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Promotion of Self-Employment: Experience in OECD and  
Transitional Economies

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## **Abstract**

Ministries of Labor in many developed and developing countries are under increasing pressure to deal innovatively with the problem of unemployment. In recent years, self employment has been put forward as a way of moving some of the unemployed back into employment. Rather than being offered income support, the unemployed are encouraged to formulate a business idea and they receive financial assistance and counselling in order to create an enterprise. Self employment programs are generally small – in relation to the number of unemployed – but some have been around for 10 years or more, and are well established.

This study describes the self employment programs in nine industrialized countries and two transitional economies, and explores how this experience has transferred to countries making the transition to market economies.

The study shows that self-employment is not a panacea for unemployment. Less than five percent of the unemployed will choose to become employed. For those that choose this option, however, these programs are cost-effective alternatives to regular unemployment benefits. Credit is typically not featured in self-employment programs in industrialized countries with competitive capital markets but in transitional economies, where such markets are absent, access to credit is provided through the program.

The study – a co-operative effort between the Education and Social Policy Department (ESP) and Country Department III of the Europe and Central Asia Region – is part of a larger effort in the Bank to examine labor market interventions that can reduce and redistribute more fairly the economic cost of structural adjustment.



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## Executive Summary

Efforts to generate employment in industrialized countries often include assistance to those who want to become self-employed. Ministries of Labor are the principal source of this assistance for the unemployed. This study surveys experience with self-employment programs for the unemployed in nine OECD countries and combines this experience with similar initiatives in two transitional economies, Poland and Hungary. The purpose is to highlight the lessons that come from self-employment programs in industrialized countries and explore how this experience has transferred to countries making the transition to market economies.

Whether in market economies or in former planned economies moving to the market, experience shows that self-employment is not a panacea for unemployment. Less than five percent of the unemployed will choose to become self-employed. One out of four enterprises created would have been established without the assistance of a self-employment program. This is the so-called deadweight effect. One of every two enterprises established will not survive beyond the first year. For every enterprise established, approximately one-and-a-half jobs are created.

Screening the unemployed who want to become self-employed by using interviews, applications, requirements for business plans, and pre-entry training and counselling services is essential to controlling the cost of self-employment programs. Rigid screening, however, increases the deadweight effect. Most of the measures mentioned lead to self-screening by applicants that avoids public officials trying to pick potentially successful business proposals. The countries studied rely on the private sector to deliver self-employment programs, while the government's role is limited to program financing.

The self-employment programs studied tie their financial benefits to the benefit levels of unemployment insurance programs to avoid distorting the unemployed's choices of employment assistance. Lump-sum payments are offered by three of the nine countries. These payments appear to raise program participation rates and increase the capital-intensity of the enterprises created. The number of countries offering post-entry business training and counselling appears to be increasing, but no clear evidence is found of a link between these services and enterprise survival rates.

Capital market deficiencies have led self-employment programs in Poland and Hungary to make credit a key program feature, unlike programs in OECD countries. Screening has been effective in controlling program cost in Poland, but the absence of effective screening in Hungary has kept costs high as a share of spending by the Employment Fund. Rising unemployment and spending on unemployment benefits has reduced Employment Fund expenditures on employment assistance programs such as those for self-employment. Ministries of Labor in Poland and Hungary have been unable to draw on a well-developed private sector for support in delivering services to the self-employed.



## Introduction

The expansion of productive employment is central to the alleviation and reduction of poverty. With the notable exception of countries in East and Southeast Asia, other countries in the global economy in the 1980s have experienced difficulties in expanding employment. Stagnant growth of employment in many developing countries in the modern sector during the decade has forced a growing share of the labor force into the informal sector, or into unemployment. Increasing unemployment levels are evident in this period in industrialized countries, particularly in Western Europe. In Eastern Europe and in the countries of the former Soviet Union, economies have suffered sharp output declines in the initial stages of the transition to a market economy. Unemployment, while still low in many cases, has risen sharply in others.

Country strategies for employment generation begin with the adoption of sound macroeconomic policies that address imbalances in internal and external accounts and reduce price distortions in product and factor markets that discourage the efficient use of resources, including the employment of labor. Alongside these initiatives, both industrialized and developing countries have acted at a microeconomic level with programs to reduce economic barriers to employment growth on the demand side of markets, while improving the quality of the skills and employability of the labor force on the supply side. Programs to support new business start-ups by the unemployed and to help established enterprises expand and create new employment have been part of the policy framework adopted by industrialized and developing countries to meet the demand for productive employment.

Employment promotion initiatives by the public sector are generally found in Ministries of Industry and Ministries of Labor. The employment goals of the two ministries, however, tend to differ. Ministries of Industry are usually focused on helping established enterprises grow larger by providing assistance that raises their productivity, develops new products, expands research and development, and increases exports. In contrast, Ministries of Labor are frequently concerned with promoting new business start-ups and providing self-employment assistance for the unemployed. The division of these interests between the two sometimes overlaps. However, the emphasis on self-employment for the unemployed tends to be more closely aligned with the interests of Ministries of Labor.

The distinction between the two ministries and their support for enterprise development is mirrored in the practices of OECD countries. For example, in 1992 the U.K. transferred responsibility for policies supporting small firms to the Department of Trade and Industry from the Employment Department. The latter, however, retained responsibility for the "Business Start Up Scheme" aimed at the unemployed seeking self-employment. A 1989 review of the 24 member countries of the OECD found 17 with Ministries of Labor offering enterprise creation programs to the unemployed.<sup>2</sup> Self-employment initiatives, therefore, fall primarily in the hands of Ministries of Labor. These initiatives are of keen interest to developing and transitional economies faced with the reality or prospect of rising unemployment in the 1990s.

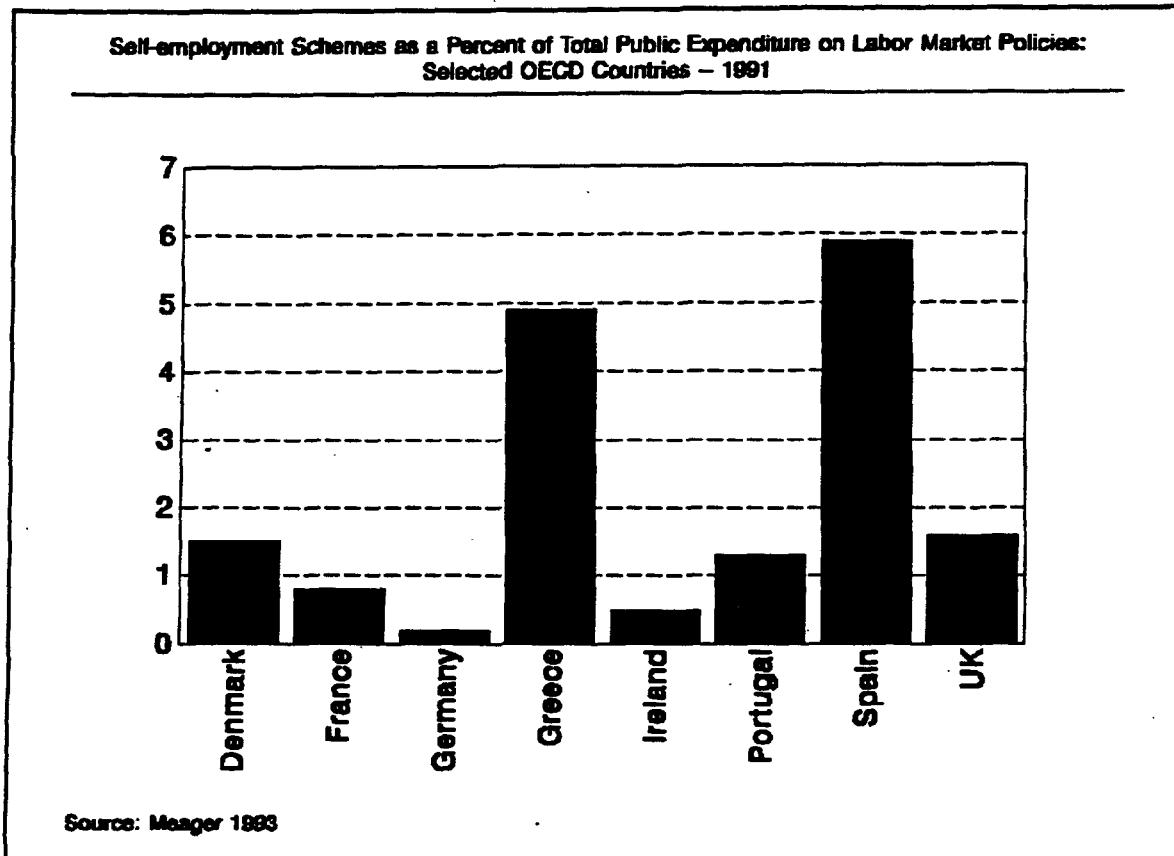
The observation that small businesses are an engine of economic growth makes self-employment programs an attractive policy to governments seeking to reduce high unemployment and stimulate sluggish economies. However, these policies account for only a small fraction of the total

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<sup>2</sup> The list includes Australia, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, and the United Kingdom. (Barker 1989).

expenditures on labor market policies in most countries. Public expenditures on labor market policies of all types in industrialized countries vary from less than one percent of GDP to slightly over six percent (OECD 1993). These expenditures cover training and specialized employment assistance programs, including support for self-employment, in addition to unemployment benefits. Self-employment schemes for the unemployed offered in a number of OECD countries in 1991, shown in Figure 1, ranged from less than one percent up to nearly six percent of these expenditures.

Figure 1



This study sets out to examine the experience of a sample of nine OECD countries with programs supporting self-employment. It combines this experience with similar initiatives in two transitional economies, Poland and Hungary, and adopts the goal of extracting lessons to guide future employment generation initiatives concerned with self-employment for the unemployed. These new businesses start-ups are often referred to as micro-enterprises. A micro-enterprise is defined as a sole proprietorship, partnership, or family business with fewer than ten employees. Many micro-enterprises, perhaps the majority, are operated by the owner alone. This leads to the frequent use of the term self-employment when speaking of micro-enterprises. Although often used interchangeably, self-employment refers to the status of the owner, while a micro-enterprise refers to a very small business.

The case studies of Poland and Hungary permit a closer look at how self-employment models from the West have been adapted in the East and how well they have performed. The study describes these models in terms of the population they have targeted for their services, the methods used to screen within the target population, and the characteristics of the services offered. Each of the countries participating in the study was asked to provide cost and performance measures for their programs. Where program data and evaluation studies have permitted, the study looks at how program design features and services have influenced the cost and success of employment generation programs for the unemployed through self-employment.

The evidence provided by the study emphasizes that self-employment initiatives are not a panacea for unemployment. These programs generally serve less than five percent of an unemployed population. They are, however, an important option for some and should be part of a menu of labor market policies designed to meet the diverse needs of a population for productive employment. Programs can be designed with effective self-screening mechanisms that ration the limited resources for these programs among those with the highest expected benefits. These mechanisms minimize the need for third parties, including government bureaucrats, to make these decisions. Lump-sum payments of benefits by these programs can increase the participation rate and the capital intensity of the jobs created.

### **Self-Employment and Micro-enterprise Programs in OECD Countries**

Nine OECD countries agreed to participate in the study. The countries and their self-employment programs are listed in Table 1. France has the oldest of these programs beginning in 1979. Excluding recent revisions of Australia's and Canada's programs, the newest is the self-employment demonstration program established in 1990 by Massachusetts in the United States. The two U.S. programs are the only programs set up as a random experimental design to measure program impacts. Drawing from a set of eligible participants, the unemployed who are given a choice to participate are chosen randomly. Those not chosen form a comparison group for program evaluation. This adds a degree of rigor to the U.S. findings not available in other countries that must depend on less rigorous evaluation designs. Other countries, however, offer a longer period over which to observe program outcomes.

#### **The Target Population**

Self-employment programs are not offered as an entitlement program. In the case of an entitlement program, such as unemployment insurance, claimants who fulfill program requirements may automatically obtain their benefits, regardless of the number of claimants. Claimants are not turned away in times of high unemployment. The government instead expands its unemployment budget to cover the increase in claimants. Since most self-employment programs operate on fixed budgets, however, access to these programs is necessarily limited to members of a target population.

In each of the OECD countries, the unemployed form the target group for self-employment assistance. Access of the unemployed to this assistance is limited by eligibility for unemployment benefits, and in some cases, the duration of unemployment. A potential recipient of self-employment assistance, for example, must be registered as unemployed and in compliance with the requirements of an unemployment benefits program. That is, the individual must be available and actively looking for work. In the U.K., the potential self-employed must be unemployed, but does not have to be in receipt of benefits.

**Table 1: Countries and Self-Employment Programs Participating in the Study**

Countries	Programs	Year Created	Number Participants 1992
Australia	New Enterprise Incentive Scheme (NEIS)	1985	3,349
Canada	Self Employment Assistance Component (SEAC)	1992	4,129
Denmark	Enterprise Allowance Scheme (EAS)	1985	n.a.
France	Aide aux Chômeurs Créateurs ou Repreneurs d'Entreprise (ACCRE)	1979	49,337
Germany	Überbrückungsgeld	1986	31,587
Ireland	FÁS Enterprise Programme	1987	1,642
Netherlands	Bijstandsbesluit zelfstandigen (Bz Scheme)	1985	1,300
UK	The Business Start-up Scheme (BSUS)	1983	40,500
USA	Washington Self Employment and Enterprise Development Demonstration.	1989	755
USA	Massachusetts Unemployment Insurance Self-Employment Demonstration	1990	600

Two types of unemployment benefits are considered in determining eligibility for self-employment assistance, as shown in Table 2. In Denmark, Germany, and the U.S., the unemployed must be eligible for benefits paid by an unemployment insurance program, which is generally funded by the contributions of employers and employees. In the remaining cases, eligibility for means-tested benefits for the unemployed may substitute for insured benefits. Australia requires that applicants be eligible for unemployment assistance (i.e. a means-tested benefit).

The length of the unemployment spell is a second condition for eligibility in some cases. Three countries —Australia, Canada, and the Netherlands— have no requirements. The United States emphasizes early interventions. Others, however, require a short spell of unemployment before individuals become eligible for self-employment assistance. This is primarily to ensure that claimants have already availed themselves of other, less expensive forms of employment assistance. Denmark at the upper end of the spectrum requires self-employment program participants be unemployed for at least five months of the previous eight months (Rosdahl 1993).

**Table 2: Eligibility Requirements for Self Employment Programs**

	Benefit	Length of Unemployment
Australia	Means tested benefit	No requirement
Canada	In receipt of UI, or means tested benefit	No requirement
Denmark	In receipt of UI	Be unemployed for the 5 months within the last 8 months; exiting from a Job Offer Scheme
France	In receipt of UI, or means tested benefit	No requirement
Germany	In receipt of UI	Must be receiving UI for at least 4 weeks
Ireland	In receipt of UI, or means tested benefit	Must be in receipt of benefit for at least 13 weeks
Netherlands	In receipt of UI, or means tested benefit	No requirement
United Kingdom	Eligible for means tested benefit	Unemployed for 6 weeks (not required to be in receipt of benefit)
United States	Eligible for UI	Newly unemployed only

Several countries recently have reduced the duration of unemployment as a requirement for access to self-employment assistance, some on the grounds that a shorter period between unemployment and self-employment improves the chance an enterprise will survive, others on the grounds that the program be offered to a larger group of unemployed. In 1988, Germany lowered its eligibility condition from 10 weeks to 4 weeks. The U.K. followed suit in 1991 by lowering the requirement from 8 weeks to 6 weeks. France, however, is an exception. Its Chomeurs Createurs program begun in 1979 focused initially on the short-term unemployed, but almost immediately removed this condition. In 1984, it expanded eligibility to recipients of means-tested benefits (DARES 1993).

Countries have generally avoided imposing other conditions in defining the target group, except where age is a requirement associated with unemployment programs or commercial law. Denmark is the only country in the set chosen for study that has attempted to target entrepreneurs in an age category, and even there the only requirement is that applicants for self-employment assistance be at least 25 years of age. Countries have not attempted to target potentially successful entrepreneurs by using characteristics such as level of education or previous work experience.

### Screening the Population

Since self-employment programs are not an entitlement program, the target population must be screened to restrict the number served and to maximize the economic returns to the resources used. The returns expected are measured in terms of the number of net new jobs created, the quality of the employment as measured by its pecuniary and non-pecuniary characteristics, and its duration. The temptation in screening is to try to pick "winners" in selecting program participants with the greatest

potential for success. However, most countries minimize the role of program administrators in selecting winners, and instead, rely on self-screening mechanisms in selecting program participants.

The self-screening mechanisms used --applications, use of pre-entry business advisory services and training, and development of business plans-- require a commitment of the participant's time before being admitted to the program. The value of this time relative to the expected economic returns from opening a small business serves to screen out applicants whose time can be used more productively elsewhere and screen into the program those who expect to realize a favorable return to their investment. The role of program managers in screening decisions is modest when compared with self-screening. Where such screening decisions are made programs often involve experienced private sector representatives in the decision alongside government officials.

In addition to the self-screening that takes place in the application process, other program screens are applied by the various reviews. Since self-employment programs are aimed at assisting the unemployed create their own jobs, most programs limit their assistance to the start-up of new enterprises. France, Canada, and the U.S. differ in this respect by allowing participants to take over existing enterprises. The Netherlands is also different in that it is willing to aid existing small businesses that are experiencing difficulty. France's program requires that the participant effectively control the business either as a cooperative or as a commercial enterprise.

Countries screen out business proposals that are illegal and most exclude businesses that are not suitable for public funding, that is, whose activity is controversial. In Canada, for example, this means that businesses involving the commercial exploitation of sex, religion or politics, though legal, are not eligible. There are similar stipulations in Australia, Ireland, the U.K., and the U.S. In an attempt to diminish *displacement effects*, where a new business puts an existing enterprise out of business, Australia and Ireland require that proposed businesses not compete with existing businesses. The Ministry of Industry in Denmark will introduce similar restrictions in 1994.

Additional screening criteria include whether the owner expects to be employed full-time in the business and is willing to make a personal investment of capital. Canada, the U.S., Ireland, and the U.K. require that a program participant spend full-time either starting the business or operating it after start-up. To ensure the individual is sufficiently committed to creating an enterprise, Canada also requires that the participant supply 25 percent of the start-up capital in cash or property. In the U.K., participants were required to have £1000 available to invest, although the regulation never insisted that the money be invested. This requirement has since been abandoned and local deliverers are free to decide what capital backing is desirable based on the merits of each application.

The Netherlands requires participants of its self-employment scheme to have applied for a small business loan and only those rejected are eligible for program support. The program is therefore seen as a lender of last resort, filling a niche that is not otherwise filled by private lenders. However, a recent study in the Netherlands revealed that this procedure was not uniformly adhered to "because the assessors of the applications sometimes assume, on the basis of their experience that the prospective entrepreneur would have no chance of a bank loan." (Ministry for Social Affairs and Employment 1990, p.2).

Each of the nine programs reviewed currently employs or expects to employ some form of applicant screening. Denmark is the only country where screening is not used after the applicant's eligibility for the program is determined. However, this will change in 1994 when Denmark joins the



other countries in screening proposals before an applicant is admitted to the program. The level of screening varies from light to rigorous. Light screening usually involves a review of an enterprise proposal prepared by the applicant to ensure it meets program objectives and contains all the elements of a business plan. The objective is to make sure the applicant intends to create a business and has a full understanding of the legal and technical requirements involved.

More rigorous screening techniques involve the testing of an applicant's knowledge of business and require the applicant to complete successfully a business course before being admitted to the program. Generally, as shown in Table 3 the applicant is led through a series of steps which involve more than one screening method. In almost all cases, the final selection is made by the local ministry representative in conjunction with a public-private committee. At each step along the way, some applicants withdraw as the opportunity cost of their time rises to reduce the expected net benefits of becoming self-employed. Theoretically, those with the weakest proposals and prospects would withdraw first. The screening techniques include three steps.

**Table 3: Pre-entry Screening Activities**

	Information Session	Pre Entry Counselling/ Training
Australia	Interview	Business training
Canada	One-day Info Session	Counselling for self-assessment and business plan development
Denmark	Interview	None offered
France	Interview	None offered
Germany	Interview	None offered
Ireland	Interview	10 wk business training
Netherlands	Interview	None offered
United Kingdom	One-day Info Session	2-5 day training
United States	1 to 1 1/2 hr Info Session	None offered

\* In January 1994, the Ministry of Industry will be responsible for screening the enterprise proposals.

**The Application.** In a number of countries --Canada, the U.K. and the U.S.-- attendance at an information or orientation seminar is mandatory before obtaining the application. Other countries conduct interviews. After these steps are completed, the applicant can pursue the application or withdraw. Program officials in most of the countries studies indicated that these low cost screening methods lead a significant number of individuals to drop out at this stage. The U.K. estimates that just

over half the potential applicants pursue a place in the program after an information seminar designed to make them aware of the requirements for program participation and self-employment (IFF Research 1992).

In the U.S., members of the target group were invited in the demonstration project to an information session and were then asked to provide detailed information in their application. Just under eight percent of the target population attended the information meeting, and only 60 percent of those chose to submit a project application. The application form was designed to lead the applicant through a self-assessment and demonstrate to the authorities the validity of the enterprise proposal.

Pre-entry Advisory and Counselling Services. Four of the nine countries studied use pre-entry business advisory services or counselling to improve the applicant's entrepreneurial skills and the quality of the business plan. The pre-entry training is most extensive in Ireland with applicants required to complete successfully a 10-week training course designed to assist the applicant in producing a detailed business plan. In Australia where pre-entry training is required in most States, participants who take the training on a full-time basis are eligible for a training allowance. The training usually last five to seven weeks.

In Canada, pre-entry business counselling has become an important program feature since 1992, when the self-employment program underwent reform. Participants in Canada are currently required to undergo a self-assessment with the assistance of a business counselor. The objective of the counselling sessions is to lead the applicant through a self-screening process, and should the applicant choose to continue, to identify future training needs. A quarter of the applicants in the U.K. drop out in response to compulsory pre-entry training of about four days. This training is part of pre-entry services in the Business Start-Up Scheme. The services, provided by local bodies called Training Enterprise Councils, are intended to help applicants prepare a business plan.

Review of the Business Plan. This review is typically undertaken at the local level by a committee from the private and public sectors. The review may be limited to assessing whether the business plan is coherent and the applicant are well prepared. Alternatively, the review may be more rigorous and attempt to pick proposals with the highest likelihood of success. Four of the nine countries conducted reviews of the latter type as found in Table 4. In France, proposals were not given a final screening at all until 1987, when concerns for the misuse of funds arose. Now, approximately 15 percent of the applicants are rejected at this stage due to inadequate enterprise proposals.

Germany at this stage attempts to pick proposals with a high likelihood of success. Applicants for the Überbrückungsgeld are required to have their proposals certified by a body such as the Chamber of Industry and Commerce or a tax lawyer. Another example of extensive screening is in the Netherlands. Here an applicant must not only prepare a business plan, but a feasibility study is also carried out by a semi-public organization. The study and plan are then reviewed and a decision is taken by a board of experts made up of government and private sector individuals who advise the municipal government whether or not to admit the applicant into the program.

**Table 4: Final Selection Procedures**

	Business Plan Compulsory	Selection Based on Likelihood of Success
Australia	Yes	Yes
Canada	Yes	No
Denmark	No	No
France	No	No
Germany	Yes	Yes
Ireland	Yes	No
Netherlands	Yes	Yes
United Kingdom	Yes	Yes
United States	No	No

### **Delivery of Services**

The specialized business experience that is useful in screening applicants for self-employment assistance and delivering services is often not available in Ministries of Labor. Consequently, most of the programs studied have contracted with the private sector for this experience. In 1991, the U.K. Department of Employment transferred the delivery of its training and business assistance schemes to newly created limited companies called Training and Enterprise Councils (TECs). Funded by the public sector, two-thirds of the membership of TEC boards is made up of senior executives from private sector firms with the remainder drawn from trade unions, education, economic development and voluntary organizations. See Table 7.

The TECs are given considerable flexibility in designing self-employment programs (Marquand and Murphy 1990). The purpose is improve the delivery of training and enterprise assistance by making it more relevant to local market needs. There is a calculated risk in devolving decision-making to the private sector, which makes monitoring and evaluation all the more important. Evaluation takes place at three levels. At the national level, the Department of Employment monitors to see that national standards are maintained by TECs. At the regional level, the Department of Employment evaluates local TECs when negotiating their contracts compares them with other training providers. And locally, TECs are responsible for self-evaluations.

Canada's Self-Employment Assistance Component (SEAC) relies heavily on a public-private organization created expressly to deliver a portion of the Ministry of Labor's labor market programs. The SEAC is delivered by Business Development Centers with funding from the national government. The Centers are responsible for advertising the program, conducting orientation seminars, providing pre- and post-entry training and monitoring participants. In the case of the U.K. and Canada, new private sector organizations have been created to support the delivery of self-employment assistance. Other countries in the study have used existing private organizations.

In 1990, Australia approved the use of private sector organizations to replace the public sector in the delivery of its New Enterprise Incentive Scheme. By 1993, nearly 90 percent of the participant slots were being filled by the new "managing agent" arrangements. States varied in their implementation of this change. In New South Wales an existing network of Business Enterprise Centers was used to provide services. In other States, private organizations with business advisory experience were invited to apply as managing agents. Local committees with membership from local labor offices and the business community were used to select these agents.

The U.S. Department of Labor in its Washington State Self-Employment Program demonstration project took a different approach to the delivery of services. Local labor office responsibilities for the program were kept to a minimum, primarily conducting an orientation session and performing day-to-day management and monitoring operations. To obtain additional staff with the experience to provide business development training, a cooperative agreement was established between the Washington Employment Service and the Business Assistance Center (BAC), a division of the Washington State Department of Trade and Economic Development. Local labor offices recruited participants, conducted orientation sessions, and reviewed applications. Once participants were assigned to the demonstration group, BAC staff provided self-employment training.

### **Participant Monitoring**

In addition to monitoring and evaluation of service delivery, countries also monitored participants to ensure they were fulfilling program objectives and remaining eligible for benefits. Monitoring techniques vary from a simple telephone call to in-person visits or written reports. This monitoring was also used to identify needs for further counselling and training assistance. Denmark and France have relatively light monitoring systems. Participants are asked to declare their self-employment status each month before an allowance is paid. Their enterprise must be officially registered.

In Australia, participants are required to complete and file quarterly progress reports under the New Enterprise Incentive Scheme. There have been criticisms of this procedure, however, where evidence has shown participants continuing to receive income support payments under the program after ceasing to operate their business. One State has responded to this criticism by turning over monitoring responsibility to the private sector organization contracted to deliver the program (Johnstone 1993). Also, in all States, regular mentor visits are now undertaken and participants are required by contract to notify the governments of changes affecting their program eligibility.

Responsibility for monitoring participants in Canada is split between the Ministry of Labor which pays the program allowance and the private sector agent who delivers pre- and post-entry advisory services. The Ministry monitors participants eligibility status ensuring they are working in the business full-time. The private sector agent monitors the progress of the business. In some cases, the Ministry has also shifted its responsibility for monitoring program eligibility to the private sector agent. In the U.K., most of the public-private Training Enterprise Councils delivering services carry out mandatory visits with participants usually in the 13th, 26th, and 52nd week of the program, however they are not compelled to do so.

In the Washington State demonstration project in the U.S., participants must fulfill a number of conditions before they are eligible to receive a lump-sum payment. These conditions included: completion of post-entry training, development of an acceptable business plan, establishing a business bank account, and obtaining necessary licenses and financing. Progress toward these conditions is

monitored during the 10th week of the program and a decision is made whether to extend participation in the program. If the extension is not offered, the unemployed claimant reverts back into the unemployment insurance program and must satisfy its job search and availability requirements to continue receiving unemployment benefits. In Massachusetts, participants must attend seven mandatory workshops and declare their status biweekly before a stipend is paid.

### **Program Benefits**

Countries must walk a fine line between offering the services needed to create a successful new enterprise and offering services and benefits that raise costs unreasonably and attract the unemployed away from other less costly forms of employment assistance. In all the countries studied, self-employment assistance is provided in lieu of unemployment benefits. That is, a participant in a self-employment program does not continue to collect unemployment benefits, although program allowances may equal or even exceed these benefits. The structure of financial benefits in self-employment programs varies from country to country. Some offer a lump-sum payment, others offer a weekly allowance, and still others provide a mixture of both.

Periodic Allowances. Financial assistance is delivered either as a periodic allowance or as a lump-sum (often referred to as capitalized unemployment benefits). Most countries, six out of nine in the sample studied, have chosen periodic allowances. The duration of the allowance varies greatly. The shortest is Germany and the U.S. (Massachusetts Enterprise Project) where payments are made for less than 26 weeks. Ireland offers 40 weeks of payments, while Australia, Canada, and the Netherlands extend allowances up to one year. The Netherlands may restrict payments to six months if the business is running successfully. The Danish program offers the most liberal allowances extending payments up to 180 weeks, or 3.5 years.

The periodic allowances offered for self-employment in each country case are closely linked to the benefits of income support programs available to the participant from unemployment insurance and means-tested assistance. The basis for these allowances is shown in Table 5. The U.S. (Massachusetts), Australia, and Germany provide periodic allowances for self-employment that equal payments under unemployment insurance. In Canada, periodic allowances are equal to the unemployment benefit, the means-tested benefit, or a basic allowance, whichever is the larger. Denmark offers self-employment allowances that are only 50 percent of the maximum unemployment insurance benefit, but pay the allowance 12 months longer than the unemployment benefit.

In the Netherlands, the periodic allowance is unrelated to alternative sources of incomes support and is instead roughly equal to the minimum wage. Since unemployment benefits are typically more generous than the minimum wage, this could create a disincentive to participate in self-employment programs.

Lump-sum Payments. Lump-sum payments are offered as a means to provide participants with a source of capital to invest in the business. Payment of these sums up front can make self-employment programs more attractive to the unemployed and expand the number of applicants, putting more pressure on screening mechanisms. The lump-sum, however, is important where the lack of seed capital is an obstacle to the potential entrepreneur. Three of the nine countries studied offer lump-sum payments.

**Table 5: Terms and Conditions of Financial Benefits Paid to Participants of Self-Employment Programs**

	Type	Term	Basis of Financial Benefit
Australia	periodic	52 wks	Means tested unemployment benefit
Canada	periodic	52	Equal to UI (or social welfare benefit)
Denmark	periodic	180	50% of the maximum UI
France	lump-sum only	..	Unemployment benefit category
Germany	periodic	13	Equal to UI payment
Ireland	periodic	40	Means tested benefit
Netherlands	periodic	52	Equal to minimum wage
UK	periodic, lump sum	26-66	Differential payment schemes based on enterprise proposal
US (Washington)	periodic, lump sum	26	Equal to UI payment
US (Massachusetts)	periodic	24	Equal to UI payment

To reduce the incentive for abuse of lump-sum payments, the ACCRE program in France demands that participants operate their enterprise for at least 341 days or they must repay the lump-sum grant. Enforcement of this provision, however, has proven difficult and increased screening procedures were introduced in 1987 to identify applicants who were not likely to create an enterprise with the lump-sum payment, or who would operate the enterprise for only a short period. Calculation of the lump-sum in France, like periodic allowances elsewhere, is linked to unemployment benefits.

The U.K. has the most complex scheme for allowances. Both periodic and lump-sum payments are available. Local TECs can pay lump-sums at the end of the allowance period or spread the payments out over several months. Only 26 percent of the TECs have chosen to pay lump-sums. The amounts (periodic or lump-sum) paid can vary from region to region based largely on the type of business created and the needs of the new entrepreneur as described in the business plan. Payments for self-employment assistance can differ greatly from unemployment benefits. Differential payment schemes are common among TECs in the predominantly manufacturing or Northern areas (IFF Research 1992). This has placed pressure on local authorities to have a sufficient knowledge of proposed enterprises and has drawn more attention to the completion of a business plan.

The Washington State demonstration program in the U.S. offers a lump-sum payment to participants. The lump-sum is paid only after five milestones have been achieved. These milestones include the completion of post-entry training, development of the business plan, setting up a bank account, securing the necessary licenses, and obtaining the financing required. While these milestones are being achieved, the participant is paid a periodic payment equal to his unemployment benefits. Once all five milestones have been achieved the periodic payments are subtracted from the maximum benefit available to the claimant and the balance is paid as a lump-sum. This produces an incentive to accomplish the five milestones quickly.

Other Financial Incentives. Other financial benefits may be offered to self-employment program participants. France offers its participants an exemption from social contributions for six months. Germany provides participants with an additional one-third of their self-employment allowance to cover social security costs. In Canada, supplementary allowances are provided to assist with the cost for dependent care, travel, living away from home, commuting and disability. Of the nine countries studied, only the Netherlands offers access to credit. Australia formerly offered NEIS participants access to a state-run loan program, but poor pay-back rates led to its discontinuance. None of these countries suffer from serious capital market deficiencies.

Connection with Income Support Programs. As described above, the self-employed receive financial allowances in lieu of unemployment benefits. Perverse incentives may arise, however, in the connection between self-employment and income support programs. First the possibility exists in some cases to use self-employment to extend the unemployment benefit period. Second, the ineligibility of the self-employed for unemployment benefits in most countries provides a disincentive for participation in self-employment programs.

The unemployed in Canada are eligible for 52 weeks of unemployment benefits. A claimant can apply for the Self-Employment Assistance Component in the 46th week (assuming a six week period to process the application) and be admitted into the program during the 52nd week, and thereby extend benefits for a second year. The U.S. made this impossible in its two demonstration programs. At the outset, unemployed claimants were forced to choose between receiving unemployment benefits or entering the self-employment program.

In Denmark where the unemployed must wait five months to apply for self-employment assistance, participants are given an incentive to act quickly after this point. The longer they remain unemployed after five months, the shorter is the duration of their self-employment allowance. In France, claimants also have an incentive to apply early for acceptance in the self-employment program. The failure to do so results in a reduction of the lump-sum payment offered. None of the remaining countries provide similar incentives for early application to self-employment assistance.

Most countries do not permit the self-employed to participate in an unemployment insurance program. The failure of a new business will result in no access to unemployment benefits, which may discourage would-be entrepreneurs. The self-employed in Germany, France, and the Netherlands are ineligible for unemployment benefits, although they may collect less generous means-tested assistance. In the U.S. an owner may incorporate, pay unemployment taxes, and collect unemployment benefits if the business fails. The cost of incorporating is small. Only in Denmark are the self-employed allowed to participate in the unemployment insurance program.

**Post-Entry Business Advisory Services.** In an effort to increase the survival rate of new businesses, business advisory services offering training and counselling have become a common feature in many programs. The role of pre-entry training and counselling, as explained above, has been used to train, but also to screen applicants. Post-entry business advisory services, on the other hand, provide training, but also help monitor the development of newly created businesses and help them over rough spots. Table 6 describes the program treatment of post-entry business training and counselling services.

**Table 6: Treatment of Post-Entry Business Advisory Services**

	Post-entry Training	Post-entry Business Counselling
Australia	Voluntary	Available for up to 12 months
Canada	Compulsory	Compulsory with voluntary follow-up
Denmark	Participants are informed about programs offered by local enterprise councils.	
France	Compulsory	Vouchers with a shelf life of 18 months
Germany	Participants are informed about programs provided by other Ministries.	
Ireland	May be compulsory	Enterprise workshops; access to IDA
Netherlands	Participants are informed about programs provided by other Ministries.	
United Kingdom	Rarely compulsory	May be compulsory
United States (Wash.)	Compulsory	Optional
United States (Mass.)	Compulsory	First session is compulsory

A 1993 survey of managing agents for the NEIS program taken by the Australian Department of Employment, Education and Training stressed the value of post-entry training for participants who lacked the experience to value pre-entry training. The Australian scheme offers business counselling to participants for up to one year after start-up. Similarly, in Canada participants are eligible for business counselling and guidance after exiting the program. Ireland requires its Enterprise participants to undergo post-entry training only if this training is identified as a need during the 10-week pre-entry training. It also offers short-term training (Enterprise workshops) and access to business assistance from other public agencies during the first year of operation for the new business.

Post-entry training is generally available throughout the U.K., although it is rarely compulsory. Counselling, however, is often made compulsory as a condition for continuing to receive



the self-employment allowance and accompanies a monitoring visit. Counselling is also available to participants after they leave the scheme, if they require it. In the U.S., business training was an important post-entry component of the two demonstration programs. The Washington program made payment of the lump-sum conditional on participation in this training. Optional business counselling was available as was participation in Entrepreneur club meetings. In Massachusetts, counselling was also provided during the first compulsory session (US Department of Labor 1992). Thereafter, further counselling sessions were voluntary.

Denmark and France rely on markets for business advisory services and limit their role to the financing of these services. Beginning January 1, 1994, participants in Denmark's Enterprise Allowance Scheme receive a Ministry of Industry grant valued at approximately U.S.\$3,000 for a period up to two years to purchase business advisory services in the open market. France offers participants the option of purchasing a booklet of vouchers. A compulsory three-day business course is included. Each booklet contains 15 vouchers that can be exchanged for one hour of legal, accounting, and other business services valued at approximately U.S.\$60 per hour. The participant pays one-quarter of the cost and the ACCRE program pays the remainder.

**Table 7: Sources of Pre-Entry and Post-Entry Business Advisory Services**

	Pre-entry	Post-Entry
Australia	Managing Agent (90%)	Managing Agent
Canada	Business Development Center	Business Development Center
France	Local labor office and private-public committee	Private sector through vouchers
Ireland	Local Labor Office	Local Labor Office
UK	TEC	TEC and private contractors
US (Washington)	Local labor office	Private sector consultants
US (Massachusetts)	Local labor office and private-public committee	Private sector consultants

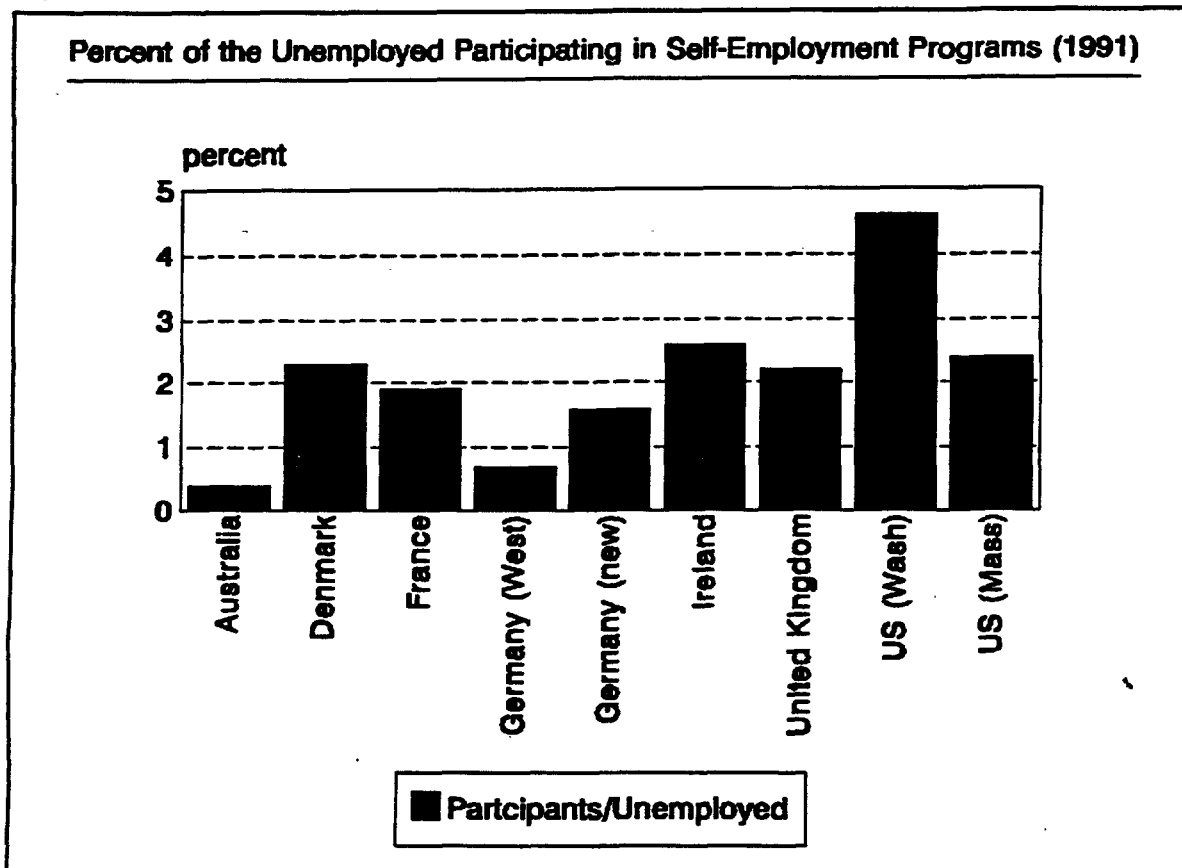
The delivery of these services, like those for pre-entry components, follows a mixed model of public and private activity. Table 7 summarizes the agents responsible for delivery of pre-entry and post-entry business advisory services.

### **Program Outcomes**

The nine OECD countries participating in the study have provided a wide array of data for evaluating program outcomes, and in a number of cases, independent evaluation studies. The data, however, are not collected in a uniform manner for comparative analysis and may differ in terms of the population represented and the definition of concepts used. The findings are nevertheless remarkably robust. The study sets out to examine four program outcomes. These outcomes include: (i) the take-up

or participation rate in self-employment programs by the unemployed; (ii) the survival rate of new business after a period of time; (iii) the number of new business start-ups that would have happened without the program, the so-called *deadweight effect*; and (iv) the participant cost of self-employment assistance.

Figure 2



**Participation.** The number of participants as a percentage of the unemployed is presented in Figure 2. In all cases except the U.S. demonstration projects, the use of registered unemployment produces a downward bias in the percent of participants. This is because the registered unemployed include new labor force entrants and re-entrants who are not eligible for unemployment benefits, and therefore, ineligible for participation in self-employment programs. This aside, the numbers are remarkably consistent and produce the conclusion that self-employment is not a panacea for unemployment. Except for Washington State (where approximately 4.5 percent participated in the program), less than three percent of unemployed workers chose and qualified for participation in a self-employment assistance program.

These rates, however, are a function of the size of program budgets and the rigor of the screening mechanisms. In the Business Start-Up Scheme of the U.K., about half of the regions reported that the demand for self-employment assistance in 1992 exceeded the number of budgeted places (IFF Research 1992). In France, prior to 1984, the ACCRE budget was fixed. When the program was initially transformed into an entitlement program, the number of participants doubled from 35,000 to

70,000. When screening procedures were introduced in 1987, participants fell nearly 10 percent from 1986 to 1987, from 71,000 to 64,000. Even so, France with the widest target group and lightest screening exhibits a participation rate of less than two percent.

Budgets are not a limiting factor in the Netherlands or Germany, but the screening procedures are more stringent and produce a relatively small number of participants. In Germany, it is particularly interesting to compare participation rates in the western and eastern länder. The latter may be viewed as an indicator of the potential for self-employment in transitional economies where private sector employment has not been a tradition. The ratio of participants to the unemployed in the west länder is half that in the east länder, but even in this case, the rate is well under two percent. The lower rate in the west may be attributable to the difficulty of starting a new business in the Handwerk or crafts sector (Meager and other 1992). The latter requires the owner to be a Meister or to employ one, which poses considerable cost on the enterprise. While being gradually extended to the new länder, this regulation is not yet fully enforced.

Participants of self-employment programs tend to be well-educated, more qualified, and unemployed for shorter periods. They are also predominantly male. In France, for example, only 20 percent of the participants are women even though they account for more than half the unemployed. Aucouturier and Daniel (1993) state that women participate less in the program because with lower qualifications, the types of businesses they can create are far more limited (Aucouturier and Daniel 1993). Meager (1993) argues that the design of the German scheme discriminates against women since it specifies the business must generate a minimum income. Since women are more likely to enter low income, service activities this contributes to their under-representation in self-employment.

In Australia, a survey of program participants in 1991 follows the same pattern of better qualified, higher educated males participating in self-employment programs. New initiatives are being taken by managing agents to develop a specific client group focus providing assistance for people with disabilities, women, and migrants. Information is not yet available to judge the impact of these initiatives on participant characteristics (Johnstone 1993).

There is only limited evidence of the impact of lump-sum payments on participation rates. The only evidence offered is from the two U.S. demonstration projects. The participation rate in Washington State which offered the lump-sum is almost twice that of the allowance-based scheme in Massachusetts. There is some evidence that lump-sum payments can influence the capital intensity of new business start-ups.

Aucouturier and others (1993) show how participants in the French scheme who receive lump-sum payments are over-represented in more capital-intensive production activities. The two U.S. demonstration projects also support the theory that lump-sum schemes foster the development of manufacturing. Twenty percent of Washington State participants are involved in manufacturing compared with fourteen percent in Massachusetts. By comparison, in the U.K. the allowance-based scheme has an over-representation of small-scale service activities (Meager 1993).

Survival Rates. Having assisted the unemployed in becoming self-employed, several questions arise. First, how long do the unemployed survive in business and what effect does the assistance have on their subsequent employment status? Small businesses are known to have a high failure rate. The question is can assistance from self-employment programs influence this rate? Second, are some program features more effective than others in extending survival rates? And finally, do the

self-employed generate additional employment for others? Most of the countries in the sample have tried to address these issues. The definition of survival used here includes those who are continuously self-employed, whether or not in the same business. The survival rates produced probably over-estimate actual survival rates since they treat non-respondents as having the same survival rates as respondents.

**Table 8: Survival Rates for Participants of Self Employment Programs**

	Intake Year	Months Since Leaving Program	Survival Rate
Australia	1990	12 months	54%
Denmark <sup>a</sup>	1989	12	40
France	1986	54	51
Netherlands	1985	36	52
UK	1991	7 <sup>b</sup>	71
US (Washington)	1990	15	63
US (Massachusetts)	1990-92	13	77

- a: This estimate is based on an extrapolation of register and survey data of participants having been in the program for 2 years.
- b: The number of weeks that a participant can spend in the program varies. 48.4 weeks was the mean number of weeks that the participants were on the scheme. The survey was conducted approximately 18 months after starting the program which can run for 26-66 weeks.

The amount of time elapsed from when a participant exits a self-employment program and when survival rates are calculated varies among countries in the sample as observed in Table 8. The survival rate for the U.K. program, for example, is based on a survey taken 18 months after participants have begun the program which can last from 26 up to 66 weeks, therefore approximately seven months, on average, after they have exited the program. In contrast, the French ACCRE survival rate is based on a 1991 survey of 1986 participants. This is particularly important since most business failures occur within the first couple of years after which the failure rate stabilizes. Significantly, Denmark and France with their light screening of participants exhibit the lowest program survival rates. The attrition of new businesses is high with approximately one of every two failing during the first year of operation.

The question emerges as to whether these rates are any better or worse than those of new business start-ups not participating in self-employment programs. In France, the survival rates of the ACCRE participants are lower than those of the self-employed not receiving ACCRE assistance. However, ACCRE enterprises tend to have a smaller capital base and the participants possess cultural, professional, and social backgrounds that are perceived to be less-oriented toward enterprise creation (Aucouturier and other 1993). A similar conclusion is reached for the Danish program in a comparison of participants and non-participants (Rosdahl 1993). In the Netherlands, the Central Statistics Bureau in a study of businesses established in the last quarter of 1985 reported 67% still in existence after 38

months (Netherlands Ministry for Social Affairs and Employment 1990, p.2). This exceeds the estimated survival rate of 52 percent for Bz Scheme participants.

The age of the entrepreneur and sector of the economy in which a business is established seem to influence survival rates. In the U.K., survivors of the Business Start-Up Scheme tended to be males, 35 years of age and older. The latter is not surprising though since most of the participants are male and their average age is 38. The U.S. demonstrations offer no evidence distinguishing survivors from non-survivors. In Denmark, however, Rosdahl (1993) undertook a study of factors influencing survival in the Enterprise Allowance Scheme. He found that the age of the participant was significant, with persons under the age of 35 have a lower probability of survival. Another significant factor was the sector of the economy in which the business was established. Trade, where competition is high and entry and exit are easy, exhibited the lowest survival rates. Other factors found to be important to survival were the size of the capital base and the use of an accountant, but not the taking of business courses.

Some entrepreneurs may voluntarily return to wage and salary employment or possibly sell the business. In the U.K., a recent evaluation of non-survivors of self-employment assistance programs found that 27 percent had full-time jobs, 8 percent had part-time jobs, and a further 2 percent said their business was being operated by someone else (Tremlett 1993). When the percentage of participants engaged in either self-employment or wage and salary work is measured in follow-up surveys, approximately eight out of ten are found in one or the other type of employment (see Table 9). The U.S. demonstration projects provide an interesting comparison of the employment status of program participants and non-participants. Participants in these projects received support for self-employment, while non-participants remained in the unemployment insurance scheme. A higher percentage of participants were employed in both demonstration projects than non-participants (shown in parenthesis in Table 9).

**Table 9: Percentage of Program Participants Either Self-Employed or Employed**

	Intake Year	Months Since Leaving the Program	In Employment
Australia	1990	12 months	63 %
US (Washington)	1989-90	15	73.6 (68.3)
US (Massachusetts)	1990-92	13	79.7 (63.6)
UK	1991	7	81
Germany	1986-88	24	90

There is evidence that increased screening of program participants weeds out those most likely to fail, but that program assistance such as business advisory services has no measureable impact on survival rates in the short term. The attraction of this assistance, however, may increase program participation rates. There are many factors influencing survival rates and it is difficult to sort out the influence of any single factor. The U.K. self-employment program underwent changes in 1991 that led

to a tighter screening of participants. The Australian NEIS program did likewise. Subsequently, as shown in Table 10, both experienced higher survival rates with the tighter screening of participants.

Comparison of survival rates between program participants and non-participants in the two U.S. demonstration projects do not reveal any difference in these rates to attribute to participants' access to business advisory services in the short term. Survival rates collected during the 18 month follow-up survey showed that those receiving business advisory services were no better than those in the control group who did not receive the business training and counselling. The numbers of self-employed in the treatment groups were much higher, however, suggesting that access to these services increased self-employment rates (Benus and others, 1993). However, early results from the final follow-up survey suggest significantly higher survival rates for those receiving the business advisory services (Benus and others, forthcoming).

**Table 10: Survival Rates Before and After Increased Screening**

Survey	Time Since Exit	Survival Rate (%)
<b>Before</b>		
UK (1987)	6 months	68
Australia (1989)	12	43
<b>After</b>		
UK (1991)	7	73
Australia (1990)	12	54

As an employment generation strategy, self-employment does not contain a large multiplier effect in which the self-employed hire large numbers of additional workers. As seen in Table 11, only about 10 percent of the self-employed in Australia's NEIS program after 12 months had hired full-time workers. Another 12 percent had hired part-time workers. The U.K.'s experience was similar to this. In France, after four years 29 percent of the self-employed had hired additional full-time and part-time workers. The multiplier effect in these cases is about one-half job for each self-employed survivor. Low hiring rates are the pattern of self-employment in most OECD countries (OECD 1992).

**Table 11: Secondary Job Creation by the Self-Employed**

Survey	1. Employing Enterprises		2. Jobs Created (per 100 survivors)
	Full time	Part time	
Australia 1991 (12 month)	9.8 %	12.4 %	50 (20 + 30)
France 1986 (54 months)		29	45
UK 1991 (18 month)	9	9	37 (18 + 19)

**Deadweight Effect**

Deadweight is a measure of the proportion of program participants who would have become self-employed without the existence of self-employment assistance. The larger the deadweight, the smaller the program's net employment effect. Deadweight effects in most of the countries in the sample were measured by asking participants what they would have done had the self-employment program not been available to them. The U.S. demonstration projects provided a more rigorous measure by comparing the percentage of non-participants and participants starting a business. About one of every four new businesses started in the U.S. demonstration projects by participants would have been started even if the program had not been available (Benus and others, 1993). The estimate of deadweight is higher in other countries.

Attractive program benefits and tight screening may increase deadweight. The high deadweight estimate for Denmark in Table 12 can be speculated as coming from the prospect of a program allowance that extends to 3.5 years. This could attract persons who plan to start a small business into first qualifying for the program to receive these benefits. The reason for the high deadweight estimate in France is less clear. In the U.K., analysts have remarked that "...everything the TECs say about wishing to improve the standard of applicants and increase survival rates would lead one to expect an increase in the proportion of deadweight applicants over time." (IFF Research 1992, p.22). While the evidence is unclear, the suggestion is that a tradeoff exists between improving survival rates through better screening and lowering deadweight effects.

**Table 12: Deadweight Estimates for Self-Employment Programs**

Australia	39 %
Denmark	56 <sup>a</sup>
France	60
United Kingdom	42
US (Washington)	26.6
US (Massachusetts)	28.6

a. 27 % said they would "definitely have started" and 29 % said that they "might have started".

## Costs

The study asked countries for expenditures on self-employment assistance. A comparison of these expenditures, however, bears some qualification. Countries have not included the cost of program administration except in cases like Australia where these costs have been contracted out. Beyond this, the expenditures per participant in Table 13 reflect differences in allowances based on the generosity of unemployment insurance programs and the level of business advisory services provided. If the unemployment insurance system offers a lengthy period of benefits, for example, as in Denmark, the program costs are high even though this program offers no business advisory services. Expenditures per participant, expressed in U.S. dollars, vary from a low of \$1,834 per participant in Germany's east l nder to a high of \$18,993 in the Netherlands, where the latter includes small business loans.

**Table 13: Self-Employment Program Expenditure per Participant Year**

	Year	Benefit Term (wks)	Cost/participants (1990 USD)
Australia	1991	52	10,700 <sup>a</sup>
Canada	1989	40	7,800 <sup>a</sup>
Denmark	1992	180	13,500
France	1992	..	4,400
Germany (west)	1992	13	2,000
Germany (new)	1992	13	1,800
Ireland	1992	40	6,600
Netherlands	1992	40	19,000 <sup>b</sup>
UK	1991	26-66	3,300
US (Washington)	89-90	26	5,400
US (Massachusetts)	90-92	24	6,700

a - Cost figures exclude administration costs except in Canada and Australia.

b - includes small enterprise loans.

The U.S. demonstration projects suggest that lump-sum payment programs produce higher expenditures per participant than periodic allowance programs. Even though the maximum benefit available to both groups was the same, the Washington State program paid program participants an average of \$1,100 more than was paid to control group members through unemployment insurance payments. By comparison, in the Massachusetts program, self-employment participants were paid, on average, \$550 less than unemployment beneficiaries. This added cost has to be weighed against measures of the program's effectiveness.



## Self-Employment and Microenterprise Programs in Poland and Hungary

Some of the lessons drawn from OECD experience are also evident in case studies of self-employment assistance offered by Ministries of Labor in Poland and Hungary. When the present value of self-employment assistance is greater than that of alternative income support and employment assistance programs, this can increase the participation rate of self-employment assistance and its cost without necessarily generating favorable program outcomes. The resulting increase in the demand for self-employment assistance make screening mechanisms and participant monitoring all the more important as means to control program costs. There are differences in transitional economies, however, that must be considered in program design when compared with OECD countries. The absence of well-developed capital markets offering credit to small businesses is important as is the lack of a well-developed private sector providing the specialized business experience not found in Ministries of Labor.

In Poland and Hungary, Ministries of Labor were actively involved in providing self-employment assistance to the unemployed as the transition to market economies began in the late 1980s. Subsequently, in Hungary, the Ministry of Labor (MOL) has backed away from much of its support for self-employment and has left the gap to be filled by others, including the Ministry of Industry and Trade. While in Poland, the Ministry of Labor and Social Policy (MOLSP) continues to support self-employment, and plans to extend its activities with assistance from a World Bank loan. The MOL's decision in Hungary appears to be linked to the cost of its highly subsidized credit component and the failure to introduce appropriate screening instruments to control program cost. Neither country offers the study the data needed for a rigorous assessment of program outcomes in relation to costs, which in itself is an important lesson.

### **Poland**

The private sector has been a constant, if small part of the Polish economy since World War II. Private entrepreneurs and small workshops were tolerated to the extent they provided goods and services to the state sector. The private sector was regulated and taxed through this period. Governments have liberalized and alternatively restricted private activity to suit the conditions of the time. In 1989, Polish reformers succeeded in passing the "Law on Economic Activity," which promoted private sector development by removing restrictions on the activities and numbers of employees permitted in private firms, and loosening license and registration requirements. By the end of the year, over 800,000 persons had established sole proprietorships and more than 16,000 new companies were registered (Webster 1992a).

Alongside support for self-employment for the unemployed provided by the MOLSP, the Ministry of Industry and Trade (MIT) held responsibility for small enterprise development until 1992, when a new Ministry of Enterprise Development was created. This Ministry grew out of the Office of Entrepreneurship Promotion and the Department of Small and Medium-Sized Enterprises in the MIT. The responsibility of the new Ministry was to play an advocacy role for the development of small businesses. Its life, however, was short-lived. With the change in government in 1993, the Ministry of Enterprise Development was reinstated as a Department of the MIT.

Donor organizations are beginning to play a key role in financing and technical assistance for small and medium-sized enterprises. The Cooperation Fund was established by the Government to stimulate and support activities and initiatives aimed at facilitating democratic change, ownership transformation, and economic development. The Fund currently administers two small enterprise

development programs, which are being financed by the European Commission's PHARE program: the Small and Medium Enterprises Sector Import and Support Program (ECU 6 million) and the Private Sector Development Program (ECU 6 million). The Structural Development in Selected Regions (STRUDER) program, also supported by the EC PHARE with a fund of ECU 76 million and managed by the Polish Agency for Regional Development, is designed to aid the development of small and medium-sized private enterprises and contribute to local infrastructure and training of human resources.

Access to credit has been a key feature of government and donor policies for small and medium-sized enterprises. Table 14 describes the activities of three of the major sources of small enterprise credit in Poland: the Polish Development Bank (PDB), the Enterprise Credit Corporation (ECC) launched by the Polish American Enterprise Fund, and the Bank for Socio-Economic Initiatives (BISE) established in July 1990 by the MOLSP in cooperation with France's Bank Caisse Central de Credit Cooperatif. When the size of the average loan made by these institutions is examined in Table 14, it becomes clear that these institutions are serving larger enterprises than those that might be created by the unemployed. The MOLSP has stepped into this gap with its Loans for Individual Economic Activity, *Pozyczki no Indywidualna Dzialalnosc Gospodaroza* (PNIDZ) Program.

**Table 14: Summary Characteristics of Loans for Small and Medium-Sized Companies from Major Loan Programs (1992)**

	PDB (SME Dept.)	BISE	PAEF (ECC)
Total Amount Lent (USD)	23,190,000	7,768,000	24 640 000
Number of Loans	34	191	912
Average Loan (USD)	682,000	40,700	27 000
Average Terms	42 months	24-36 months	30 months
Collateral	150-200 %	150-200 %	140 %
Interest Rates	market	market	below mkt

Average exchange rate (market rate rf) for 1992: Zl 13626. Source:IMF (1993), International Financial Statistics, Washington, D.C. p.436.

Target Population. The PNIDZ Program, like its OECD counterparts, is not an entitlement program. The numbers supported are constrained by the size of the program budget, which is drawn from the MOLSP's Labor Fund. An individual must be either unemployed or have received notice by his employer of a pending layoff. Those who have exhausted their unemployment benefits are not eligible for the program, although another loan scheme is available to them through social welfare

assistance.<sup>3</sup> The combined target populations of the two MOLSP programs makes the number of those eligible for self-employment assistance large. There is no further restriction on the target population related to the length of unemployment.

Screening the Population. Potential participants must first be interviewed by a local labor office representative. The individual is questioned regarding his work experience and idea for an enterprise. If the responses are considered satisfactory, the applicant is given an application that asks further questions about the type of enterprise that will be created, the financial plan, the size of loan requested, and how the loan will be used. With the exception of the labor office representative's judgement in releasing the application, the demand for information in the application is similar to the self-screening techniques used in OECD self-employment programs.

Applications when completed are reviewed by the local labor office of the MOLSP. The program requires that the applicant receive a response within 30 days. The private sector is used in screening applications. After the local labor offices screen the applications to ensure all the information has been supplied, the applications are passed to Local Labor Councils, private-public bodies created by the MOLSP for this purpose. The screening at this point is based on elements of a business plan contained in the application. Some local labor offices have introduced other screening criteria. Priority may be given, for example, to the current unemployed over the prospective unemployed and some offices refuse applications involved in "petty" trade based on their high failure rate.

In 1991, compulsory pre-entry business training was introduced for participants passing the first screen of the Local Labor Councils. Each of the 300 local labor offices negotiates a business advisory services contract in its local area. The quality varies. In a city like Warsaw, there are a number of private sector business advisory services to use, whereas in more remote areas the choices are more limited. The length and content of training will vary from region to region in this heavily decentralized system. In a city like Lodz the training may last one week, but in Warsaw it may extend up to four weeks. Applicants must successfully complete the business advisory course to be admitted to the PNIDZ Program.

Delivery of Services. For applicants admitted to the PNIDZ Program, services are provided directly by local labor offices. Private intermediaries are not used as in OECD countries. The MOLSP through its local labor offices both finance and deliver self-employment assistance. The contract is signed with these offices and the loan is paid, frequently in cash, by these offices. Local labor offices are also responsible for monitoring loan repayments. Should the recipient be late in his payment or default, the local labor offices contacts the applicant and, if necessary, pursues the matter through the courts. This places a burden on the staff of these offices who in many instances are not trained for this activity and whose time must be taken from other labor exchange functions.

The MOLSP is taking steps to address this problem by financing the development of private sector organizations to deliver pre- and post-entry business advisory services. As an example, the Foundation for Socio-Economic Initiatives (FISE) has received a grant from the MOLSP to provide

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<sup>3</sup> One of the programs administered by the MOLSP's Social Policy arm is the Social Welfare Loans for Individual Economic Activity (*Rozwoj Malej Przedsebiornosci*). The program provides loans and business counselling to participants wishing to start new businesses. The maximum loan is 30 times the minimum social welfare benefit.

PNIDZ clients in 60 local labor offices with a one-week training course and five hours of business counselling. FISE is an independent, non-profit agency with a network of 14 local offices offering business advisory services and training to small businesses. MOLSP is also receiving support from a World Bank loan that would develop the capacity of non-governmental institutions to promote self-employment for the unemployed.

**Program Benefits.** The credit feature of the PNIDZ program makes participation attractive in comparison with the receipt of unemployment benefits. Once the pre-entry training is successfully completed, the applicant signs a contract with the local labor office stipulating the terms of the loan and how it will be used. The loan may be as high as 20 times the average monthly salary. The interest charged is subsidized. The rate is 60 percent of the Central Bank discount rate (80 percent for enterprises involved in manufacturing). No collateral is required, although two guarantors are needed. If the individual keeps the loan payments current during the first 24 months of the loan, the recipient may request that up to 50 percent of the loan be forgiven.

This feature has encouraged high payback rates. Evidence from individual labor offices indicates these rates approach 90 percent, although in some of the more disadvantaged regions the rates are closer to 60-70%. The loan and its financial benefits make the PNIDZ Program generous in comparison with its OECD counterparts. By comparison with the unemployment benefits available in Poland, the amount of the loan in Table 15 can be up to five times greater than the maximum allowable unemployment benefit, although on average, it is approximately 3 times greater. Supporters of the PNIDZ program, however, contend that the loan in absolute terms is not large and its size is necessary to provide a meaningful source of capital for a new business start-up. Furthermore, since at least 50 percent of the PNIDZ benefit must be repaid, the benefit cost is closer to 1.5 times greater than the cost of regular unemployment benefits.

**Table 15: Comparison of Unemployment and PNIDZ Benefits in 1992**

	Unemployment Benefit	PNIDZ Program
Maximum benefit payable	Zł 10,800,000	Zł 54,000,000
Maximum term allowed by law	12 months	..
Avg benefit paid	..	32,600,000*

\* Because of budgetary constraints, many of the local labor offices prefer to offer smaller loans (Zł 32 000 000) in order to be in a position to accept more applicants to the program.

Among the OECD countries studied, only the Netherlands offered access to small business loans in addition to an allowance. The U.K. Department of Employment administers a Loan Guarantee Scheme that provides a government guarantee to banks on certain loans to potentially viable small enterprises that would not otherwise receive debt finance. This program designed to address credit market failures, however, is not targeted on the unemployed. Credit access for new entrepreneurs is seen by Polish officials as a critical need in Poland and it is therefore a major program benefit. Characteristics of PNIDZ loans are featured in Table 16.

**Table 16: PNIDZ Loan Features in 1992**

Maximum loan size	Zl 54,000,000 (approx. US\$4,000)
Maximum Term	4 years
Guarantee (% of loan)	100 %
Total number of loans	4,907
Total amount lent	Zl 237.5 bil. (approx. US\$17.4 M)
Average loan size	Zl 32,600,000 (approx. US\$3,600)
Average Terms	2 years
Payback rate	60 - 95 %
Interest rate	below market

The PNIDZ Program does not feature post-entry business advisory services, nor does the MOLSP through its local labor offices refer participants to other programs. Participants in need of assistance may seek business advisory services from non-governmental organization that may or may not charge for these services. The benefits of the PNIDZ Program, apart from the pre-entry training, used mainly for screening, are primary found in the access it provides to credit for the unemployed seeking to start new businesses. This is not a market that is well-served by existing financial institutions.

Program Outcomes. Very little information is available on program outcomes matching that found in OECD countries. The need for monitoring and evaluation is evident on such matters as numbers of new businesses and jobs created, the survival rate of these businesses, deadweight effects, and the cost of the jobs created. Statistics are available, however, on program participants as a share of the unemployed and PNIDZ Program expenditures. Two important lessons emerge from these statistics. First, a program with attractive benefits relative to alternative income support programs will attract large numbers in a transitional economy. Second, with rising unemployment, countries that combine expenditures for unemployment with those for employment assistance will find unemployment benefits crowding out expenditures for employment assistance.

The Labor Fund whose source of revenue is primarily from the state budget with about 20 percent from taxes on wages is used to cover the cost of unemployment benefits, but also to pay for training and other employment assistance programs such as the PNIDZ Program. In 1990, unemployment in Poland was low and the budget from the Labor Fund allotted to the PNIDZ Program reach nearly 14 percent. Unemployment rose sharply in 1991, however, and the Labor Fund was shifted to paying unemployment benefits forcing a reduction in the budget allocation for the PNIDZ Program. Table 17 shows this reduction with expenditures on the PNIDZ Program falling to one percent of the Labor Fund in 1993.

**Table 17: PNIDZ Expenditures as a Share of Labor Fund Spending and Participants as a Share of the Unemployed**

	Participants	Participants/ Unemployed (%)	Share in Labor Fund
1990	32,419	2.9	13.9
1991	13,426	0.6	2.0
1992	4,907	0.2	0.7
1993	6,145	0.2*	1.0

The number of PNIDZ participants also fell sharply to under one percent of the unemployed. Before the budgetary constraint on program participation was introduced, however, the share of the unemployed entering self-employment through the PNIDZ Program was still well below five percent, matching levels found in OECD countries. In this respect, the experience of one transitional economy follows closely what has happened in OECD countries. The unemployed even in the face of attractive benefits do not rush to self-employment as a solution.

### **Hungary**

Reforms in 1968 reintroduced private sector activity in Hungary after nearly a 20 year absence. Individuals in rural areas were encouraged to sell produce directly to consumers rather than through the state. State employees were permitted to work part-time in small private enterprises. Further reforms in 1982, legalized other private and quasi-private forms of enterprises. An individual could choose to become self-employed or form a partnership as long as legal and professional requirements were met. In 1989, Hungarian reformers passed the *Act on Economic Associations* which provides the legal framework for establishing and operating commercial enterprises (Webster 1992a).

A number of Ministries are engaged in supporting new enterprises. The Ministry of Labor, however, was the first in Central and Eastern Europe to offer a self-employment program. The Ministry of Industry and Trade (MIT) created the National Small Enterprise Development Office (OKFI) in 1990 to develop small business policies and plan an advocacy role, but neither the Ministry or OKFI offered technical or financial assistance to new entrepreneurs. Other Ministries, however, such as Finance, Agriculture, and Environment Protection and Regional Development administered credit programs for new enterprises. Access to credit is a major component of small business programs in Hungary as it is in Poland.

**Table 18: EC PHARE Micro Credit Line – Sept. 1992 to October 1993**

PHARE Micro Credit	
Total amount lent	4.35 million ECU (approx. US\$3.35 M)
Total number of loans	1,520
Average loan size	2,861 ECU (approx. US\$2,206)
Collateral	none <sup>b</sup>
Personal commitment	none
Payback rate	65 %
Interest rate	19 % <sup>c</sup>

- a. The maximum loan was raised to ECU 5000 in September 1993.  
b. liens on the capital.  
c. Central Bank discount rate  
d. Central Bank discount rate plus bank percentage.

Average ECU rate (eb) for 1992: 1.2968. Source:IMF (1993), International Financial Statistics, Washington, D.C. p. 552.

With one exception, many of the credit programs fail to serve micro-enterprises. For example, the Hungarian National Bank administers the Start Credit Scheme which as created in cooperation with the German Government. The Start Credit is available to all small enterprises with less than 150 employees that are no more than 2 years old. Its average loan from 1992 to 1993 was U.S. \$27,500. The Hungarian Enterprise Fund created a small loan program in 1991, but its loans averaged U.S. \$46,300 and required 150 percent collateral. The exception was the European Community's PHARE SME program. As shown in Table 18, its micro credit line produced loans that averaged U.S. \$2,206 with a 65 percent payback rate. The Fund operates a network of 12 local enterprise agencies throughout Hungary, and plans to open at least 5 more in 1993-94.

The Ministry of Labor in 1989 offered the unemployed who wanted to become self-employed a credit program. The *Újrakezdési kölcsön* (Újk) scheme –Restart Loan for Unemployed and School Leavers– was introduced, but after two years it was discontinued amid claims of abuse because of high costs. This program was replaced by the *Munkanélküliek vállalkozóvá válásának elősegítése* (Mvve) scheme –Unemployment Benefit Program for Entrepreneurs– which is also considered not to be performing well. The problem in both cases appears to rest in the failure of the programs to screen clients effectively, while offering attractive financial benefits in relation to alternative income support programs.

Target Population. The Újk program was introduced nation-wide in 1989. It was open to the registered unemployed who were eligible for unemployment benefits and to those graduating from high school and university. Almost immediately, the target group was expanded to include individuals without any employment. This proved important in light of the program's failure to screen applicants effectively. Anyone without a job could claim the credit offered. There was no requirement for individuals to be unemployed for a period of time. Thus, individuals leaving their job the day before

were eligible as were those with no employment history. The MOL was unable to predict accurately the demand for the program. Claimants came from highly-qualified blue-collar and white-collar professionals who would have had little difficulty finding paid employment.

Screening the Population. Initially, applicants to the Újk program had to demonstrate the necessary qualification and financial background required by their enterprise proposals to qualify for the program. However, this requirement was dropped within the first year of the nation-wide program. To become a Újk participant, applicants applied to a local labor office. These offices referred applicants to a local bank. The banks screened applications by requiring the applicant provide a business plan. Collateral or a guarantor for the loan was required. In addition, the applicant had to obtain an "Entrepreneur Card," which were obtained simply by registering the business with local authorities.

The Mvve program as a follow-up to the Újk program focused on the unemployed, but did little to improve the screening of applicants. Mvve applicants apply to a local labor office. If accepted, they must obtain the Entrepreneurs Card. The participant of this program is not subjected to questioning or training, nor does he or she have to provide a detailed enterprise proposal. A bank is not involved. Both schemes lacked the more sophisticated screening procedures used in OECD countries and even in Poland. This may change in the future, however, if Hungary adopts a proposed law modeled on the German system making membership in Chambers of Commerce and Trade compulsory. In this case, the Mvve scheme may move to the German Überbrückungsgeld program which would require an applicant to obtain the approval of the appropriate Chamber before being admitted to the Mvve program.

Delivery of Services. Like Poland and OECD countries, the Ministry of Labor and its local labor offices turned to others for business experience in its limited screening of proposals. The banking sector was used. Hungarian banks, however, had limited experience with evaluating the credit worthiness of small businesses. Local labor offices appeared to provide little screening themselves for the Újk program. The Újk program offered no pre- or post-entry business advisory services. In the Mvve program, the Ministry of Labor calls on others to deliver subsidized business advisory services. Its role is restricted to financing these services.

Program Benefits. Under the Újk loan scheme, the Ministry of Labor agreed to pay the interest on bank loans of approximately U.S. \$5,000, which was subsequently raised to U.S. \$6,300. The scheme was considered to be an extremely favorable one because of the high inflation and interest rates. Apart from paying the interest on the bank loan, the Újk scheme did not offer other post-entry services. The attractiveness of the loan was reflected in the sharp increase in recipients from 12,782 in 1989, to 29,429 a year later in 1990. The maximum term of the loan was ten years. See Table 19.

The cost of the Újk program began to swell and the Ministry of Labor withdrew from the loan scheme and shifted to the Mvve program which offered a monthly allowance and 50 percent cost reimbursement on business advisory services. The Mvve program was simple. It too required little screening as explained above. It offered six months of extended unemployment benefits plus the 50 percent rebate of expenditures on business training, counselling, and credit security insurance. While not nearly as financially attractive as the Ujk program with its large, interest-free loans, it nevertheless offered additional income for the unemployed with little effort required in return.



**Table 19: Újk Loan Scheme**

	1989	1990
Maximum loan size	300,000 HUF (US\$5,080)	400,000 HUF (US\$6,300)
Maximum Term	10 years	
Collateral	none	
Total number of loans	12,782	29,429
Total amount lent (HUF)	4.5 billion	10.2 billion
Average loan size	345,472 HUF* (US\$5,500)	
Average Terms	4.7 years	
Interest rate paid by Ministry of Labor	market	market
Interest rate paid by recipient	0 %	0 %
1989-90 average		

Average HUF exchange rate (official rf) for 1998: 59.066; 1990: 63.206. Source: IMF (1993), *International Financial Statistics*, Washington, D.C. p. 272.

**Program Outcomes.** The results in the case of the Újk program were predictable. With interest-free loans offered and a widely defined target group, participation exploded to nearly half the unemployed in 1989, before falling to 37 percent in 1990. The program proved to be costly since the Ministry assumed all interest payment obligations. Under a tightened budget constraint and the more narrowly defined target population of the Mvve program, participation rates fell sharply to levels like those in Poland and some OECD countries. Table 20 reveals the cost of the Újk program to Hungary's Employment Fund. Interest payments a year after the program was closed absorbed one-third of the Fund's resources, while the Mvve program accounted for less than 2 percent. Even three years after closure of the Újk program, interest payments amounted to more than seven percent of the Employment Fund.

Hungary failed to grasp the lessons of the Újk experience and the value of effective screening. When it introduced the Mvve program it provided even less screening, since banks were no longer involved. It narrowed the target population to those who were unemployed and reduced the program's financial benefits, but the number of program participants, instead of falling,

**Table 20: Újk and Mvve Expenditures as a Percent of the Employment Fund**

	Újk	Mvve
1989	6.9	—
1990	38.8	—
1991	33.7	0.2
1992	15.7	1.8
1993*	7.4	1.2

\* January - September

rose. The numbers, however, have not exceeded those of Poland or OECD countries. Without screening or the benefit of participant monitoring there is a question of whether the benefits are being used for self-employment, or for merely extending unemployment benefits. Table 21, for example, shows virtually no use of the subsidized business advisory services offered by the Mvve, while the number of claimants is rising.

**Table 21: Number of Mvve participants by Type of Service**

	Loan or allowance	Training reimbursement	Counselling reimbursement	Insurance reimbursement
1991	1,042	3	24	2
1992	5,466	5	124	5
1993*	8,388	1	137	1

\* January - September

Unlike Poland, Hungary acted in 1991 to create separate funding for unemployment benefits and employment assistance programs. The Solidarity Fund was established to provide income support for the unemployed and an Employment Fund was created to support employment assistance programs. The Solidarity Fund was financed by payroll contributions from employers and employees, with a temporary central budget transfer in 1992 to avoid a further increase in payroll contributions. The Employment Fund was financed from the central budget with a funding level of approximately 0.5 percent of GDP. As of 1994, seven employment assistance programs, including assistance for self-employment, are supported by the Employment Fund with the mix changing from year to year based on assessments of program effectiveness.

### Lessons from Experience

Except for Poland and Hungary, which are economies in transition, the lessons drawn from this study come from established market economies. These are economies where a legal infrastructure exists providing a transparent environment for investment, where competitive markets are found providing access to raw materials and supplies, where a network of technical assistance services is available, and where efficient capital markets can be found. The outcome of programs supporting self-employment for the unemployed is doubtless influenced by this enabling environment. The findings of the study should be interpreted against this background. Creating an enabling environment is important alongside assistance to potential entrepreneurs.

Support for self-employment should be seen as one item on a menu of strategies for employment creation. As this study shows, it is not a panacea for unemployment. In both market and transitional economies well-designed self-employment programs will reach up to five percent of the unemployed. Those who participate will be primarily male, better educated, and in their 30's. The programs offered tend not to attract women. If gender issues are of concern among the unemployed

different strategies will be required to introduce women to self-employment. The findings also diminish expectations of self-employment as a solution for graduate unemployment. Not only are the young less inclined to participate in these programs where self-screening is used, there is the suggestion that the success and survival of the enterprise is greater for those 35 years of age and older.

Governments that assist the unemployed in creating self-employment rely on Ministries of Labor to organize this assistance. This assistance joins the menu of services available to the unemployed who are the principal constituents of Ministries of Labor. The trend in market economies, however, and even in the transitional economies observed is to limit a Ministry's role to that of financing self-employment assistance. Without specialized business experience, Ministries of Labor depend on the private sector for service delivery. In transitional economies without a background of private small business activity, steps will need to be taken to build an infrastructure of services for private entrepreneurs by opening the market to the entry of non-governmental organizations offering this experience.

Capital market failures are also an issue for transitional economies attempting to support self-employment. The OECD countries participating in this study are assumed to offer relatively efficient capital markets with only the Netherlands offering access to credit as part of its assistance for self-employment. Poland and Hungary, however, have included credit components in their self-employment programs. Without an efficient banking sector, a response to credit needs is important to the newly emerging market economies. Experience in France, the U.K. and the United States with the lump-sum payment of unemployment benefits provides a possible solution. The United States shows lump-sum payment of unemployment benefits will increase beneficiary cost about 20 percent, but will produce enterprises that are more capital-intensive.

Countries can control the cost of self-employment assistance by introducing screening instruments that lead potential participants to weigh the private costs and benefits of the assistance. These instruments include: information sessions, applications, interviews, pre-entry business advisory services and training, and development of business plans. The study finds that inexpensive instruments such as information sessions, applications, and interviews can sharply reduce the number of potential program participants through their self-assessment of the private costs and benefits of participation. Third party screening of applicants can be minimized. The importance of these screening instruments rises where program benefits exceed the level of unemployment benefits. Lump-sum benefits, access to credit, credit subsidies are program features that have been found to increase the rate of participation in self-employment programs and, thereby, boost the importance of screening instruments as a cost control mechanism.

Raising the entry cost of self-employment programs by using screening instruments will lead some potential participants to abandon ideas that are risky and that offer only marginal profit potential. This outcome could be achieved, of course, by simply charging an entry fee for self-employment programs. Instead, the objective of the screening instruments should be to increase the potential social and private benefits of self-employment by reducing deadweight effects, increasing enterprise survival rates, and expanding employment generation potential. The study suggest that deadweight effects rise with an implicit increase in the entry cost imposed by rigorous screening instruments such that a balance needs to be struck between cost and deadweight control. Expenditures on training and advisory and counselling services should be guided by the impact of these expenditures on enterprise survival rates. On this, the evidence is mixed indicating more attention needs to be given

to the design of these services. The creation of an average of only one-and-a-half jobs per enterprise suggests the need to look for ways to support enterprise growth beyond the start-up stage.

The findings of the two United States demonstration programs using a rigorous random experimental design indicate that self-employment programs are not as expensive as some have thought and that the higher overall employment rates found for participants make these programs cost-beneficial. The Washington State demonstration program with its lump-sum payments for the self-employed is, as described above, about 20 percent or \$1,100 more expensive than the benefits paid to those who remained in the control group collecting unemployment benefits. The possibility remains that this cost is offset by the higher overall employment rates for the self-employed and higher productivity rates where the self-employed work in more capital-intensive enterprises. In Massachusetts, the self-employment assistance provided actually costs less than the unemployment benefits paid to the control group. The choice between paying someone to be unemployed and another to be self-employed is not a difficult one, at least where costs are concerned. Low unemployment benefits paid in transitional economies, however, would change this equation.

A final lesson drawn for transitional economies comes from the experience of the Employment Funds in Poland and Hungary. In contrast to Hungary, Poland combined resources for unemployment benefits with those for employment assistance programs, including self-employment assistance. This combination is okay so long as unemployment rates are low, but when unemployment rises with the introduction of effective stabilization and adjustment programs, Poland demonstrates how employment assistance expenditures are crowded out by unemployment benefits. Participation rates in self-employment as a share of the unemployed fell sharply in Poland as unemployment rose. This problem was avoided in Hungary by financing unemployment benefits and employment assistance programs separately. Self-employment and other employment assistance programs were financed from the central budget, while unemployment benefits were financed by a payroll tax.

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## **Annex 1**

### **Australia**

#### **Small Enterprise Development**

Australia has a three-tiered government structure: Commonwealth (national), State (regional) and local. The division of responsibilities between government ministries at the Federal level with regard to enterprise development is:

- the Department of Employment, Education and Training administers the New Enterprise Incentive Scheme (NEIS) which assists eligible unemployed people to establish commercially viable employment ventures through the provision of a comprehensive package of assistance;
- the Business Improvement Programs Branch in the Department of Industry, Technology and Regional Development aims to assist Australian manufacturing and service enterprises in becoming internationally competitive through enterprise improvement.

#### **New Enterprise Incentive Scheme**

The NEIS assists eligible unemployed people to establish commercially viable self employment ventures. The federal government piloted the NEIS in fiscal year 1985 and established it as a national program in fiscal year 1987. In 1990 the delivery of the program was largely contracted out to organizations in the private sector known as managing agents. Delivery of the program through managing agents was designed to enhance its equity, efficiency and effectiveness. Managing agents were expected to improve targeting to disadvantaged areas and disadvantaged groups in the labor market and bring additional expertise and resources to the program. Also in 1990, many States discontinued the practice of offering interest-free loans to NEIS participants because of the high costs of the program and the low loan pay-back rates.

#### **Funding Sources and Delivery**

NEIS operates as a partnership between the Commonwealth Department of Employment, Education and Training and regional and/or Managing Agents. More than 90 % of NEIS places are delivered by Managing Agents, which are generally locally-based organizations with expertise in the provision of advice and/or training to small business. The NEIS is not an entitlement program and operates on a fixed budget. The role of the managing agents varies between States but generally they are involved in the marketing of the scheme, the assessment of the applicants, the delivery of training, and the provision of business advice and mentor support services to participants.

The method of introducing the managing agents varied from State to State. In New South Wales, an existing network of Business Enterprise Centers (BECs) which receive funding from the State government through the Department of Industrial Relations Employment, Training and Further Education (DIRETFE). Since the role of the BECs is to encourage enterprise development within regions through the provision of support to local businesses and ideas to encourage commercial development, there were seen as the logical choice to act as managing agents.

In the State of Victoria, the largest managing agent is Rural Enterprise Victoria (REV), part of the Victoria Office of Rural Affairs. Most of the other organizations initially approved to be managing agents were those DEET had dealt with under the previous NEIS scheme when it was administered under the inter government arrangements. In selecting managing agents, DEET State Office also attempted to ensure that they were spread throughout Victoria and located in communities big enough to sustain small business.

In the State of Queensland, NEIS is operated in conjunction with the Queensland Self Employment Venture Scheme (SEVS) which provides assistance in the form of an interest free loan, generally to a maximum of \$6 000 per applicant or \$12 000 per couple. While there are some applicants who only receive NEIS assistance, over 80 % of approvals for NEIS in Queensland also receive assistance through SEVS. The State Department of Employment, Vocational Education and Industrial Relations (DEVET&IR) is responsible for SEVS and they play a major role in the administration of the joint SEVS/NEIS program. NEIS managing agents are relatively new to Queensland. In 1991-92 they were responsible for only 30 % of NEIS placements in Queensland but by 1992-93 this had increased to 56 % of NEIS placements. The remaining placements are administered under the inter government arrangements. Managing agents were initially selected on a pilot basis by DEET and DEVET&IR. Areas with high unemployment were targeted for the introduction of managing agents and DEET area and regional managing agents also had input to the selection process.

In South Australia the State Government used to run its own self employment scheme which was operated in conjunction with NEIS. This scheme has been phased out and DEET is solely responsible for the administration of NEIS in South Australia. DEET advertised for managing agents in these areas. managing agents' background in enterprise development, training and marketing was taken into account in the selection process. The managing agents in South Australia represent a range of organizations, with a significant proportion of them from the private sector. Three of the managing agents in South Australia have a specific client group focus providing assistance for people with disabilities, women and migrants.

The scheme in the State of Western Australia is administered in conjunction with the State government's Department of State Development. Like NSW, the State government has set up local community organizations to encourage enterprise development and to act as business incubators. Managing agents are selected from these Local Economic Development Agencies (LEDA) and most of the LEDAs are keen to become managing agents. Only one managing agent in the State is not part of this network. Any LEDA interested in becoming a managing agent may submit an application which is then considered by the two departments. If there are no existing managing agents in the area and there are enough NEIS placements to allocate to the managing agent they will generally receive funding. Managing agents delivered 62 % of all the NEIS placements in the State in fiscal year 1991.

The Tasmanian, the scheme is entirely administered by DEET which has been developing a network of managing agents since 1990. In the initial selection process a number of organizations expressed interest and some were invited to apply. Organizations were selected on the basis of their enterprise focus. As a result, Tasmania has a mixture of private sector and government funded organization as managing agents.

Excerpt from: Johnstone, Helen. 1993. Evaluation of NEIS Managing Agents Administrative Arrangements and Issues, EMB Working Paper. Canberra: Department of Employment, Education and Training.

## **Targeting**

In order to be eligible for the scheme, applicants must be:

- receiving or dependent on an allowance from the Department of Social Security (e.g. JSA, NSA, sole parent benefit, widow benefit, sickness benefit, invalid benefit);
- registered as unemployed with the Commonwealth Employment Service (CES);
- over 18 years of age and below the Age Pension age.

## **Eligible Enterprise Proposals**

To be eligible for NEIS approval, the proposed business must be assessed as commercially viable, new, reputable, non-controversial, legal and not in competition with existing businesses.

## **Application Process**

In most States, training in business plan development was included in a business skills training course and this training was provided prior to approval for NEIS allowance. The duration of training in all States apart from Western Australia and Queensland was generally from five to seven weeks. Those taking part in the training are eligible for a Formal Training Allowance (FTA).

The application process varies from State to State. Applicants for NEIS in New South Wales, fill in an application form including an outline of their business proposal. A selection committee screens these proposals and selects the most viable. The selected participant then undertakes a NEIS business plan training course. Final selection for NEIS allowance is made by the approval committee after participants have completed the training and developed a detailed business plan. The large majority of applicants who complete the training, however, subsequently get approved for NEIS allowance. The selection approval committee generally includes the relevant managing agent, a representative from DEET area office or the CES, a representative from DIRETFE and two or three local business people.

In Victoria, participants for NEIS business plan training are selected by the managing agents on the basis of their business proposal. During training participants develop a business plan which is subsequently presented to a local advisory committee for approval for NEIS allowance. The local advisory committees comprise the managing agent, two or more local business people and a representative from DEET State Office. The application process for NEIS in Victoria is the same as that in Tasmania.

Participants in Queensland are selected for SEVS/NEIS on the basis of a detailed business plan. This business plan is developed by the participant, usually with assistance from SEVS project officers or managing agents. Managing agents provide this assistance either on a one to one basis or through short courses or workshops. DEVET&IR are primarily responsible for the assessment of business plans and the selection of the most viable businesses. Once the business plan has been completed to the satisfaction of the managing agent it goes to a SEVS project officer. The project officer assesses the application, contacts referees and checks eligibility for the program. Some applicants are screened out at this point. The most viable plans then go before the central independent committee for approval on the recommendation of the SEVS project officer. The central committee is made up of a representative from DEET State Office, a SEVS representative, an academic and four business people.

In South Australia, applicants for NEIS fill in an application form with an outline of their business proposal which goes to the managing agent. These applications are screened and selection is made on eligibility for NEIS assistance and potential viability of the business. In South Australia training is provided to applicants either before or after approval for NEIS allowance, depending on the approach of the managing agent. If training is provided after approval for NEIS, the applicant's business proposal will go before the committee for approval. Where training is provided before approval, the applicant will undertake training and develop a more detailed business plan to go before the approval committee. Advisory committees approve applicants for NEIS allowance. A representative from DEET State Office is on each advisory committee. Other members of the committees include representatives of local businesses and banks, the council, the CES and the local Technical and Further Education College.

Again, the selection of NEIS participants in Western Australia is made on the basis of a business plan developed by applicants with the managing agent initially screening the business proposals. These plans go before a local committee of five or six people. Someone from the local CES or DEET State Office represents DEET on the committee in addition to local business people, councilors and representatives of the managing agent. The committee's recommendations go to DEET State Office for final approval. Participants generally receive some training in market research and business plan development before submitting their business plans and after approval they receive training in management skills. Excerpt from: Johnstone, Helen. 1993. Evaluation of NEIS Managing Agents Administrative Arrangements and Issues, EMB Working Paper. Canberra: Department of Employment, Education and Training.

#### **Assistance**

NEIS participants are offered three inter-related program services:

- **Income support.** A payment, broadly equivalent to Job Search Allowance (JSA) and Newstart Allowance, is paid to participants for 12 months. Formal Training Allowance (FTA) is also paid to participants who undertake NEIS training on a full-time basis.
- **Business counselling and mentor support.** As well as organizing training for NEIS applicants, one of the major roles of managing agents is to provide business advice and mentor support to participants both prior to and for at least one year after commencement of the NEIS business. The introduction of managing agents was meant to bring additional expertise to the program in relation to the support provided to participants. The 1992 budget introduced funding for this component of the program. Managing agents can now claim up to \$300 for each NEIS participant to pay for mentor support costs.
- **Post-approval training.** The role of the managing agent is to identify the post-approval training needs of participants, and presumably to arrange access for participants to such training. 76 % of managing agents said they offered or provided training to participants after they commenced receiving NEIS allowance. The proportion of managing agents offering post-approval training, however, varied between States. In all States except South Australia, the majority of managing agents offered some post approval training to participants. In South Australia only two of the seven managing agents who responded to the survey said they offered post approval training. in business planning and small business skills.

Excerpt from: Johnstone, J. 1993. Evaluation of NEIS Managing Agents - Administrative Arrangements and Issues, EMB Working Paper. Canberra: Department of Employment, Education and Training.

### **Unemployment Benefit for the Self Employed**

The self employed are eligible for the means tested unemployment benefits (JSA).

### **Monitoring**

In order to monitor how well NEIS businesses were performing DEET State Offices generally require participants to complete and return quarterly progress reports. These reports, however, often took a long time to get back and much administrative effort was spent in chasing them up. Some DEET State officers said they also got informal feedback from managing agents on participants performance. The previous evaluation noted that monitoring arrangements for income support payments were not very effective. There had been no significant changes to the monitoring arrangements since then, except in NSW. In the current evaluation, it was noted by a number of officers that the potential for misappropriation of funds still existed. This was mainly an issue where a participant ceased operating their business and DEET was not immediately notified of the change. A considerable amount of time could lapse before the State offices became aware that a participant was no longer operating their business and no longer entitled to NEIS allowance. In an attempt to address this problem NSW State office has recently attempted to improve their monitoring arrangements. In NSW, management agents will be required to collect and follow-up on the quarterly reports from participants and to forward them to State office, rather than relying solely on the participants to return these forms. Excerpt from: Johnstone, Helen. 1993. Evaluation of NEIS Managing Agents Administrative Arrangements and Issues, EMB Working Paper. Canberra: Department of Employment, Education and Training.

### **Evaluation**

A recent survey of NEIS participants and delivery agents have been undertaken. The evaluation of the delivery agents was based on three sources of data: a mail survey of NEIS managing agents (95 % response rate), case studies of 15 managing agents and discussions with government officers involved in the administration of the scheme. A telephone survey of former NEIS participants was conducted in February 1993. The survey sample included two groups of former participants: i) participants who ceased receiving NEIS allowance between 11 and 16 months (10-91 to 03-92) to before the survey, known as the 12 month group which is drawn from NEIS 1990-1991 participants (69 % response rate) ; and ii) participants who ceased receiving NEIS allowance between 3 and 5 months (09-92 to 11-92) before the survey, known as the 3 month group (81 % response rate). Only results from the 12 month group are presented here. They are compared to results from a 1990 evaluation of a similar 12 month group, 1989-90 participants (53 % response rate).

See: Johnstone, Helen. 1993. Evaluation of NEIS Managing Agents Administrative Arrangements and Issues, EMB Working Paper. Canberra: Department of Employment, Education and Training.

Johnstone, Helen. (forthcoming). Evaluation of the New Enterprise Incentive Scheme, EMB Working Paper. Canberra: Department of Employment, Education and Training.

ten Brummelaar, Joan and Philip Gatenby. 1992. NEIS Evaluation: Intergovernment Component of NEIS, EMB Report. Canberra: Department of Employment, Education and Training.

**Table 1.1: Number of participants**

Fiscal year	Participants
1985	579
1986	398
1987	362
1988	365
1989	467
1990	1,134
1991	2,752
1992	3,349
1993	5,000 (estimate)

Source: DEET.

**Table 1.2: Participation Rate (fiscal year 1991)**

Participation rate	0.5 %
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Participation rate. The number of participants divided by the number of registered unemployed. (1991: 508 000)

Source: DEET.

**Table 1.3: Entrants' Characteristics (fiscal year 1992)**

Male	74 %
Age: Under 25	11
25-44	74
45 and over	19
Unemployed > 6 months	38
6-12 months	26
> 12	36

Source: Johnstone, Helen. (Forthcoming). Evaluation of the New Enterprise Incentive Scheme, EMB Working Paper. Canberra: Department of Employment, Education and Training.

**Table 1.4: Program Benefits**

	Unemployment Benefit	NEIS (1989)	Unemployment Benefit	NEIS (1991)
1. Maximum benefit allowed	124 (single) 111 (married)	124 111	138 117	140 155
2. Maximum term	indefinite	52 wks	indefinite	52 wks

1. Maximum benefit allowed. The average maximum benefit for which the claimants are eligible.
2. Maximum term. The maximum allowable number of weeks during which a claimant is eligible for benefit.

Source: DEET.

**Table 1.5: Survival Rates**

Intake year	1. All Entrants	2. Non survivors in self employment	3. In employment
1988 participants	42 %	1 %	31 %
1990 participants	50	4	9

1. All Entrants. The percentage of the entrants in the Spring of 1987 who were self employed in their NEIS business at the time of the follow-up survey taken 12 months after they exited from the program.
2. Non survivors in self employment. The percentage of the entrants in the Spring of 1987 who were self employed in another business at the time of the 12 month follow-up survey.
3. In employment. The percentage of participants which were self employed or employed at the time of the 12 month follow-up interview.

Source: Same as Table 1.3.

**Table 1.6: Program Expenditure (AUS\$)**

Year	Avg. Expenditure	Avg. Number participant	Cost per participant	Cost per survivor	Cost per job created
1987-1989	5.6 million	385	14 541	33 725	..
1989-1991	21.5 million	1451	14 848	27 496	18 331

1. Avg expenditure. In 1987-1989, expenditure included the sum of income support, Formal Training allowance and the contribution made by State governments for loans and grants. In 1989-1991, expenditure included the sum of income support, FTA and managing agent support costs.
2. Avg Number of participants. Average of 1987-1989 and 1989-1991 participants.
3. Cost per participant. Program expenditure divided by the number of participants.

4. **Cost per surviving enterprise.** The total cost of the program divided by the number of enterprises which were in operation at the time of the 12 month follow-up survey.
5. **Cost per job.** Program expenditure divided by the number of survivors and their employees (number of employees calculated using table 1.7 below).

Source: See Table 1.3.

**Table 1.7: Enterprise and Job Creation**

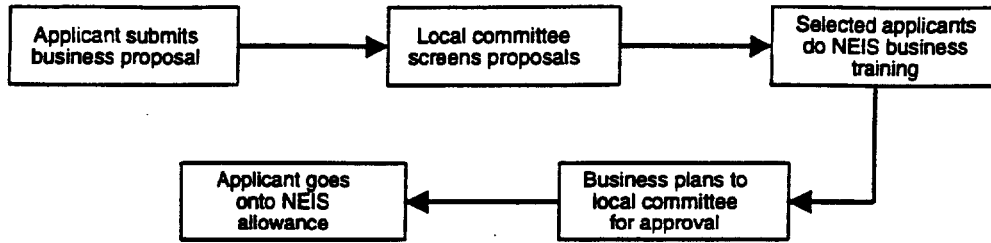
Fiscal year	1. Employing Enterprises		2. Jobs Created (per 100 survivors)
	Full time	Part time	
1990 (12 month survey)	9.8 %	12.4 %	50 (20 + 30)
1991 (3 month survey)	6.5	11.9	50 (10 + 40)

1. **Employing Enterprises.** The percentage of self employed who hired full- or part-time employees.
2. **Jobs Created (per 100 survivors).** The number of employees multiplied by 100 and divided by the number of self employed who hire full- or part-time employees.

Source: same as Table 1.3.

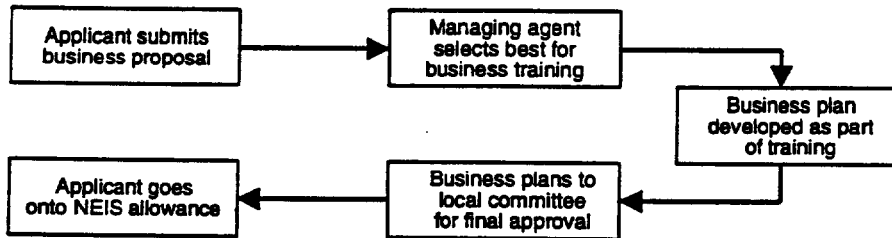


**FLOW CHART 1: NEW ENTERPRISE INCENTIVE SCHEME (NEIS)  
Application process in New South Wales**



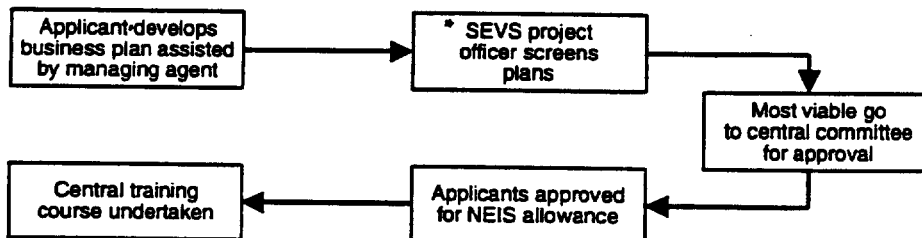
SOURCE: JOHNSTONE, HELEN. (August 1983). *EVALUATION OF NEIS MANAGING AGENTS - ADMINISTRATIVE ARRANGEMENTS AND ISSUES*. EMB WORKING PAPER. CANBERRA: DEPARTMENT OF EMPLOYMENT, EDUCATION AND TRAINING. p.9.

**FLOW CHART 2: NEW ENTERPRISE INCENTIVE SCHEME (NEIS)  
Application process in Victoria and Tasmania**



SOURCE: IBID, p.10

**FLOW CHART 3: NEW ENTERPRISE INCENTIVE SCHEME (NEIS)  
Application process in Queensland**

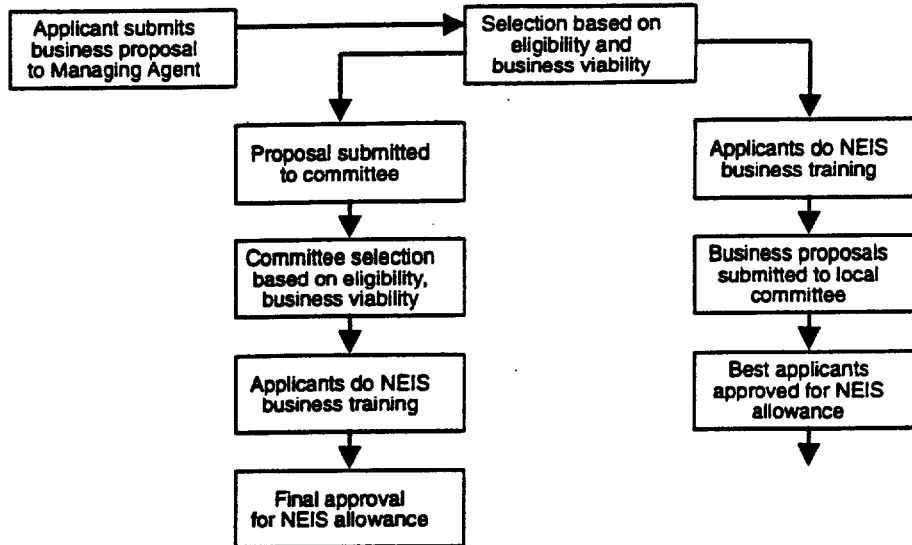


SOURCE: IBID, p.11

\* SEVS - SELF EMPLOYMENT VENTURE SCHEME.

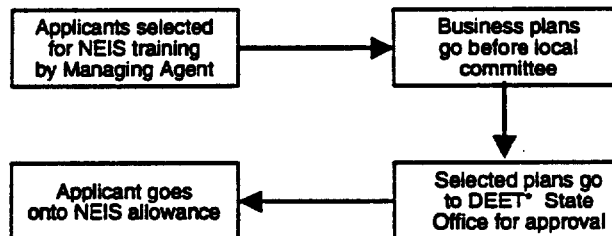


**FLOW CHART 4: NEW ENTERPRISE INCENTIVE SCHEME (NEIS)  
Application process in South Australia**



SOURCE: JOHNSTONE, HELEN. (August 1993). *EVALUATION OF NEIS MANAGING AGENTS - ADMINISTRATIVE ARRANGEMENTS AND ISSUES*. EMB WORKING PAPER. CANBERRA: DEPARTMENT OF EMPLOYMENT, EDUCATION AND TRAINING, p.9.

**FLOW CHART 5: NEW ENTERPRISE INCENTIVE SCHEME (NEIS)  
Application process in Western Australia**



\* DEET - Department of Employment, Education and Training

SOURCE: IBID, p.14

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## **Annex 2**

### **Canada**

#### **Small Enterprise Development**

Besides the Ministry of Employment and Immigration Canada (EIC), other federal ministries and organizations are also involved in small enterprise development. The Federal Business Development Bank provides financial assistance to businesses located in Canada which are unable to secure financing from other sources on reasonable terms and conditions. Total loans made in 1988 = \$861 962. The Small Business Loans Act, Department of Regional and Industrial Expansion encourages lenders in the private sector to increase the availability of loans for the purpose of creation, expansion and modernization of small business. During fiscal year 1987, 18 640 business improvement loans were made totaling CAN\$ 684 million. The Atlantic Canada Opportunities Agency Action Plan provides financial assistance which directly or indirectly contributes to the establishment of development of small and medium sized enterprises. Expenditure have amounted to CAN\$ 97 million and have a cost per job created of CAN\$ 17000. The Canadian Aboriginal Economic Development Strategy and the Native Economic Development Program, amongst other program objectives, provide financial and technical assistance to Aboriginal business enterprises. The annual budget is, respectively, CAN\$ 175 million and CAN\$ 69 million.

#### **Self Employment Assistance Component (SEA)**

In 1985 the Ministry of Employment and Immigration Canada developed the Canadian Jobs Strategy which incorporated a variety of labor market programs designed to help those individuals, sectors and regions most in need. One of the Strategy's programs is the Community Development Program which seeks to assist communities who are suffering from chronic or acute unemployment. The Community Futures component consists of several options, one of which is the Self Employment Incentive (SEI). In 1992, the SEI was replaced by the Self Employment Assistance (SEA) Component which offers more training and counselling to the new entrepreneur. The SEA Component is available to the registered unemployed and social assistance beneficiaries in Canada. Furthermore, the SEA is not an entitlement program and is operated on a fixed budget.

#### **Funding Sources and Delivery**

The SEA is funded by the Ministry of Employment and Immigration Canada and delivered in areas which have been approved for the Community Development program (areas facing major labor market problems). In most provinces, the program is also available in other communities. Generally, the SEA is delivered by Business Development Centers, an element of Community Futures, but there are areas where the SEA is contracted to other coordinators.

#### **Targeting**

In order to be eligible for the Scheme, an individual has to meet the following criteria:

- normally reside in an area where the SEA component has been approved under the Community Development program;

- be a qualified Unemployment Insurance Claimant or be eligible for Social Assistance benefits;
- be legally entitled to work in Canada;
- have no previous participation in a self-employment assistance activity funded by the Ministry of Employment and Immigration;

### **Eligible Enterprise Proposals**

The SEA Component requires that its participants start a new business or take over an existing business in which the participant had no prior ownership. The participants must also agree to work full-time on their business and to make a personal investment in the business of at least 25 % (up to a maximum of CAN\$ 4000) in cash or other equity related to the operation of the business. The SEA Component will not consider proposals that involve the commercial exploitation of sex, religion or politics.

### **Application process**

Potential applicants are expected to attend an orientation session with a local coordinator (coordinators are local community groups that are funded by the Ministry to provide assistance to applicants to the SEA component). Applicants must then participate in an assessment to determine his potential as an entrepreneur and the validity of his business idea to provide long term self employment. See: Employment and Immigration Canada. 1993. Self-Employment Assistance Component: Administrative Guide. Ottawa: Employment and Immigration Canada.

### **Assistance**

The participants of the SEA Component are offered four inter-related program services.

- Participants who are UI claimants receive their regular UI benefits or a basic allowance (which ever is greater) for 52 weeks. Social assistance recipients receive a basic allowance. The provision of the basic allowance is based on the socio-economic situation of the participant (CAN\$ 61-197 per week).
- Participants can also be entitled to supplementary allowances to cover the following expenses: dependent care, travel, living-away-from home, commuting and disability.
- The participant must complete the training that was identified as being required during the pre-entry assessment. The training is provided by the Coordinator. The participant must also complete a detailed business plan with the assistance of the Coordinator.
- The participant remains eligible for business counselling and guidance from the Coordinator after exit from the program.

### **Monitoring**

Although the Ministry retains the function of monitoring to ensure continued eligibility for the program (i.e. working full-time, etc.) it is the responsibility of the Coordinator to monitor the progress of the business. This will involve telephone contact, in-person visits, and report analysis. However, in cases where the coordinator is paying the allowances directly to the participants a system is in place to ensure that the participants are indeed operating a business and working at it full-time.

## Evaluation

Employment and Immigration Canada. 1990. Evaluation of the Community Futures Program: Overview Report. Ottawa: EIC, Job Creation and Employment Services Division.

**Table 2.1: Number of Participants**

1987 (fiscal year)	451
1988	1351
1989	2398
1990	3461
1991	3380
1992	4129

Source: HRDC

**Table 2.2: Participation Rate**

Given that the program is not available throughout the country, it is not possible to calculate a participation rate using the national unemployment rates.

**Table 2.3: Entrants' Characteristics (1992 fiscal year)**

Male (%)	68 %
Age < / 24 (%)	6
Age > / 45 (%)	19

Source: Statistics Canada, "Unemployment Insurance Statistics".

**Table 2.4: Program Benefits (1993)**

	Unemployment Benefit	Social Assistance	SEA Component
1. Avg maximum benefit payable	425	197	425
2. Maximum term allowed by law	40 weeks	indef.	52 weeks

1. Average maximum benefit payable. The sum of the maximum allowable UI or SEA benefits divided by the number of UI claimants.
2. Maximum term allowed by law. The maximum allowable number of weeks during which a UI claimant may receive the benefits.

**Table 2.5: Survival and Deadweight (1989 SEIO)**

1. Enterprise Survival Rate	52 %
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1. Enterprise Survival Rate. The percentage of enterprises which were in existence at the time of the 12 month follow-up survey.

Source: Employment and Immigration Canada. 1990. Evaluation of the Community Futures Program: Overview Report. Ottawa: EIC, Job Creation and Employment Services Division, p.20.

**Table 2.6: Program Expenditure (1989 SEI)**

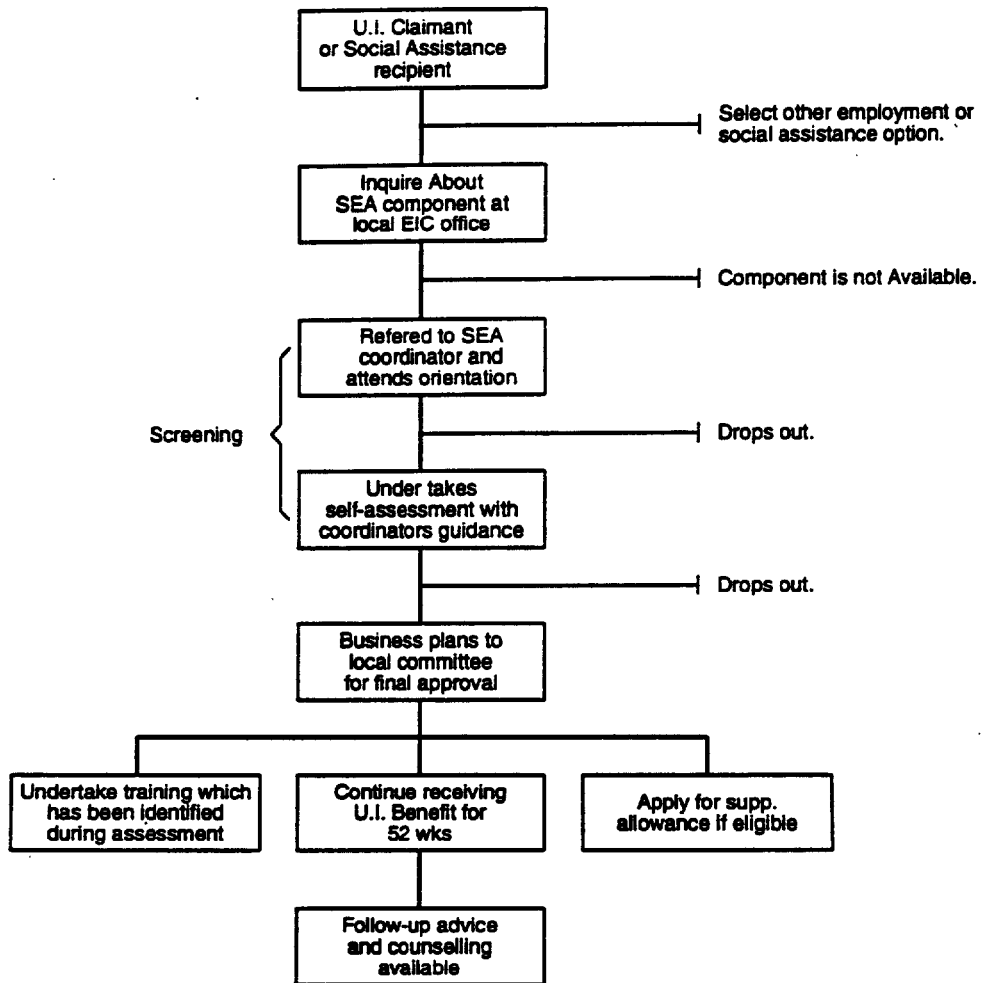
1. Total program expenditure	23.4 million
2. Cost per participant	9800
3. Cost per surviving enterprise	1900

1. Total program costs. The sum of the expenditure on business advisory services including training and the benefits paid to the participants.
2. Cost per participant. Program expenditure divided by the number of participants.
3. Cost per surviving enterprise. Program expenditure divided by the number of surviving enterprises after 12 months.

Source: Employment and Immigration Canada, Human Resources Development.



## FLOW CHART 6: SELF - EMPLOYMENT ASSISTANT (SEA) COMPONENT



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## Annex 3

### Denmark

#### **Small Enterprise Development**

The private sector in Denmark is dominated by small and medium-sized enterprises, however, only in a few cases does the government exclude larger companies from enterprise promotion schemes. The Ministry of Industry plays a central role in promoting the growth of enterprises with a number of activities. The *Technological Service Institutes* provide grants towards the development of more efficient production techniques. In 1989 the Ministry created the *Network Program* (1989-1992) which encouraged small businesses to be more competitive by undertaking joint utilization of resources and facilities. A similar program, the *Export Network Program* (1991-1994), was created to encourage small companies to work together when exporting goods and services. The *Danish Industrial Development Fund* will help small and medium-sized enterprises by co-funding high-risk technological or market-oriented development projects.

The Ministry of Industry also offers the *Establishment Scheme* which provides a new entrepreneur wishing to set up in manufacturing or in a technology-based service, advice about the preparation of a business plan, marketing, finance, etc. Under this scheme, entrepreneurs with promising ideas for new products, can obtain grants for periods of up to 24 months. The Ministry of Labor administer the *Enterprise Allowance* which is targeted at the unemployed and is applied to a wider range of industries. Therefore, these groups overlap to a limited extent.

Source: Hansen, K. 1992. The Development of Small and Medium-sized Enterprises in Denmark, Copenhagen: Ministry of Industry. (paper prepared to the OECD Workshop on The Development of a Small and Medium Sized Enterprise Sector in the European Economies in Transition, 7-8 April 1992).

#### **Enterprise Allowance Scheme**

The Enterprise Allowance Scheme (EAS) was introduced on 1 July 1985 and revised on 1 January 1989 in order to enlarge the target group. A further revision will be introduced on 1 January 1994 to address a concern raised by the Ministry of Industry that enterprises created by EAS participants have an unfair advantage over other new enterprises which do not receive the benefit. As of 1 January 1994, participants seeking entry to the EAS will be screened by advisors appointed by the Ministry of Industry. Those accepted into the EAS program will be awarded a grant by the Ministry of Industry to purchase business advisory services over a period of 2 years. The EAS will, in effect, remain an entitlement program with the requirement that approval of the business idea must be obtained from the Ministry of Industry.

#### **Funding Sources and Delivery**

The allowance is paid by one of the two unemployment insurance funds for the self-employed. If a participant is not a member of the fund, he must become a member. The scheme is administered by the local public employment service.

## **Targeting**

In order to be eligible for the Scheme, an individual has to meet the following criteria:

- be entitled to unemployment benefits;
- be less than 60 years old;
- be unemployed for 5 months within the last 8 months or be at least 25 years of age and have had a job offer under the Job Offer Scheme for the long term unemployed (see diagram 1);

## **Eligible Enterprise Proposals**

There are no restrictions as to types of business or enterprise and the quality of the project is not assessed by the authorities. However, as of 1 January 1994, the participants will be subjected to a screening procedure undertaken by the Ministry of Industry.

## **Application Process**

Eligibility is verified by the unemployment insurance fund for the self-employed.

## **Assistance**

The Enterprise Allowance amounts to one half of the maximum unemployment benefit and can be obtained for a maximum of 3.5 years. The maximum period of the allowance is reduced by the number of months the claimant is unemployed after the job offer. Similarly, the period is reduced by the number of months the claimant is unemployed after the initial 5 month period. The scheme does not currently include any other additional services such as business advice or courses. However, a number of local authorities offer enterprise advisory services and enterprise courses, usually through local industrial promotion councils. Furthermore, as of 1 January 1994, EAS participants will receive a Ministry of Industry grant valued at DKr 30000. for a period of 2 years in order to purchase business advisory services. EAS participants will also be given access to other small business services offered by the Ministry of Industry.

## **Monitoring**

The claimants are required to declare their self employed status on a monthly basis before the allowance can be mand the enterprise which they have created must be VAT-registered.

## **Evaluation**

The evaluation was based on a survey among a representative sample of 1183 persons who started the scheme in the period 1 July 1989 - 31 October 1989. The interviewing was undertaken by telephone a little less than 2 years later (June 1991) with a response rate of 89 percent. The evaluation was also based on register data from one of the unemployment insurance funds for the self-employed (ASE) which covers about 75-80 percent of the inflow into the scheme. Furthermore, information was also obtained from the scheme register of participants and the enterprise register maintained by the Danish Central Bureau of Statistics.

**Table 3.1: Yearly inflow of participants**

1985-1988	1000
1989-1991	5300-6400
1992	6500
1993	7500

Source: Rosdahl, Anders. 1993. The Danish Enterprise Allowance Scheme. Copenhagen: The Danish National Institute of Social Research. (English mimeograph).

**Table 3.2: Participation Rate (1989)**

Participation rate	2.3 %
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Participation rate. An estimate of the percentage of targeted claimants which enter the Enterprise Allowance Scheme.

Source: Same as Table 3.1.

**Table 3.3: Entrants' Characteristics (1989)**

Male	58
Percent Age < / 24	10
Percent Age > / 45	22
No vocational education	43
Apprenticeship training	46
Higher Education	11

Source: Same as Table 3.1.

**Table 3.4: Program Benefits (1993)**

	Unemployment Benefit	EAS
1. Avg maximum benefit payable	DKr 135 200	DKr 67600
2. Maximum term allowed by law	129 weeks	180 weeks
3. Avg term of benefit paid	..	116 weeks (1987)*

\* The average term of benefit paid was 27 months in 1987, 28 months in 1986, and 32 months in 1986.

1. Average maximum benefit payable. The sum of the target groups' maximum allowable benefits in DKr divided by the number of claimants in the target group.
2. Maximum term allowed by law. The maximum allowable number of weeks during which a claimant in the target group may receive the benefits.
3. Average term of unemployment. The sum of the weeks during which the claimants actually receive the benefits divided by the number of claimants.

Source: Ministry of Labor.

**Table 3.5: Survival Rates and Deadweight (1989)**

1. Share of new enterprises created	13 %
2. Enterprise Survival Rate	40%
3. Deadweight	27%

1. Share of new enterprises created. The estimated number of new enterprises which were supported by the Enterprise Allowance Scheme as a percent of the enterprises created.
2. Enterprise Survival Rate. The percentage of enterprises which have survived approximately 4.5 years.
3. Deadweight. The percentage of EAS claimants who, when questioned, said that they would definitely have started in the absence of the scheme.

Source: Same as Table 3.1.

**Table 3.6: Yearly Program Expenditure (1993)**

1. Program expenditure	Dkr 959 million
2. Cost per participant	47 000

1. Program expenditure. The sum of the cost of administering the program and the benefits paid to the participants.
2. Cost per participant. The total cost of the program divided by the number of participants (6400 + 6500 + 7500).

Source: Ministry of Labor.

**Table 3.6a: Total Program Expenditure per Participant (1991-1993)**

1. Program Expenditure (90-92)	Dkr 2700 million
2. Total cost per participant	132 000
3. Total cost per survivor	331 000

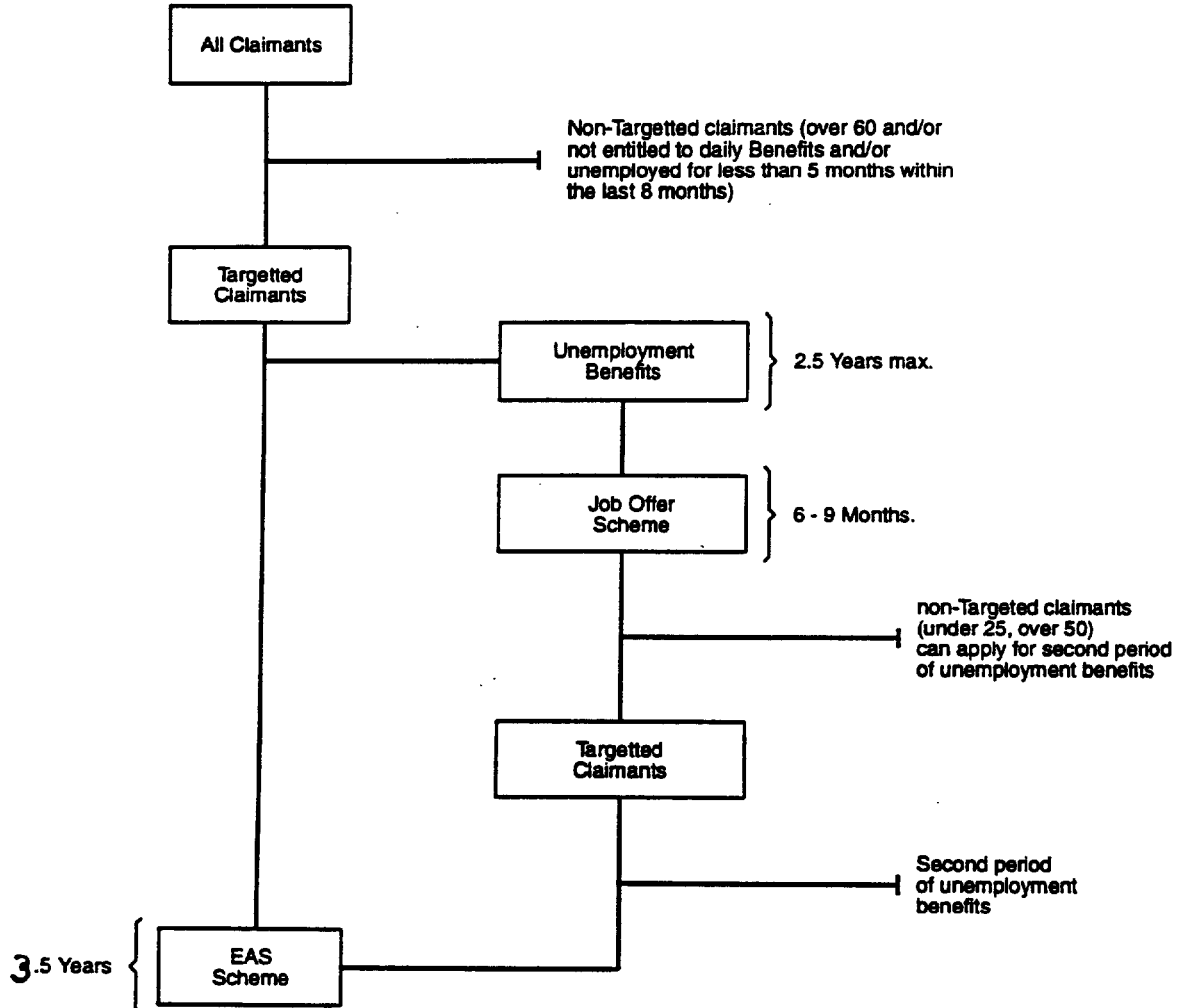
3. **Cost per surviving enterprise.** The total cost of the program divided by the number of surviving enterprises (40%) after approximately 4.5 years.

**Source: Ministry of Labor.**





**FLOW CHART 7: ENTERPRISE ALLOWANCE SCHEME (EAS) SCHEME**





Note: Towards the end of 1992, these four unemployment benefits were replaced by the *Allocation Unique Dégressive*, a single benefit which declines over time.

- Finally, in 1990, those receiving the *Revenu Minimum d'Insertion* (i.e. welfare payment) became eligible for the program.

### **Eligible Enterprise Proposals**

The claimant must intend to create or take over an enterprise which s/he will effectively control in name, as a cooperative or as a commercial enterprise. Limited partnerships are not eligible for assistance nor are voluntary organizations.

### **Application Process**

ACCRES was initially offered as an entitlement to eligible claimants without regard to individual qualifications or quality of the business idea. However, measures were introduced in 1987 to screen the participants' business proposals before the assistance was forthcoming. ACCRES remains an entitlement but it is no longer automatic. Since 1987, the ACCRES application must be filed before the enterprise is created in order that it may be reviewed by the regional employment office (Direction Départementale du Travail et de l'Emploi).

### **Assistance**

The participants of the ACCRES program are offered three benefits:

- A lump sum payment is granted based on the unemployment benefit category. (This, however, will change in 1994 when all participants will receive a lump sum of FF 32 000 and a 12 month exemption from social security benefits rather than the present 6 months). Funding is less for unemployed claimants who delay entry into the program. An additional grant is available if the enterprise creates employment. These funds are not taxed unless the enterprise is sold or ceases to exist within 5 years of its creation.
- ACCRES participants are exempt from health insurance, pension contributions, family allowances and industrial accident insurance for 6 months.
- A compulsory 3 day business course is offered. Also, a booklet of vouchers (chéquier conseil) is offered which can be used to purchase the recognized business advisory services of lawyers, accountants, business experts, etc. Each booklet contains 15 vouchers. Each voucher can be exchanged for one hour of service valued at FF400 per hour. 75% of the cost of the vouchers is financed by the ACCRES program, the remaining by the participant. The booklet is optional and can be requested by the participant within 18 months of being accepted into the ACCRES program.

### **Unemployment Benefits for the Self Employed**

Should a self employed individual become unemployed he is not eligible for unemployment benefits unless he registers his enterprise as a SARL whereupon he becomes a salaried employee and the enterprise contributes to the unemployment fund. However, most self employed prefer to register themselves as individual enterprises which do not contribute to the unemployment fund, and as a result, may not receive unemployment benefits.



## Annex 4

### France

#### **Small Enterprise Development**

Policies on small enterprise development are generally created and administered by the Ministry for Industry and Commerce. The policies are divided into 3 broad groups: information, training and counselling; financial assistance for enterprise creation; diminishing administrative and legal barriers. With regard to financial assistance for enterprise creation, the Ministry of Labor, Employment and Training also offers assistance. In 1977, ACCRE, a self employment program, was introduced.

**Aide aux Chômeurs Créateurs ou Repreneurs d'Entreprise (ACCRE) (Assistance to the Unemployed to Create or Take-over an Enterprise)**

ACCRE was officially created in January 1979 (law no. 79-10) though it had been carried out on an experimental basis since 1977. Recipients of the grant can use it to establish a new enterprise or to purchase an existing enterprise.

#### **Funding Sources and Delivery**

Originally, the funding for ACCRE came from ASSEDIC (i.e. the unemployment insurance organization). However, in 1984 the state budget became responsible for ACCRE and the target group for the program was widened. The program is administered and delivered by the regional representatives of the Ministry, (Direction Départementale du Travail et de l'Emploi).

#### **Targeting**

There are five target groups for the ACCRE. Basically, all are unemployed and receiving an unemployment benefit of some kind:

- The unemployed receiving the *Allocation de Base*. ACCRE was originally targeted to dislocated workers and, therefore, showed preference to unemployed workers who had exhibited relatively high wage earning histories. The program came under criticisms as being of benefit mainly to highly skilled workers and managers, and the target group was widened to include the long term unemployed. In 1991, 85 % of ACCRE participants had been receiving an Allocation de Base.
- The longer term unemployed receiving the *Allocation de Fin de Droit* (i.e. the benefit one receives after exhausting the Allocation de base) were admitted into the program in 1984. In 1991, 10 of ACCRE participants had been receiving an Allocation de Fin de Droit.
- In 1989 further reforms were undertaken and those receiving the *Allocation de Solidarité Spécifique* (i.e. the unemployed having exhausted the Allocation de fin de droit) were admitted into the program.
- The reforms in 1989 also admitted those receiving the *Allocation d'insertion* (e.g. those with no past work histories).

## **Monitoring (to ensure continuing eligibility)**

Scheme participants are required to operate their enterprise for at least 341 days or they must repay the grant. The Ministry has, however, stated that it is difficult to enforce this requirement.

## **Evaluation**

Two thousand ACCRE participants who received assistance in 1986 were interviewed in 1991 (response rate was 32 %). Their responses were compared with those of other entrepreneurs who had not received ACCRE assistance (response rate of 24 %).

See: Aucouturier, Anne-Lise and Catherine Daniel. 1993. Du chômage la création d'entreprise. Paris: Ministère du Travail, de l'Emploi et de la Formation Professionnelle. Collection des rapports Travail-Emploi.

## **FONDS DEPARTMENTAL POUR L'INITIATIVE DES JEUNES (FDIJ)**

The program was created in 1985 to assist young people to create enterprises. Unlike ACCRE, the assistance offered by FDIJ is not an entitlement but is granted to enterprises created by persons in the target group on a case by case basis. Only one FDIJ grant can be given to an enterprise even though ownership may be held by more than one claimant. It is possible for some claimants to be eligible to receive assistance from both ACCRE and FDIJ though these rules are subject to change.

## **Funding Sources and Delivery**

The state budget is responsible for FDIJ. The program is administered and delivered by the regional representatives of the Ministry, (Direction Départementale du Travail et de l'Emploi). In certain regions, the regional representative of the Ministry of Youth and Sports (Direction Départementale Jeunesse et Sports) may also be involved in coordination.

## **Targeting**

The FDIJ program was initially targeted to young people aged between 18 and 25, not necessarily unemployed or at risk though the program was widened in 1987 and 1990. Currently, the following groups are targeted:

- 18-25 years old;
- the long-term unemployed;
- low income women over 25 who are unemployed and not eligible for unemployment benefits.

## **Screening**

Proposals are screened by the Direction Département du Travail et de l'Emploi and preference is given to enterprises which create jobs and have a potential for growth.

## **Assistance**

The participants of the FDIJ are offered three benefits:

- A lump sum payment between FF 10 000 and FF 100 000. The average sum is 30 000.
- ACCRE participants are exempt from health insurance, pension contributions, family allowances and industrial accident insurance.
- A booklet of vouchers (chéquier conseil). See description above.

**Table 4.1: Number of ACCRE Participants and Enterprise Creation**

Year	ACCRE participants	ACCRE enterprises	Total new enterprises	ACCRE share in total
1979	9200	6500	..	..
1980	13800	12500	..	..
1981	26360	24740	242080	10.2 %
1982	39860	33900	229600	14.8
1983	37484	31427	209330	15.0
1984	35376	29000	217389	13.3
1985	70056	57610	244520	23.6
1986	71577	61951	266220	23.0
1987	64633	56643	274480	20.6
1988	56772	49835	279000	17.9
1989	51664	46319	278960	16.6
1990	49316	45581	273420	16.7
1991	43616	40433	240832	16.8
1992	49337	45155	228454	19.8

1. Participants. The number of eligible unemployed workers and welfare claimants accepted into the ACCRE program.
2. Enterprises. The number of enterprises created or taken over by the participants of the ACCRE program.
3. Total new enterprises. The total number of enterprises registered by INSEE.
4. ACCRE share in total. The proportion (%) of enterprises which have received assistance from ACCRE in the total number of new enterprises.

Source: DARES. 1993. "L'Aide aux chômeurs créateurs ou repreneurs d'entreprise (ACCRE) en 1992", Premières Informations 357. Paris: Ministère du Travail, de l'Emploi et de la Formation Professionnelle.

**Table 4.1a: Number of FDIJ Participants and Enterprise Creation**

	FDIJ Participants	FDIJ Enterprises
1988	4000	..
1989	6000	..
1990	7132	6314
1991	5990	5266
1992	6262	5803

1. **Participants.** The number of eligible unemployed workers and welfare claimants accepted into the FDIJ program.
2. **Enterprises.** The number of enterprises created or taken over by the participants of the FDIJ program.

Source: Ministère du Travail, de l'Emploi et de la Formation Professionnelle: Service des Etudes et de la Statistique, Le Fonds Départemental pour l'Initiative des Jeunes, (note).

**Table 4.2: ACCRE Participation Rate**

Participation rate	1.9 %
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Participation rate. The number of ACCRE participants in 1992 divided by the number of unemployed. (OECD "Labour Force Statistics": 2 300 000).

Source: Ministère du Travail, de l'Emploi et de la Formation Professionnelle.



**Table 4.3: ACCRE and Non ACCRE Participants**

	ACCRE	Non ACCRE
Men	79.0 %	72.0 %
Age: less than 24	12.3	11.5
Age: 25-29	19.0	19.5
Age: 30-39	42.5	39.8
Age: 40-49	20.2	19.6
50 +	6.0	9.6
Mean Age	34.6	35.6
Education: Primaire	18.4	15.9
CAP or BEF	44.7	35.8
Brevet de tech.	13.6	15.0
BAC	11.5	11.9
BAC +	11.8	21.4

Sources: Aucouturier, Anne-Lise and Catherine Daniel. 1993. Du chômage la création d'entreprise. Paris: Ministère du Travail, de l'Emploi et de la Formation Professionnelle. Collection des rapports Travail-Emploi.

**Table 4.4: Program Benefits**

	ACCRE	FDJ
1. Maximum benefit paid	FF 45 000.	FF 100 000.
2. Maximum term	..	..
3. Average benefit paid	30 177.	30 000

1. Maximum benefit available. The maximum allocation de base is In ACCRE, the maximum sum drops to FF 16 125 if the participant applies after having been registered as unemployed for over 91 days.
2. Maximum term. The number of weeks during which the participants is permitted to receive the benefits. The unemployed in France can receive unemployment benefits indefinitely though they are shifted from category to category with each shift diminishing their benefit significantly.
3. Average benefit paid. The average benefit paid to claimants in the various programs either in periodic payments or lump sums. 54% of ACCRE participants received a payment between FF 30 000. and 45 000. A further 40% received assistance amounting to FF 16 168.

Source: Ministère du Travail, de l'Emploi et de la Formation Professionnelle.

**Table 4.4a: Vouchers**

	1. Booklets Delivered	2. Cheques Returned	3. Cost	4. ACCRE (%)	5. FDIJ (%)
1991	6989	49505	FF 14 851 500	..	..
1992	7979	62797	18 839 100	14.5%	10.5%

1. Booklets Delivered. The number of booklets (i.e. each booklet contains 15 vouchers) which have been handed out to ACCRE and FDIJ participants.
2. Cheques returned. The number of cheques which have been used and returned to the Ministry.
3. Cost. The number of cheques returned multiplied by FF 300.
4. ACCRE (%). The percentage of ACCRE participants who have requested and received vouchers.
5. FDIJ (%). The percentage of FDIJ participants who have requested and received vouchers.

Source: Ministère du Travail, de l'Emploi et de la Formation Professionnelle: Service des Etudes et de la Statistique, Le Chèque Conseil en 1991, (note).

**Table 4.5: Survival and Deadweight (1986)**

1986 Participants	ACCRE
1. Share of new enterprises created	23 %
2. Enterprise Survival Rate (1985)	51
3. Deadweight	60.1

1. Share of new enterprises created. The estimated number of new enterprises which were supported by the Chômeurs Créateurs program as a percent of the enterprises created in 1986.
2. Enterprise Survival Rate. An estimate of the percentage of enterprises which survive approximately 4 years.
3. Deadweight. The percentage of survey respondents who, when questioned, said that they would have created an enterprise in the absence of the scheme. (22.5 responded "no" and 17.4 did not respond).

Source: Aucouturier, Anne-Lise and Catherine Daniel. 1993. Du chômage la création d'entreprise. Paris: Ministère du Travail, de l'Emploi et de la Formation Professionnelle. Collection des rapports Travail-Emploi. p.29 and p.40 (quoting from Viennet (1989)).

**Table 4.6: Program Expenditure (1992)**

1. Total program cost	FF 1 506 546 720.
3. Cost per participant	30 500.
5. Cost per surviving enterprise	64 218.

1. Total program cost. The cost of benefits and the cost of the vouchers.
2. Cost per participant. The total program cost (including cost of all vouchers though a proportion have been used by FDJ participants) divided by the number of participants.
3. Cost per survivor. The total program cost (including cost of all vouchers though a proportion of the vouchers are used by FDJ participants) divided by the estimated number of surviving enterprises (52%).

**Sources:**

1. Ministère du Travail, de l'Emploi et de la Formation Professionnelle.
2. Ministère du Travail, de l'Emploi et de la Formation Professionnelle: Service des Etudes et de la Statistique, Le Chèquier Conseil en 1991, (note).

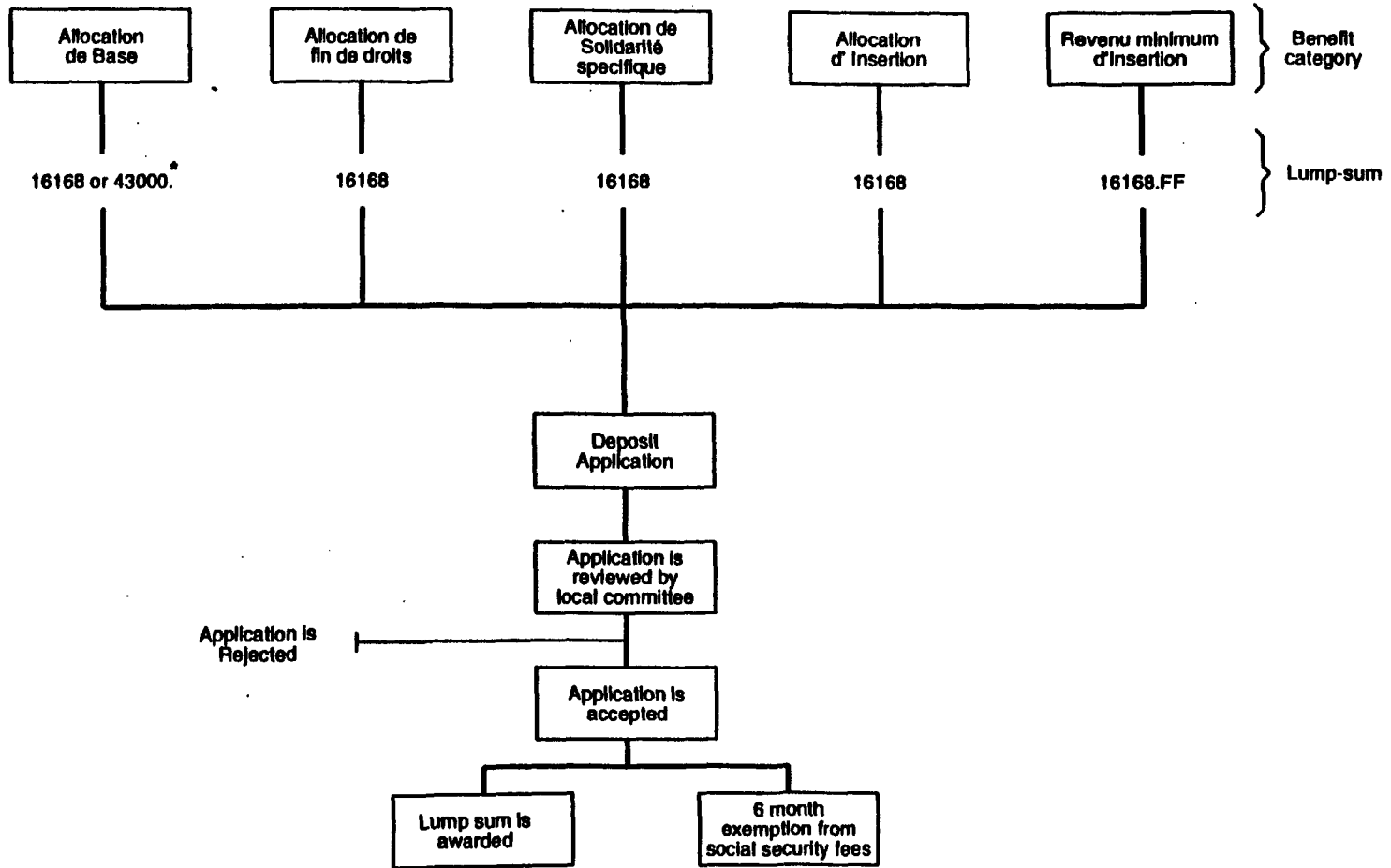
**Table 4.7: Secondary Job Creation: 1985**

54 month follow survey	ACCRES	Non ACCRES
No employees	70.8 %	63.6 %
1 employee	15.8	18.3
2-5 employees	11.2	14.4
6 or more employees	2.2	3.7
Jobs created per 100 survivors	45	54

Jobs created per 100 survivors. The number of employees multiplied by 100 and divided by the number of self employed who hire full- or part-time employees.

Source: Aucouturier, Anne-Lise and Catherine Daniel. 1993. Du chômage la création d'entreprise. Paris: Ministère du Travail, de l'Emploi et de la Formation Professionnelle. Collection des rapports Travail-Emploi.

**FLOW CHART 8: ASSISTANCE TO THE UNEMPLOYED TO CREATE OR TAKE-OVER AN ENTERPRISE (ACCRES)**



\* Recipients of the 43000.FF lumpsum are those eligible for the Allocation de Base benefit for more than 428 days

## Annex 5

### Germany

#### Small Enterprise Development

In addition to the *Überbrückungsgeld* which is administered by the Federal Ministry of Labor (described below), the Federal Ministry of Economics offers the following programs to assist small business development. "*Own capital assistance program for the support of self-employment*" has been in force since 1979 but was suspended in the Western Länder in order to concentrate all available budgetary resources on reconstructing the New Länder's SME sector. The program "*Loan guarantees for small and middle-sized enterprise*" provides assistance to private persons who lack resources to set up private businesses or practices in the liberal professions. Also, equity can be used for the acquisition of a company by means of a management buy-out. The "*ERP-credit program for investment by entrepreneurs and members of the liberal profession*" provides loans at favorable interest rates to private citizens, small and medium-sized private firms and to members of the liberal professions lacking resources to finance investment and the setting-up of new businesses in East and West Germany. The "*Support for information and educational events for entrepreneurs and members of the liberal professions*" program provides grants to new entrepreneurs to purchase business advisory services.

#### Sources:

1. Meager, Nigel, Kaiser, Manfred and Dietrich, Hans. 1992. Self-employment in the United Kingdom and Germany. London: Anglo-German Foundation for the Study of Industrial Society.
2. Siebeke, Roland. 1992. Rationale, Design, Implementation and Evaluation of SME Support Policy in Germany. Berlin: Federal Ministry of Economics. (paper prepared to the OECD Workshop on The Development of a Small and Medium Sized Enterprise Sector in the European Economies in Transition, 7-8 April 1992).

#### **Überbrückungsgeld ("Bridging allowance for unemployed people to set up in self-employment")**

Since the 1 January 1986, a provision of the Labor Promotion Act (Section 55A) created an allowance which is provided to the unemployed wishing to become self-employed. Initially, those eligible for the scheme had to have been receiving unemployment benefits for at least 10 weeks and the self employment allowance was provided for a period of 13 weeks. In 1988, this target group was widened and the length of the benefit was lengthened.

#### **Funding Sources and Delivery**

Though the *Überbrückungsgeld* comes under the jurisdiction of the Federal Ministry of Labor it is delivered by the Bundesanstalt für Arbeit (Federal Employment Service) and its local offices. The *Überbrückungsgeld* is not an entitlement program. That is, even though an applicant may fulfil the scheme's eligibility requirement, the Bundesanstalt für Arbeit (Federal Employment Service) may refuse applicants if program budget has been exhausted for that year. However, the government does attempt to budget accurately and thus far there have not been excess demand. Also, an applicant does have legal recourse to petition for self-employment funds should the budget be exhausted.

## **Targeting**

In order to be eligible for the Scheme, an individual has to have received unemployment benefits for at least 4 weeks (prior to 1988 the claimant had to be receiving benefits for 10 weeks).

## **Eligible Enterprise Proposals**

Applicants for the Überbrückungsgeld are required to have the viability of their enterprise proposals certified by a competent body such as the Chamber of Industry and Commerce, banks and/or tax lawyers. Also, the proposed enterprise must generate a specified minimum income. The Chambers do not charge for this service though banks and tax lawyers do, in which case the applicant must assume the cost.

## **Application Process**

Once the enterprise has been approved, the applicant is guaranteed a place in the program.

## **Assistance**

The participants of the Überbrückungsgeld program are offered a number of benefits.

- Participants receive, for 26 weeks, a weekly allowance equal to the unemployment benefit last received (this varies from recipient to recipient); prior to 1988 the allowance was paid for 13 weeks;
- Participants receive an additional financial contribution (a third of their weekly allowance) of to cover social security fees;
- As of yet, the staff in local Bundesanstalt für Arbeit do not offer business advisory services to Überbrückungsgeld participants other than to inform them about the programs in the Federal Ministry of Economics. (There is some discussion that such services may be offered in 1994).
- The governments in the New Länder may also offer additional training grants and allowances.

## **Monitoring**

Participants of the Überbrückungsgeld must register their enterprise with the fiscal authorities and at the local labor office.

## **Unemployment Benefits for the Unemployed**

Should a self-employed person fail at his enterprise he is not eligible to receive unemployment insurance benefits. However, he is eligible for an unemployment allowance (i.e. social assistance) which amounts to 53-58% of the last net income earned or based on what he could have earned (referring to the 'tariffs' negotiated between the unions and the government).

## Evaluation

In 1989, a survey of individuals who participated in the Überbrückungsgeld scheme in 1986-1988 was undertaken. Kaiser, Manfred and Otto, Manfred. 1990. "Übergang von Arbeitslosigkeit in berufliche Selbständigkeit" in Mitteilungen aus der Arbeitsmarkt- und berufsforschung. Vol.22, No.2, pp.284-299.

*Note:* The New Länder (referred to below) are Brandenburg, Mecklenburg-Vorpommern, Sachsen and Sachsen-Anhalt. The four Länder are regrouped into 3 regional employment groups: LAA Berlin-Brandenburg, LAA Sachsen and LAA Sachsen-Anhalt-Thüringen. There are 38 local labor offices in the New länder compared to 11 regional offices and 184 local offices in the West länder.

**Table 5.1: Number of Participants**

Year	West Länder	New Länder
1986	5576	..
1987	10069	
1988	17949	
1989	11500	
1990	12742	
1991	13014	
1992	13142	18445

*Note:* The number of participants for 1990 includes participants from the New länder who became eligible for the program from October 1990. The number for 1991 also includes both West länder and New länder participants.

## Participants

The number of eligible unemployed accepted into the Überbrückungsgeld scheme.

Source: Bundesanstalt für Arbeit Database, Referat Ia7, Ia7-5513.

**Table 5.2: Unemployment and Participation Rates (1992)**

	West Länder	New Länder
No. of unemployed	1 808 310	1 170 261
Unemployment rate	6.6 %	14.8 %
Participation rate	0.73 %	1.58 %

Participation rate. An estimate of the percentage of targeted unemployed claimants which enter Überbrückungsgeld in 1992.

Source: Bundesanstalt für Arbeit.

**Table 5.4: Program Benefits (1992)**

	West Länder		New Länder	
	U.I. Benefit	Überbrück.	U.I. Benefit	Überbrück.
1. Avg maximum benefit payable	3187. per month <sup>a</sup>	Same as UI Benefit	2441 per month <sup>a</sup>	Same as UI benefit
2. Maximum term allowed by law	30-156 weeks <sup>b</sup>	13 weeks	30-156 weeks <sup>b</sup>	13 weeks
3. Avg benefit paid	1400 per month	939 per month	1045 per month	666 per month
4. Avg term of benefit	54 weeks	..	38 weeks	..

- a. The maximum benefit payable is a function of a worker's employment history.
- b. The maximum term allowed by law is a function of a worker's age and his employment history.
1. Average maximum benefit payable. The sum of the maximum benefits payable divided by the number of participants.
  2. Maximum term allowed by law. The maximum allowable number of weeks during which a claimant has a right to receive benefits.
  3. Average benefits paid. The sum of the weekly benefits which were actually paid out to the claimants divided by the number of claimants.
  4. Average term of benefit. The sum of the weeks during which the claimants actually receive benefits divided by the number of claimants.

Source: Bundesanstalt für Arbeit.

**Table 5.5: Survival Rates**

	West Länder	New Länder
1. Share of new enterprises (1992)	15 %	20 %
2. Unemployed (1988)	8	..



1. Share of new enterprises created. The estimated number of new self employed which were supported by the Überbrückungsgeld as a percent of the total number of new self-employed in 1992.
2. Unemployed. The percentage of 1987 participants which were unemployed in May 1989.

Source: Kaiser, Manfred and Otto, Manfred. 1990. "Übergang von Arbeitslosigkeit in berufliche Selbständigkeit" in Mitteilungen aus der Arbeitsmarkt- und berufsforschung. Vol.22, No.2, pp.284-299.

**Table 5.6: Program Expenditure (1992)**

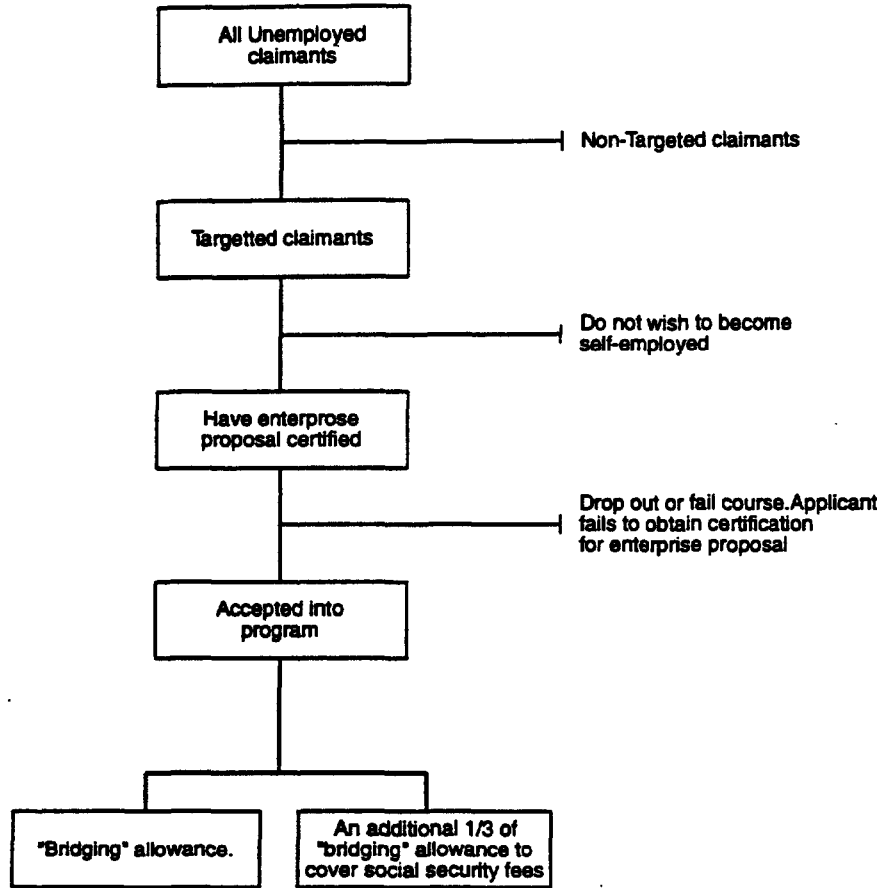
	West Länder	New Länder
Total program cost	Dm 59 000 000	Dm 77 000 000
1. Cost per participant	4489	4175

1. Cost per participant. The total cost of the program in Dm divided by the number of participants.

Source: Bundesanstalt für Arbeit Database.



**FLOW CHART 9: BRIDGING ALLOWANCE FOR UNEMPLOYED PEOPLE TO SET UP IN SELF-EMPLOYMENT (UBERBRÜCKUNGSELD)**



EK/W55808F



## **Annex 6**

### **Ireland**

#### **Small Enterprise Development**

Department of Enterprise and Employment and the Industrial Development Authority share responsibility for small enterprise development. Up to 1987, Ireland's training and employment services were supplied by a number of bodies. Enterprise programs were delivered by three bodies: AnCO was charged with the administration of Enterprise Training; The National Manpower Service, under the authority of the Department of Enterprise and Employment, administered the Enterprise Allowance Scheme; the Youth employment Agency provided the Community Enterprise Program. From 1987, the responsibility of Enterprise Training and the Enterprise Allowance has transferred to the National Manpower Service (FÁS).

#### **FÁS Enterprise Program**

The Program began as a pilot project in 1983 and implemented throughout Ireland the following year. The objective of the program is to assist the unemployed to create their own businesses either as sole ventures, partnerships or co-operatives. The program was reformed in 1987 to make screening procedures more demanding. Formerly, the program offered its participants the possibility of capitalizing their unemployment benefits since a number of participants had maintained they needed the lump sum for stock purposes. However, upon examination, it was determined that the lump sum was not being utilized as suggested and the practice was discontinued in 1986.

#### **Funding Sources and Delivery**

The program is funded by the Department of Enterprise and Employment and is delivered by Foras Áiseanna Saothair (FÁS), Ireland's National Manpower Service. FÁS delivers the program at the local level through its local labor offices in cooperation with County Enterprise Partnership Boards. The Government create the County Enterprise Partnership Boards in 1992 in order to co-ordinate the services provided by a number of Government agencies with the efforts of private interests, including financial institutions, in relation to local enterprise creation.

#### **Targeting**

In order to be eligible for the Scheme, an individual has to meet the following criteria:

- be unemployed for 13 weeks or more, however the individual may apply for admission before that time since attending the Business Training course qualifies for part of the 13 weeks;
- in receipt of either unemployment insurance (term of 15 months) or unemployment benefit (indefinite).

## **Eligible Enterprise Proposals**

The Enterprise Program will only support new businesses which provide a full time occupation and which are independent. The business must also comply with relevant legislation and must not displace other businesses. Also, the business cannot have capital spending of more than IR£ 30 000 in the first year of trading, and cannot be in certain areas (e.g. gaming). The business proposed cannot have started before FÁS approval.

## **Application Process**

The applicant is interviewed by a placement officer at his local FÁS Employment Service Office where he is informed of the program requirements and services, and where the validity of his business idea is examined. Based on the interview and an application completed by the potential participant, the officer makes a decision regarding admission to a 10 week Business Appraisal Training course, the first phase of the Enterprise Program. The course is compulsory unless the applicant is sufficiently qualified. If the applicant successfully completes the Business Appraisal Training he is admitted into the second phase of the program where he becomes eligible for technical training and other supports.

## **Assistance**

The participants of the Enterprise Program are offered four inter-related program services.

- Technical training, if necessary;
- An Enterprise payment, in lieu of unemployment benefit, of IR£ 40 per week for self employed people without dependents, and IR£ 65 per week with dependents, for up to 40 weeks. In some cases, payments of up to 26 weeks only may be offered.
- Enterprise workshops;
- Business counselling.

## **Monitoring**

Follow-up questionnaires are sent out to program participants to establish whether a new enterprise has started or is in the process of being set up.

## **Evaluation**

A postal questionnaire was used to collect over 250 pieces of information from each of the 700 participants who undertook The "Start Your Own Business" Course. The target population was all participants who completed the course between 1984 and 1986. See: O'Neill & Associates. 1987. Enterprise Survey. Howth, Ireland: O'Neill and Associates. Another evaluation is currently underway.

**Table 6.1: Number of Participants**

1984	1,155
1985	5,254
1986	6,100
1987	2,782
1988	2,467
1989	2,523
1990	2,535
1991	1,592
1992	1,642

Source: FÁS (1992), FÁS Annual Report.

**Table 6.2: Participation Rate (1992)**

Participation Rate	0.7 %
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Participation rate. The number of participants to the Enterprise Program divided by the number of register unemployed.

Source: FÁS.

**Table 6.3: Entrants' Characteristics (1992)**

Male	77 %
Long-term Unemployed	28
Below Leaving Certificate	47
Leaving Certificate	30
Higher Education	23
25 and under	17
25 and over	84

Source: O'Neill & Associates. 1987. Enterprise Survey. Howth, Ireland: O'Neill and Associates.

**Table 6.4: Program Benefits (1993)**

IR £	Unemployment Insurance	Unemployment Benefit	Enterprise Allowance
1. Benefit	220	56 (or 91)	40 (or 65)
2. Maximum term allowed by law	67 weeks	indefinite	40 wks

1. Benefit. The unemployment benefit is IR£ 55.60 per week for single persons and IR£ 91.10 per week for persons with a dependent.
2. Maximum term allowed by law. The maximum allowable number of weeks during which an unemployed person may receive the benefits.

Source: FÁS, Employment Services.

**Table 6.5: Survival Rates (1984-1986)**

1987 Survey Results	1983 participants
1. Self employed	39 %
2. Enterprise Survival Rate	75
2. Deadweight	23

1. Self employed. The percentage of those who undertook the Business Training and who were in self employment at the survey in 1987.
2. Enterprise Survival Rate. The percentage of those who created an enterprise in 1984-86 who were still in business at the time of the survey.
2. Deadweight. The percentage of Enterprise Program participants who, when questioned, said that they would have started in the absence of the scheme.

Source: O'Neill & Associates. 1987. Enterprise Survey. Howth, Ireland: O'Neill and Associates.

**Table 6.6: Program Costs (1992)**

1. Total program costs	8.32 IR£ million
2. Cost per participant	5067
3. Cost per surviving enterprise	6753

1. Total program costs. The sum of the cost of delivering business advisory services and the benefits paid to the participants.
2. Cost per participant: The total cost of the program divided by the number of participants.



3. **Cost per surviving enterprise.** The total cost of the program divided by the number of surviving enterprises (using 1984-86 survival rate) after approximately 18 months.

Source: FÁS, Financial Accounts Department.

**Table 6.7: Enterprise and Job Creation (1984-86)**

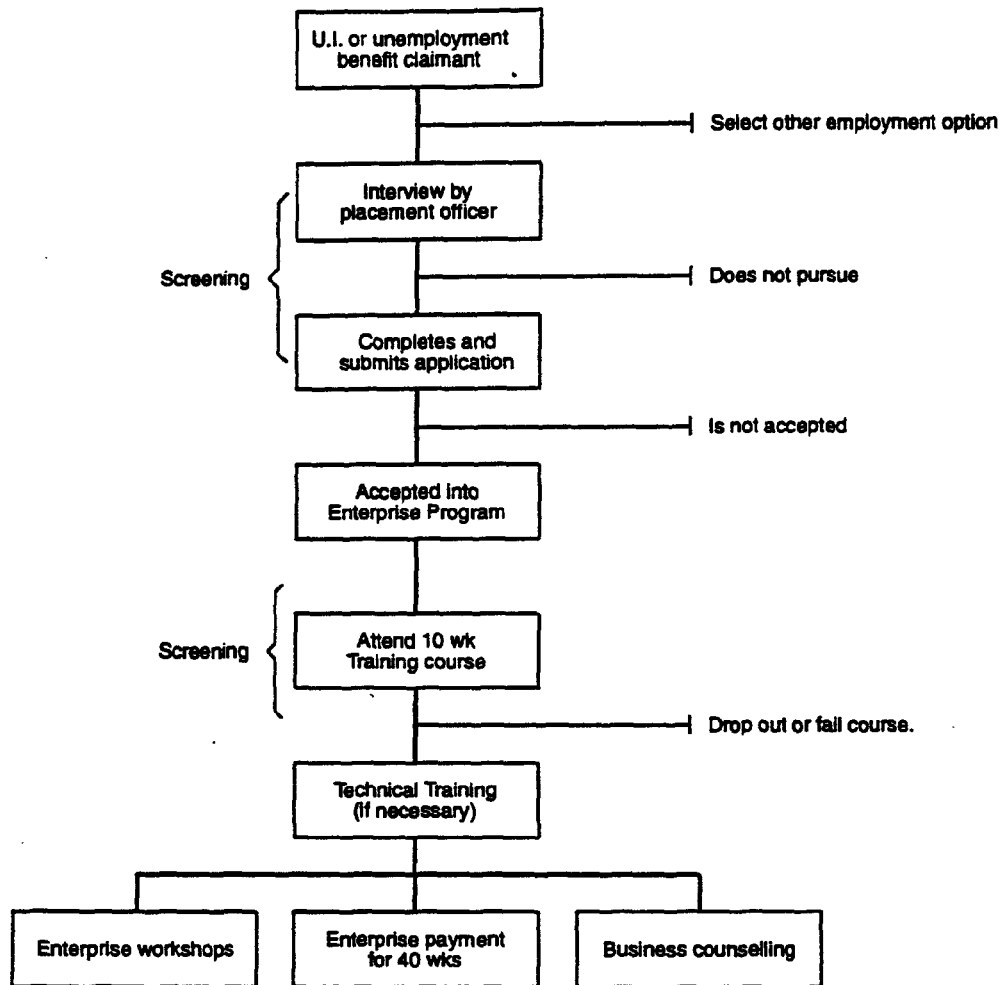
Number of survey respondents	700
Number which have created or will create enterprises	335
Number of additional jobs created	497
Employing Enterprises	50 %
1. Employing (full-time) Enterprises	16.7 %
2. Additional Job Creation (per 100 enterprises)	148 jobs

1. **Employing Enterprises.** The percentage of self employed who hired full- or part-time employees.
2. **Jobs Created (per 100 survivors).** The number of employees multiplied by 100 and divided by the number of self employed who hire full- or part-time employees.

Source: O'Neill & Associates. 1987. Enterprise Survey. Howth, Ireland: O'Neill and Associates.



**FLOW CHART 10: NATIONAL MANPOWER SERVICE  
(FAS) ENTERPRISE PROGRAM**



EK/W55808G



## **Annex 7**

### **Netherlands**

#### **Small Enterprise Development**

Most of the government assistance offered to small businesses in the Netherlands is under the responsibility of the Ministry of Economic Affairs, Small Business Division. The Ministry, in partnership with private sector organizations, offers training courses to new and existing entrepreneurs. The Ministry is presently implementing 3 pilot 'enterprise centers' offering business advisory services. Furthermore, in order to stimulate research and development, the government offers the following schemes: the Small and Medium-sized Enterprises Research Scheme (OMK), The Business Oriented Technology Stimulation (PBTS), the Technological Development Loan (TOK). New and existing small businesses can also apply for guaranteed loans.

#### **Bijstandsbesluit zelfstandigen (Bz) (National assistance scheme for the self-employed)**

The Bz scheme was introduced in May 1985. Before this date, assistance was only offered to existing businesses of the self-employed. The scheme forms part of the Algemene Bijstandswet (ABW - National Assistance Act). Under this act any person and his family (wife or partner and dependent children) lacking means of subsistence (income and/or fortune) is entitled to assistance. The assistance is aimed at enabling the beneficiary to attain economic self-sufficiency. The ABW is the last provision in the Dutch social security system and is only offered when all other provisions are exhausted, although it is possible to obtain ABW assistance if the claimant is likely to be confronted with a lack of means

#### **Funding Sources and Delivery**

The Bz scheme is part of the National Assistance Act which is under the authority of the Ministry for Social Affairs and Employment, Directorate General Social Security. The municipal social services are charged with the implementation of the scheme under the responsibility of the College van Burgemeester en Wethouders (B&W - municipal Court of Mayor and Aldermen). The municipality assumes 90% of the direct costs of the Bz scheme and 90% of the feasibility study costs are reimbursed by the state under the National Assistance Act budget.

#### **Targeting**

There are three target groups for the Bz scheme:

- existing enterprises which are undergoing financial difficulty;
- the unemployed in receipt of unemployment insurance or 'soon to be' unemployed;
- the unemployed in receipt of unemployment benefit (bijstand).

Furthermore, in order to be eligible for the Scheme, an individual and the members of his family must not have an income at or above the level of the minimum wages. For example, an unemployed individual whose spouse has a full-time paid job is not entitled to an allowance under this scheme.

## **Eligible Enterprise Proposals**

There are no restrictions on the type of enterprise proposed. However, the claimant putting forward an enterprise proposal to the Bz scheme provide evidence that he could not obtain a loan from private financing institutions. This requirement has proven difficult to enforce. A study has revealed that applicants do not always go through the motions of requesting a loan and the assessors of the applications sometimes assumes, on the basis of their experience that the prospective entrepreneur would have no chance of a bank loan. The Bz scheme requires that the proposed enterprise must be viable after the monthly supplementary allowances are discontinued. That is, the proposed business must generate an income covering the expected personal spending, and sufficient cash flow covering repayments on loans and future investments (if access to bank loans can be expected).

## **Application Process**

Initially, the Bz scheme did not require that claimants submit a business plan. Currently, however, almost all the municipal social services demand a business plan because many proposals were vague and ill-considered. A feasibility investigation is always carried out, either by the municipal social services or, more frequently, by the Ministry of Agriculture or the Instituut Midden- en Kleinbedrijf (Institute for Medium- and Small sized Enterprises). The Institute is a semi-public organization funded in part by the Ministry of Economic Affairs. A board of experts reviews both the business plan and the feasibility report and advises the municipal Court of Mayor and Aldermen. The board of experts are representatives of the B&W, the Ministry for Social Affairs and Employment, Ministry of Economic Affairs and/or Ministry of Agriculture, and/or Ministry of Traffic (depending on the type of business concerned) and a representative of a central organization of entrepreneurs or a central agricultural organization.

## **Assistance**

The participants of the Bz scheme are offered three inter-related program services:

- An income-supplementing allowance is provided up to the level of the social assistance (comparable to minimum wages) for a period of 6 months. Benefits may be extended for a further 6 months or, exceptionally, for 12 months.
- An additional payment to cover health care insurance fees.
- A loan of up to Df 40 000. is provided. Current bank interest rates are charged. The loan must be paid back within ten years depending on the type of investment and cash flow.

The participants to the Bz scheme can also benefit from other government programs which offer assistance to small businesses:

## **Unemployment Benefits for the Self Unemployed**

Should a UI claimant become self employed and fail he can claim the rest of the unused portion of his unemployment insurance. Thereafter, he can claim a bijstand allowance (i.e. a means tested employment benefit).

## Monitoring

The participant is monitored at the 6 month period. If the businesses is not found to be viable, the allowance is terminated. If the development of the newly created business is found to be positive but profits are expected to be below the level of the social assistance for an additional 6 months, the allowance continues. Assistance can be continued for a third and final 6 month period.

## Evaluation

In 1985, 700 Bz loans were provided. Dossiers from the regional Instituten Midden- en Kleinbedrijf, the organization most frequently used to conduct the feasibility study, were consulted and approximately 28% of the loan recipients were contacted in mid-1989. 90% of the entrepreneurs in the sample responded to survey. See: Netherlands Ministry for Social Affairs and Employment, Directorate General Social Security. 1990. English summary of the report National Assistance Credit. A Helping Hand: Study of the success of persons setting up in business with a Bz credit. The Hague: Ministry for Social Affairs and Employment.

**Table 7.1: Number of Bz Participants  
(new self employed)**

1985	1400
1986	1600
1987	1500
1988	1400
1989	1300
1990	1200
1991	1300
1992	1300

Source: Ministerie van Sociale Zaken en Werkgelegenheid, Directoraat-Generaal Sociale Zekerheid.

**Table 7.2: Participation Rate (1992)**

Participation rate	< 0.5
--------------------	-------

Participation rate. An estimate of the percentage of targeted claimants which enter the Bz scheme. (i.e. number of participants divided by the number of registered unemployed).

Source: Ministerie van Sociale Zaken en Werkgelegenheid, Directoraat-Generaal Sociale Zekerheid.

**Table 7.3: Entrants' Characteristics (1985)**

Male	86 %
Percent Age < = 29	31
Percent Age > = 50	7
No voc. educ.	25
Higher Education	31 %

Source: Ministerie van Sociale Zaken en Werkgelegenheid, Directoraat-Generaal Sociale Zekerheid.

**Table 7.4: Program Benefits (1992)**

	Unemployment Insurance	Bijstand benefit	Bz for couples
1. Maximum benefit payable	Df 4200 per month	Df 1817.	Df 1817 per month
2. Maximum term allowed by law	52 <sup>a</sup> weeks	indefinite	52 <sup>b</sup> weeks

1. **Maximum benefit payable.** The maximum allowable benefit for which a person may be eligible.
2. **Maximum term allowed by law.** The maximum allowable number of weeks during which a claimant is eligible for benefit.
  - a. A eligible claimant automatically receives 26 weeks of benefits. The term may be extended to 52 weeks if the claimant has worked 3 years in the last 5 years. In this case, the allowance is continued at the level of the minimum wages. Claimants under 20 can only receive benefits for 26 weeks. Claimants over 50 years can receive benefits for up to 4.5 years.
  - b. In some circumstances, an extra 6 months may be added to this period.

Source: Ministerie van Sociale Zaken en Werkgelegenheid, Directoraat-Generaal Sociale Zekerheid.



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Male	86 %
Percent Age < = 29	31
Percent Age > = 50	7
No voc. educ.	25
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1. **Maximum benefit payable.** The maximum allowable benefit for which a person may be eligible.
2. **Maximum term allowed by law.** The maximum allowable number of weeks during which a claimant is eligible for benefit.
  - a. A eligible claimant automatically receives 26 weeks of benefits. The term may be extended to 52 weeks if the claimant has worked 3 years in the last 5 years. In this case, the allowance is continued at the level of the minimum wages. Claimants under 20 can only receive benefits for 25 weeks. Claimants over 50 years can receive benefits for up to 4.5 years.
  - b. In exceptional circumstances, an extra 6 months may be added to this period.

Source: Ministerie van Sociale Zaken en Werkgelegenheid, Directoraat-Generaal Sociale Zekerheid.

**Table 7.4a: Bz Credit for the New and Existing Entrepreneurs (1992)**

Maximum loan size	Df 40000.
Terms	within 10 years
Guarantee (% of loan)	90 %
Personal commitment	none
Total number of loans	1500
Total amount lent	Df 40 million
Average loan size	Df 32 000
Average Bz share	57%
Payback rate	85 %
Interest rate	current mkt rates

1. Maximum loan. The maximum amount of credit provided by the program.
2. Terms. The length of the loan.
3. Guarantee (% of loan). The proportion of the outstanding loan which is guaranteed by the government.
4. Premium. What is the premium charged on the guaranteed portion of the loan.
5. Personal commitment. Personal commitment, measured in financial terms, that the government has demanded to ensure that the participating banks have a significant personal stake in the enterprise.
6. Total number of loans. The total number of loans made in 1992 by the Bz scheme.
7. Total amount lent. The total amount lent in 1992 by the Bz scheme.
8. Average loan. The sum of all loans divided by the number of participants.
9. Average terms. The average length of the loans.
10. Average Bz share. The average share of Bz credit in the total capital.
11. Payback rate. The proportion of loans which are paid back.
12. Interest rate. The interest rate which the Bz scheme charges for credit.

**Table 7.5: Survival Rate (1985)**

1. Enterprise Survival Rate	52 %
2. Share of new enterprises	6

1. Enterprise Survival Rate. The percentage of enterprises created by Bz participants which have survived approximately 3 years and two months.
2. Share of new enterprises. The estimated number of new enterprises which were supported by the Bz scheme as a percent of the enterprises created in 1985.

Source: Netherlands Ministry for Social Affairs and Employment, Directorate General Social Security. 1990. English summary of the report National Assistance Credit, A Helping Hand: Study of the success

of persons setting up in business with a Bz credit. The Hague: Ministry for Social Affairs and Employment.

**Table 7.6: Program Costs Expenditure Including Credit (1992)**

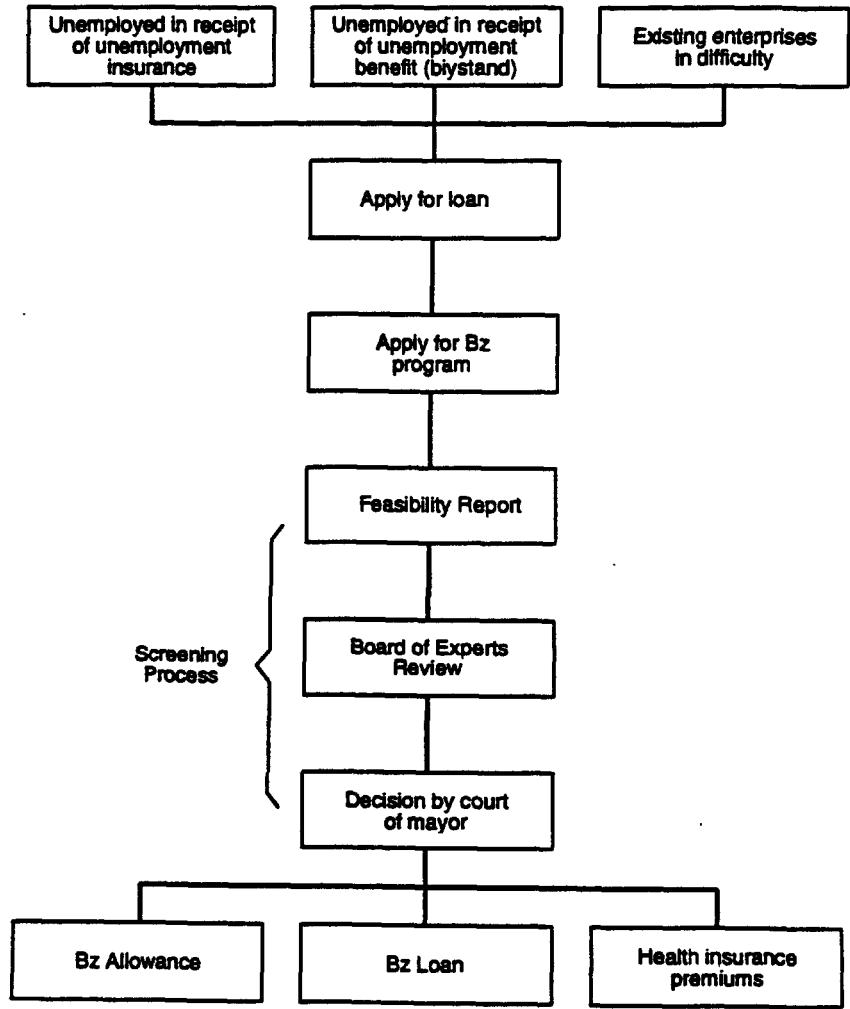
1. Total cost of program	Df 56 million
2. Cost per participant	43 076
3. Cost per surviving enterprise	82 840

1. Total cost of program. The total cost of the program in Df including the cost of the benefit paid to the participants (new and existing self employed), the cost of the business review and administrative costs, and the cost of the credit program.
2. Cost per participant. The total cost of the program divided by the number of participants.
3. Cost per surviving enterprise. The total cost of the program divided by an estimate of the number of enterprises which will survive.

Source: Ministerie van Sociale Zaken en Werkgelegenheid, Directoraat-Generaal Sociale Zekerheid.



**FLOW CHART 11: NATIONAL ASSISTANCE FOR THE SELF-EMPLOYED (Bz) SCHEME**



EK/W55808H



## **Annex 8**

### **United Kingdom**

#### **Small Enterprise Development**

Responsibility for small firms' policies transferred to the Department of Trade and Industry from the Employment Department after the general election in April 1992. The Employment Department retains responsibility solely for the "Business Start Up Scheme" (BSUS) which is aimed at unemployed people who want to become self-employed. The Employment Department contracts with the Training and Enterprise Councils (TECs) to run BSUS. The scheme funding allows both for the payment of an allowance to individual participants and for training and counselling activities. However, TECs have considerable flexibility to adapt the scheme to meet local economic need, and can use funds from other sources (e.g. Department of Trade and Industry, or their 'Local Initiative Fund') to supplement the range of provision available to new entrepreneurs. The Department of Trade and Industry contracts with TECs separately to provide information, advice, counselling and training services to existing small businesses.

#### **The Business Start-Up Scheme (BSUS)**

Since 1983, the largest government program in the UK in the field of business start-up has been the Enterprise Allowance Scheme (EAS). The EAS allowed unemployed people who were in receipt of the Unemployment Benefit or Income Support (directly or indirectly) to set up their own businesses. The EAS had a simple national structure paying £40 per week for up to 52 weeks to participants who satisfied the entry criteria. In 1991, the program was greatly modified and has been renamed the Business Start-up Scheme. For most of the 1980s, the EAS was an entitlement scheme, in that it was demand-led. With the BSUS, TECs have the flexibility to impose their own entry criteria, and hence it is no longer an entitlement scheme. The TECs also have the freedom to alter the level and duration of payment.

#### **Funding Sources and Delivery**

In 1991 the Department of Employment created a network of 82 Training and Enterprise Councils (TECs) in England and Wales and 22 Local Enterprise Companies (LECS) in Scotland. The TECs have taken over the EAS and have been given great flexibility in designing their own Business Start-up Scheme. The main flexibility TECs have been given are: (i) they no longer have to require people to have been in receipt of unemployment benefit when they join, only to have been out of work for 6 weeks or more; (ii) they can vary the level of the allowance from £20-90 per week, for 26-66 weeks, compared to the previous statutory level of £40 per week for 52 weeks.

#### **Targeting**

In order to be eligible for the scheme:

the participant has to be aged at least 18 years old and below retirement age;

- the individual has to be unemployed for six weeks (however, if the TEC so chooses, the individual is not required to be in receipt of benefit at the time of application to the scheme as used to be required by the EAS). Within these eligibility requirements, the TECs can further target particular sub-groups within the eligible population, e.g. victims of redundancy or people setting up in manufacturing.

### **Eligible Enterprise Proposals**

Anyone wishing to join a BSUS must be starting a new business, "suitable for public support" and be in full-time, day-to-day control of that business. The participant no longer has to have £ 1000. available to invest in the business as used to be required by the EAS.

### **Application Process**

The process begins with an Awareness/Information day which informs the potential applicant both of what the program involves and of what being self employed involves. In 75 % of the TECs attendance is compulsory. Approximately just over half of the potential applicants pursue a place on the program after awareness day. The next step in the screening process is training and counselling primarily to assist the applicant in his preparation of a business plan. Two thirds of the TECs make training and counselling compulsory. The training can last from 2-5 days. This pre-entry training and counselling leads to an average 25 % drop out rate.

Although, further screening practices vary from TEC to TEC, most applicants are likely to require a business plan for the final assessment. The assessment of applicants is sub-contracted in three quarters of TECs, largely to Enterprise Agencies. Assessment tends to involve qualitative appraisal of the individuals and their business plans. Whilst the interviewing of applicants and appraisal of business plans may be sub-contracted, many TECs are involved in the initial screening of applications, and have the final say as to who is accepted to the scheme. The role of the Enterprise Agency or business counsellor is often to 'make recommendations' which the TEC then acts upon. Though data is incomplete, 10 % of the applicants submitting business plans are rejected at this stage.

### **Assistance**

The participants of the BSUS are offered four inter-related program services (these services vary from TEC to TEC):

- training in the form of Business Skills seminars or other mainstream business skills training courses which TECs operate (only 9 of the 82 TECS make attendance at a number of training courses a condition of continuing to receive the allowance);
- weekly allowance which may last from any duration from 26 to 66 weeks, at any level from £20-90 per week, and which may be structured to allow 'higher amounts up front, single payments for lower amounts over a year or for shorter periods, or differential amounts according to the type of business or participant involved;
- counselling which often accompanies monitoring visits (compulsory);
- counselling is also available to the participant after the leave the scheme if they require it.



## Monitoring

Monitoring is largely carried out by sub-contractors through periodic visits. The visits take place commonly at 13 weeks, 26 weeks and 52 weeks. Some of the TECs extend the visits to include the 78 week point. The scheme participants may be visited or may be expected to call on the sub-contractor.

## Evaluation

Two recent evaluations of the Business Start-up Scheme have been undertaken: 1. Tremlett, Nigel. 1993. The Business Start-Up Scheme: 18 Month Follow Up Survey. London: Social and Community Planning Research.

2. IFF Research. 1992. Enterprise Allowance / Business Start-Up: A study of TEC Schemes. Sheffield, U.K.: TEC Research and Evaluation Branch, Employment Department.

In the Tremlett (1993) evaluation involved the completion of 2059 telephone interviews with former scheme participants in November 1992, 18 months after they had started on their scheme. The interviews provided evidence on the survival rate of BSU/EAS businesses after 18 months, the characteristics of the participants, the designs of the schemes and the factors associated with survival. The IFF Research (1992) evaluation the evaluation involved telephone contact with all 82 TECs. Full telephone interviews were achieved with 81 TECs and were generally conducted with the enterprise manager. The aims of the study were to find out how the Business Start-Up Scheme is being operated in each TEC, gauge the extent to which the new arrangements are being used, produce, and if possible, a typology of the schemes currently being operated.

**Table 8.1: Number of Participants (fiscal year)**

1983 EAS	27,600
1984	46,000
1985	60,000
1986	86,000
1987	106,300
1988	98,500
1989	77,900
1990	60,300
1991 BSUS	49,600
1992	40,500

Source: Department of Employment.

**Table 8.2: Participation Rate**

	EAS (1987)	BSUS (1991)
Participation rate	3.7 %	2.2 %

Participation rate. The number of participants divided by the number of unemployed. (Number of unemployed: 1987 2905000; 1991 2241000).

Sources: Employment Department.

OECD. 1992. Quarterly Labour Force Statistics, Paris: OECD.

**Table 8.3: Entrants' Characteristics**

	EAS (1987)	BSUS (1991)
Male	74 %	73 %
Age: Under 25	24	Nearly 70% of participants were under
25-34	35	30 yrs and over
35-44	23	15 % were
45 and over	18	50 yrs or older
High school graduate*	..	32 %
Univ. graduate	..	23 %

\* O levels and A levels and 6th Form studies.

Note 1: The EAS survey refers to people who completed a full year on the EAS. The BSUS survey refers to all those who started in May 1991 regardless of whether or not they survived the first year. Under EAS, approximately 15 % of entrants left before the end of the scheme.

Note 2: There was little difference between participants and survivors as a percentage of each group.

Sources: Tremlett, Nigel. 1993. The Business Start-Up Scheme: 18 Month Follow Up Survey. London: Social and Community Planning Research, Table 3.1, p.7.

Employment Department. 1989. Fourth Eighteen Months Postal Survey. London: Employment Department, Table 1, p.6.

**Table 8.3a: Types of Business Started on Scheme**

	EAS (1987)	BSUS (1991)
Agriculture/Fishing (Div 01-03)	5 %	3 %
Minerals/Metals/Etc (Div 21-26)	1	1
Metal goods/Engineering (Div 41-49)	1	4
Other manufacturing (Div 41-49)	7	10
Construction (Div 50)	19	13
Distribtn/Catrg/Rprs (Div 61-67)	26	24
Transport/Communictn (Div 71-79)	5	3
Finance/Business Srvces (Div 81-85)	11	20
Other Services (Div 91-99)	24	22

Source: Tremlett, Nigel. 1993. The Business Start-Up Scheme: 18 Month Follow Up Survey. London: Social and Community Planning Research, p.12, Table 4.1.

Employment Department. 1989. Fourth Eighteen Months Postal Survey. London: Employment Department, Table 1, p.6.

**Table 8.4: Program Benefits**

	Unemployment Benefit (1987)	EAS (1987)	Unemployment Benefit (1991)	BSUS (1991)
1. Avg Maximum Benefit		£ 2080.		£ 1809.
2. Maximum term		52 weeks		26-66 wks
3. Avg benefit paid	..	£ 1945.	..	£ 1965.

1. Average maximum benefit. EAS: the maximum was £40 over 52 weeks. For the BSU, the maximum varied from TEC to TEC, an average is offered here.
2. Maximum term. The maximum allowable number of weeks during which a claimant is eligible for benefit.
3. Average benefit paid. The average benefit paid to the participants who had completed 12 months in the EAS scheme and the participants who were in existence for 18 months in the BSUS.

Sources: Tremlett, Nigel. 1993. The Business Start-Up Scheme: 18 Month Follow Up Survey. London: Social and Community Planning Research, p 25.

IFF Research. 1992. Enterprise Allowance / Business Start-Up: A study of TEC Schemes. Sheffield, U.K.: TEC Research and Evaluation Branch, Employment Department, p. 40.

**Table 8.5: Survival Rates**

	1. All Entrants	2. Completed Scheme	3. Non survivors in self employment
EAS (1987) 18 months	65 %	76 %	2.6 %
EAS (1987) 36 months	..	58	6
BSUS (1991) 18 months	71	..	2

1. All Entrants. The percentage of the entrants at the time of the survey who were self employed in their EA business.
2. Completed Scheme. The percentage of those who had completed the Scheme and who were employed in their EA business.
3. Non survivors in self employment. The percentage of the non survivors were self employed. The EAS (1987) survey did not question those who did not complete the program. Therefore, the figure for non survivors in self employment may be underestimated.

Sources: Employment Department. 1989. Fourth Eighteen Months Postal Survey. London: Employment Department, p.8.

Maung, Natalie Aye and Erens, Bob. 1991. Enterprise Allowance Scheme: A Survey of Participants Two Years after Leaving. London: Social and Community Planning Research, p.12.

Tremlett, Nigel. 1993. The Business Start-Up Scheme: 18 Month Follow Up Survey. London: Social and Community Planning Research, p. 3-4.

**Table 8.6: Program Expenditure**

Fiscal Year	Cost £m	Cost per participant
1983 EAS	23.2	841
1984	76.7	1667
1985	103.9	1732
1986	143.4	1667
1987	195.9	1843
1988	196.7	1997
1989	170.9	2194
1990	132.9	2204
1991 BSU	105.2	2121
1992	109.0	2691

1. Total cost of program. ?
2. Cost per participant. The total cost of the program divided by the number of participants.

Source: Department of Employment

**Table 8.6a: Deadweight**

	Would set up without Scheme	Would set up later	Not set up without Scheme
EAS (1987) 18 month	37 %	31 %	32 %
EAS (1987) 36 month	39	30	31
BSUS (1991) Entrants	42	18 (sooner: 13 %)	20

Sources: Employment Department. 1989. Fourth Eighteen Months Postal Survey. London: Employment Department, p.18.

Maung, Natalie Aye and Erens, Bob. 1991. Enterprise Allowance Scheme: A Survey of Participants Two Years after Leaving. London: Social and Community Planning Research, p.117.

Tremlett, Nigel. 1993. The Business Start-Up Scheme: 18 Month Follow Up Survey. London: Social and Community Planning Research, p. 43.

**Table 8.7: Enterprise and Job Creation**

Survey	1. Employing Enterprises			2. Jobs Created (per 100 survivors)
	Total	Full time	Part time	
EAS (1987) 18 month	22 %	14 %	14 %	64 (36 + 28)
EAS (1987) 36 month	..	16	12	83 (57 + 26)
BSUS (1991) 18 month	17	9	9	37 (18 + 19)

1. Employing Enterprises. The percentage of program survivors who hired full- or part-time employees.
2. Jobs Created (per 100 survivors). The number of employees multiplied by 100 and divided by the number of self employed who hire full- or part-time employees.

Note: The EAS survey refers to people who completed a full year on the EAS. The BSUS survey refers to all those who started in May 1991 regardless of whether or not they survived the first year. However, when calculating the figure for this table, the number of BSUS survivors were used rather than the number of entrants.

Sources: Employment Department. 1989. Fourth Eighteen Months Postal Survey. London: Employment Department, p.15.

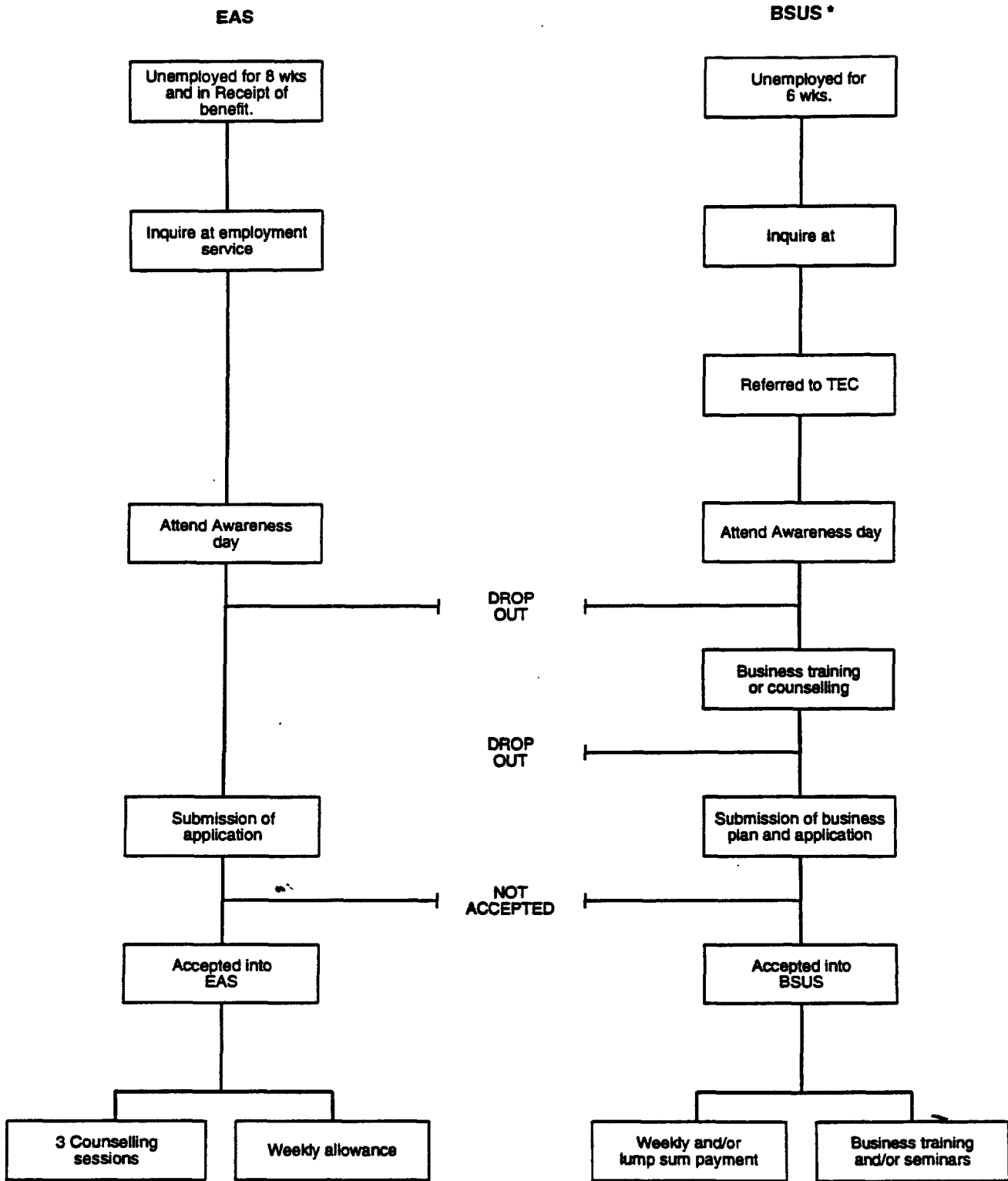
Maung, Natalie Aye and Erens, Bob. 1991. Enterprise Allowance Scheme: A Survey of Participants Two Years after Leaving. London: Social and Community Planning Research, pp.3, 58-59.

Tremlett, Nigel. 1993. The Business Start-Up Scheme: 18 Month Follow Up Survey. London: Social and Community Planning Research, p.16-17.

**Table 8.7a: Cost per participant, survivor and job**

	Cost per participant	Cost per survivor	Cost per job
EAS (1987) 18 month survey	1843.	2835.	1729
BSUS (1991) 18 month survey	2121.	2986.	2180

## FLOW CHART 12: ENTERPRISE ALLOWANCE SCHEME (EAS) AND BUSINESS START-UP SCHEME (BSUS)



\* Practice varies from TEC to TEC





## Annex 9

### United States

#### **Small Enterprise Development**

Typically, most government assistance to small business has been through the Small Business Administration and has tended to focus on larger firms within the small business sector. In June 1992, the SBA announced its *Microloans Program* targeted to poor, minority and female entrepreneurs. Other government microenterprise assistance has also been concentrated in government programs to improve the self-sufficiency of low-income or otherwise disadvantaged populations: *Job Training Partnership Act*, Department of Labor; *Community Services Block Grant Program*, Department of Health and Human Services; *Community Development Block Grant Program*, Housing and Urban Development Department; *Enterprise Loan Funds*, Economic Development Administration, Department of Commerce.

Recently, however, microenterprise programs have been considered for the unemployed in general. Two experiments undertaken by the Department of Labor which target newly unemployed workers are described below, and legislation has been passed to extend the program in order that it may be offered to all the employed.

#### **Washington Self-Employment and Enterprise Development (SEED) Demonstration**

The SEED Demonstration was initiated on a pilot basis in one site in the state of Washington beginning in September 1989 on the initiative of the Department of Labor and was then implemented in five additional sites in February 1990. The primary purpose of the Demonstration was to determine the viability of self-employment as a reemployment option for unemployed workers. The experiment was designed to test the effectiveness of providing a combination of business assistance services and self-employment allowances to Unemployment Insurance (UI) claimants early in their unemployment spell to provide the technical and financial assistance needed to launch a successful business venture.

#### **Funding Sources and Delivery**

The Demonstration was a cooperative effort involving the DOL, the Washington Employment Security Department (i.e. regional labor office), and the Business Assistance Center of the Washington Department of Trade and Economic Development. The funding source for the self-employment allowance was the UI Trust Fund. The business advisory services was financed from Federal and State general revenue funds. The local labor office staff organized the Information Day, and additional staff was brought in to administer and managed the program through a cooperative agreement between the Washington employment services and the Business Assistance Center (BAC), a division of the Washington State Department of Trade and Economic Development.

#### **Targeting**

In order to be eligible for the Demonstration, an individual had to meet the following criteria:

- be an unemployed worker eligible to receive UI benefits in the State;
- be filing a new UI claim (i.e. they were not unemployed in the previous 12 months);
- have no immediate prospects for wage and salary employment (i.e. they are not subject to recall by their pre-layoff employer or placement by their union); and
- be 18 years of age or older.

### **Eligible Enterprise Proposals**

The enterprise proposed had to be a new enterprise.

### **Application Process**

The process began by an invitation to an Awareness Day being sent to the target group. Only those individuals who chose to attend were eligible for the program. Awareness Day gave the potential applicants information about the program and applications were handed out. The application also served a self-screening function as it included a number of self-assessment questions and questions about assets and debts that may affect an individual's decision to apply to the program. The applications were reviewed by the Washington Employment Security Department and a local committee made up of representatives from the BAC and local businessmen and bankers. The applications were examined for timeliness (applications has 7 days to complete the applications), completeness and to make certain that the individual has a clear business idea. Individuals with an acceptable application are randomly assigned into treatment and control groups. Those individuals who are selected for the treatment group become project participants and are eligible to receive the self-employment assistance provided by the demonstration. Those who are selected for the control group continue to receive their unemployment benefits and must continue to comply with the unemployment regulations (e.g search for work).

### **Assistance**

The participants of the SEED Demonstration were offered three inter-related program services:

- Compulsory business training modules, optional one-on-one business counselling and optional Entrepreneur Club meetings;
- A waiver of the U.I. work search requirement; and
- Periodic self-employment allowances which, if five miles are met, could be followed by a lump-sum payment equal to their remaining UI entitlement.

### **Monitoring (to ensure continuing eligibility).**

- a. Participants had to fulfill 5 program milestones before receiving the lump-sum payment:
  - complete the training modules;
  - develop an acceptable business plan;
  - set up a business bank account;
  - satisfy all licensing requirements; and
  - obtain adequate financing.

- b. The applicant's progress in achieving these goals is reviewed after 10 weeks and a decision is made as to whether to extend the waiver period. If the waiver is revoked participants would either have to meet the work search requirement (and other UI eligibility requirements) or stop receiving UI benefits.

### **Evaluation**

The evaluation has three major components. First, an evaluation of the program process will be made based on observational data (e.g. interview with local program staff and participants) and data from an automated Participant Tracking System (e.g. participant characteristics, attendance at project events, receipt of services and financial assistance). Second, an impact analysis will be carried out on the treatment group (participants) and the control group (non-participants) to determine how the self-employment allowance and business development services affected a broad range of outcomes (e.g. earnings, business formation, survival rates) over 2 years. The third and final component is a benefit-cost analysis from the following perspectives: project participants, DOL, Federal government, society as a whole.

### **Massachusetts U.I. Self-employment Demonstration**

In December 1987, the Congress enacted legislation, Section 9152 of the Omnibus Budget Reconciliation Act of 1987, that authorized DOL to proceed with UI self-employment demonstration projects in additional States. In accordance with this legislation, DOL has proceeded with a second federally sponsored project. The project in Massachusetts is similar to the Washington experiment. Like the Washington project, the Massachusetts project is testing the services to unemployed workers to assist them in starting their own microbusiness.

### **Funding Sources and Delivery**

The Massachusetts experiment is a cooperative effort involving the DOL, the Massachusetts Department of Employment and Training, the Massachusetts Office of Business Development and several local business development agencies. The business advisory services was financed from Federal and State general revenue funds.

### **Targeting**

In order to be eligible for the project, an individual had to meet the following criteria:

- be an unemployed worker eligible to receive UI benefits in the State;
- be filing a new UI claim (i.e. they were not unemployed in the previous 12 months);
- have no immediate prospects for wage and salary employment (i.e. they are not subject to recall by their pre-layoff employer or placement by their union);
- be 18 years of age or older;
- be determined to be likely to exhaust their entitlement for UI benefits.

### **Screening**

Same as in Washington Demonstration.

## Assistance

The participants of the Massachusetts project were offered three inter-related program services:

- a compulsory, half-day training seminar and six training workshops;
- a waiver of the U.I. work search requirement for 24 weeks after which the participant decided for forego their remaining 6 weeks of UI benefits and continue to devote full time to their self-employment activities or return to the UI system for the remaining 6 weeks; and
- periodic self-employment allowances equal to their UI benefits.

## Evaluation

Same as in Washington Demonstration.

**Table 9.1: Number of participants**

	Washington Demo.	Mass. Demo.
1989	..	..
1990	755	100
1991	..	150
1992	..	350

**Table 9.2: Participation Rate**

	Washington Demo.	Mass. Demo.
Participation rate	4.6	2.4

Participation rate. The percentage of U.I. claimants in the target group who attended the orientation meeting and submitted a timely and complete application.

**Table 9.3: Characteristics of Treatment Group**

	Washington Demo.		Mass. Demo.	
	Intake	21 months	Intake	18 months
Male	66.5 %	61.8 %	68.1 %	75.9 %
Percent age <= 24	4.4	2.8	2.3	0.9
Percent age >=46	27.5	25.8	35.7	44.4
Mean age (years)	39.4 yrs	..	40.7 yrs	..
High school graduate	31.5	31.5	29.7	30.5
Some college	32.6	32.8	..	27.8
College graduate	29.5	33.0	39.5	38.9
Mean education (years)	13.8 yrs	..	14.3 yrs	..
Number of cases	755	314	263	108

1. Intake. Characteristics of all participants in the treatment group.
2. 18 months and 21 months. Characteristics of participants in the treatment group who were self-employed at time of interview (Washington 21 months; Massachusetts, 18 months).

**Table 9.3a: More Characteristics of Treatment Group**

	Washington Demo.	Mass. Demo.
Prof/tech/manag.	38.9 %	46.4 %
Clerical	12.2	10.6
Manufacturing sector	22.9	..
Service sector	29.0	27.0

**Table 9.3b: Types of Business Created by the Treatment Group**

	Washington Demo.	Mass. Demo.
Construction	8.8 %	7.4 %
Manufacturing	20.9	13.7
Wholesale Trade/Retail	11.6	15.8
Services	47.1	55.8
Other	11.6	7.4

Note 1. The types of businesses created by the participants in the treatment group at 21 months in Washington and 18 months in Massachusetts.

Note 2. "Other" regroups transportation/utilities and finance/real estate.

**Table 9.3d: Regional Distribution of Businesses Proposed by Treatment Group**

	Washington Demo.	Mass. Demo.
High unemployment area	48.9 %	63.5 %
Low unemployment area	51.1	36.5

**Table 9.4: Program Benefits by Treatment/Control Groups**

	Washington Demo.		Mass. Demo.	
	Treatment	Control	Treatment	Control
1. Avg maximum benefit payable	\$ 5 395.	\$ 5 459.	\$ 7 266	\$ 7 472
2. Max. term	26 weeks	26 weeks	24 weeks <sup>a</sup>	30 weeks
3. Avg benefits paid	\$ 4 858	\$ 3 368	\$ 5 939	\$ 6 462
4. Avg term	..	17.5 weeks	27.4	30.9 <sup>b</sup>

- a. Self-employment stipends (equivalent to UI benefits) were available to treatment group members for a total of 24 weeks. Those who chose to return to unemployment insurance after 24 weeks were eligible for an additional 6 weeks of unemployment insurance benefits.
  - b. During the program, the State of Massachusetts extended the number of weeks one could receive unemployment insurance benefits.
1. Average maximum benefit available. Average of maximum UI benefits payable to treatment and control group members in USD.
  2. Maximum term. The number of weeks during which the participants are eligible to receive the benefits.
  - 3.\* Average benefits paid. The average UI benefits actually paid to treatment and controls during the first spell of unemployment.
  4. Average term. The average length of benefit payment.

**Table 9.5: Survival Rates and Deadweight**

Economic Indicator	Washington Demo.	Mass. Demo.
1. Enterprise Survival Rate	62.9 %	66 %
2. Deadweight	26.6	28.6

1. Survival Rate. The percentage of treatment group members who reported self employment at 18 (or 21 months).
2. The percentage of control group members who reported self-employment.

**Table 9.5a: Employment Rate by Treatment/Control Group**

	Washington Demo.		Mass. Demo.	
	% employed at interview	% employed during period	% employed at interview	% employed during period
Treat. Group	72.9	91.3	79.7	91.0
Control Group	68.3	86.5	63.6	77.3

This table shows the percentage of treatments and controls who were either self-employed or engaged in wage and salary employment at any time during the observation period (18 months in Massachusetts, 21 months in Washington), and the percentage who were either self-employed or engaged in wage and salary employment at the time of the follow-up interview.

**Table 9.6: Program Expenditure (1992)**

	Washington	Mass.
1. Cost per participant	5358	6739

Cost per participant. The sum of the avg benefits paid and the cost of business advisory services (assumed to be at least \$500. in Washington and \$800. per participant in Massachusetts).

**Table 9.7: Enterprise and Job Creation**

Economic Indicator	Washington Demo.	Mass. Demo.
1. No. of enterprises	333	118
2. No. of jobs created	195	95

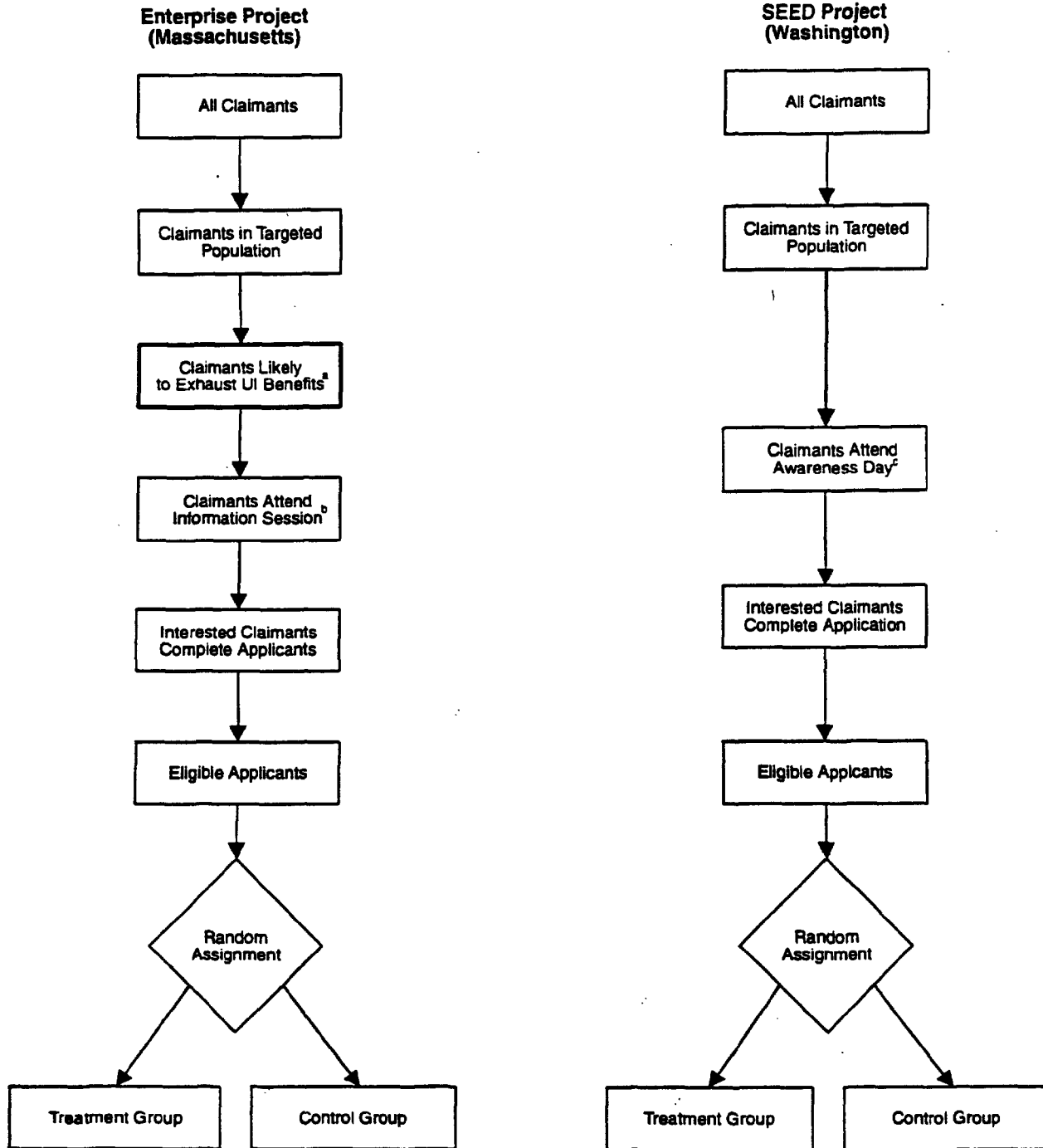
1. Number of enterprises created. The number of enterprises reported by members of the treatment group, as having been started at any point during the follow-up period (18 months in Massachusetts, 21 months in Washington).
2. Number of jobs created. The sum of individuals hired, reported by treatment group members who were self-employed. These jobs are both family members and non-family members.

Sources:

1. Massachusetts Department of Employment and Training.
2. Benus, Jacob M., Terry R. Johnson and Michelle Wood. 1993. Does Self-Employment Work for the Unemployed? Impact Analysis of the Washington State and Massachusetts Self-Employment Demonstrations. Bethesda, Maryland: Abt Associates, Inc.
3. U.S. Department of Labor. 1992. Self Employment Programs for Unemployed Workers. Washington DC: Department of Labor.



**FLOW CHART 13: ENTERPRISE PROJECT AND SEED INTAKE AND ASSIGNMENT PROCESS**



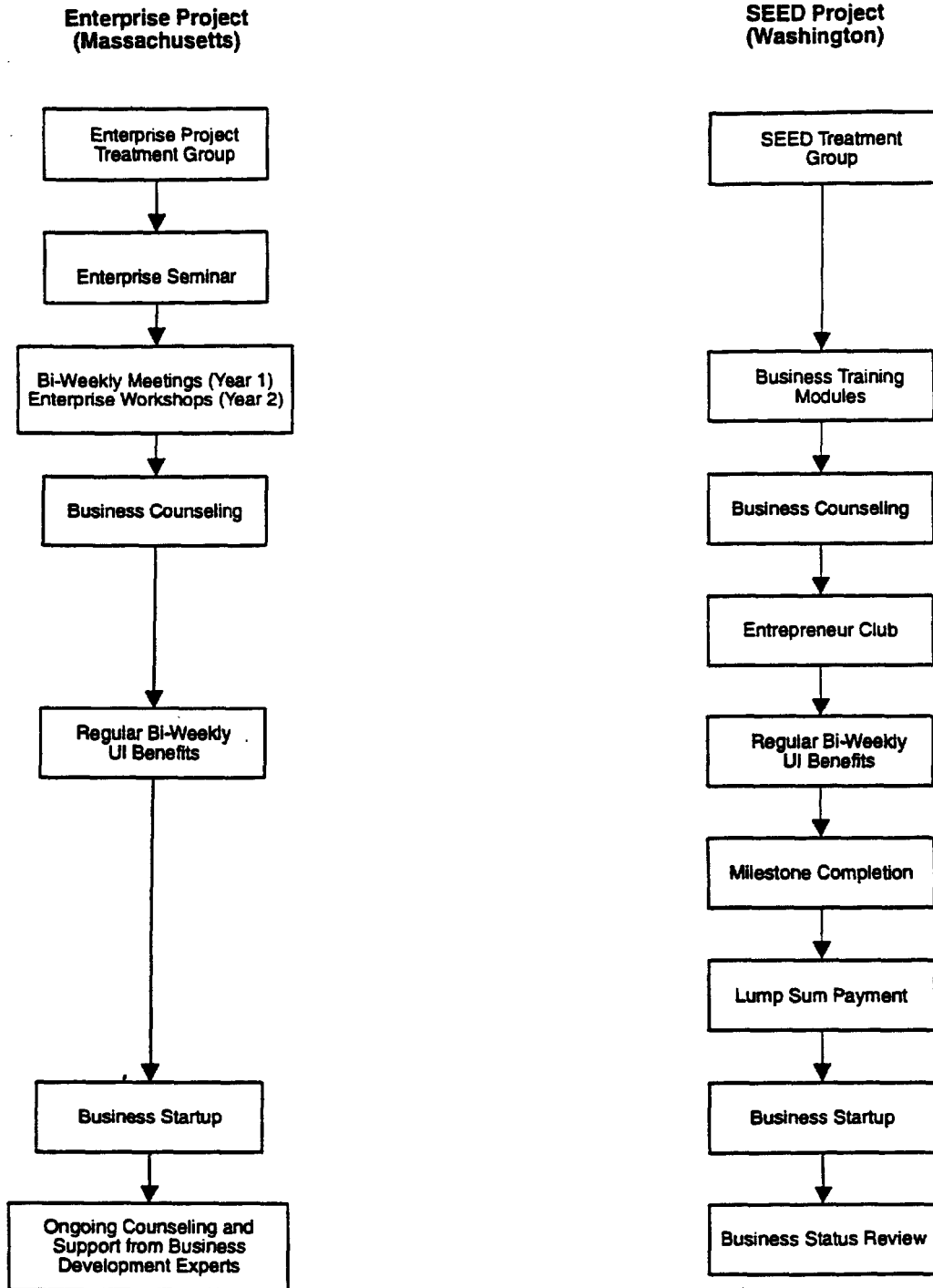
<sup>a</sup> - An exhaustion prediction algorithm was used to identify claimants likely to exhaust UI benefits

<sup>b</sup> - Information sessions were 1 hour sessions conducted by an Enterprise Representative from the Local DET Office and by a Business Development Counselor. Sessions covered risks and rewards of self employment and procedures for applying to the Project.

<sup>c</sup> - Awareness Day was a 45 minute session in the Local Office. Two videos were presented in the sessions to discuss the risks and rewards of self employment and procedures for applying for SEED.



# FLOW CHART 14: BUSINESS STARTUP SERVICES



SOURCE: ABT Associates.

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