams who work specifically with ethnic communities, need to provide more business start-up support. Additional findings indicated issues with engaging with and accessing governmental supports (i.e. the Credit Review Office (CRO)), which may be related to cultural and/or language and/or procedural barriers. The national government should therefore undertake targeted eSME information campaigns on existing governmental supports and programmes, including the CRO and MFI. Such institutional policy and actions can address eSMEs social capital limitations, enhancing not only the economic status of eSMEs but the wider national economy.

**The underlying paper was published in the Journal of Small Business and Entrepreneurship Development, Volume 7. A full copy can be obtained at <http://jsbednet.com/vol-7-no-2-december-2019-abstract-2-jsbed>**

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**Forthcoming Research Bulletin**  
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