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**SELF-EMPLOYMENT PROGRAMMES FOR THE UNEMPLOYED: PAPERS AND PROCEEDINGS
FROM A JOINT US DEPARTMENT OF LABOR/OECD INTERNATIONAL CONFERENCE**

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Paris 1995

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PART I

INTRODUCTION

On June 13 1995, the Local Economic and Employment Development Programmes (LEED) co-organised an international conference with the United States Department of Labor (DOL) on self-employment programmes for the unemployed. The conference was financed by a grant from DOL, supported by US Secretary of Labor Robert Reich, to the LEED Programme. It is the result of a collaboration that began in the late eighties when the German Marshall Fund financed study visits for several American officials from the Employment and Training Administration (ETA) and state employment officials to the UK, France, and Sweden, to observe their respective self-employment programmes for the unemployed. The LEED Programme (then Programme on Local Initiatives for Employment Creation -- ILE) provided information on Self-Employment Assistance Programmes (SEA) in several OECD countries as well as logistical support for the visits. Following these visits, ETA designed two self-employment demonstration projects, made possible partly through legislation sponsored by Congressman Ron Wyden of Oregon. Based on the positive initial results of the demonstration projects, DOL supported the SEA provision of the North American Free Trade Agreement (NAFTA) Implementation Act (P.L. 103-182), allowing states to set up and operate their own SEA programmes for a period of five years.

The joint international conference provided specific advice and information to some 75 participants from State employment security agencies, state Departments of Labor, community development organisations, and academics, on how to create state legislation and implement self-employment assistance programmes as permitted by the NAFTA Implementation Act of 1993. Keynote speeches by Secretary of Labor Robert Reich, Steve Wandner of ETA, and Sergio Arzeni, Head of the LEED Programme, OECD, were followed by two panel discussions on improving the effectiveness of self-employment programmes, and the finance and delivery of business advisory services. Experts from the US involved with two UI Demonstration Projects in Massachusetts and Washington, and the newly created programme in the State of New York, joined forces with speakers from France, UK, Australia, Italy, and Canada, to provide a forum for exchange of international experience. The OECD Secretariat presented country papers covering recent developments in SEA programmes in France, Spain, Canada, the UK, and Australia and Italy which are presented here in Part II.

ISSUES PAPER¹

Introduction

Departments and Ministries of Labour in many countries are under increasing pressure to deal innovatively with the problem of unemployment. Programmes to generate employment in OECD member countries often include assistance to those who want to become self-employed.² That is, rather than being offered income support, the unemployed are encouraged to formulate a business plan and then receive financial assistance and counselling to help realise it. Self-employment programmes are generally small in relation to the number of unemployed, but some have been around for 10 years or more, and are well established. Self-employment is not a panacea for unemployment but the programmes are cost-effective alternatives to regular unemployment benefits. In addition, the programmes have the advantage of allowing participants to be productive and have had success in moving some of the unemployed back into employment.

In 1993, the United States enacted Federal legislation authorising self-employment programmes for the unemployed, based on demonstration projects implemented in Massachusetts and Washington by the US Department of Labor (DOL). The legislation allows the establishment of State self-employment programmes as part of State unemployment insurance programmes over the next 5 years. A number of states -- California, Connecticut, Maine, Minnesota, New York, Oregon, Rhode Island, Maryland, and most recently, Delaware -- have enacted legislation authorising the programme. New York is the only state to have implemented a programme to date. The self-employment legislation describes permissible programme criteria very clearly. Only some of the unemployed are eligible for the self-employment option. The periodic financial benefits available to the participants of the self-employment programme are in lieu of unemployment insurance benefits and may only be in the same amount and duration. The legislation exempts the participants from Unemployment Insurance (UI) search-for-work and be-available-for-work requirements, but requires the participants to attend regular business advisory services (training, counselling and technical assistance).

This conference provided an international forum for discussion of issues pertaining to the 1993 legislation on self-employment programmes. The legislation presents an opportunity for States to broaden the scope of their employment policy in a potentially important direction. However, it also raises a number of questions on how best to design such programmes. Of the 18 countries which offer self-employment options to their unemployed, only Spain has interrupted the programme at the national level.

¹ This issues paper has been written by Sandra Wilson. It draws heavily on Sandra Wilson and Arvil V. Adams. 1994. *Self-Employment for the Unemployed, Experience in OECD and Transitional Economies*. World Bank, Washington, D.C.

² Those OECD Member countries which offer self-employment programmes to the unemployed are Australia, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Sweden, the United Kingdom and the United States.

(It is generally agreed that the programme had been poorly designed and managed). However, the Spanish programme has been revived at the regional level with a new structure and is being managed by regional governments. It is clear that appropriate programme design is vital if the full benefits of self-employment programmes are to be realised.

Useful guidance on the design of self-employment programmes was provided by a small working conference that pooled available knowledge and experience, and took stock of progress to date. Representatives from DOL, the US Congress, the OECD, US States that have launched or may be contemplating such programmes, and five other OECD countries all provided useful insights. The rest of this paper describes key issues of self-employment schemes, both in the United States and in other OECD countries, which were raised at the conference. Questions were raised regarding who is the target population for such programmes, what are the most effective application procedures and why. Other questions concerning the need for certain forms of assistance for programme participants (e.g. business advisory services) and the impact of the programmes will also be examined.

Targeting and screening techniques

In the US programmes, self-employment assistance is not available to all the unemployed. Instead, a targeting mechanism has been developed to channel scarce unemployment insurance funds to those applicants most likely to benefit from them. UI claimants wanting to participate in a self-employment programme must fulfil UI requirements, and also be identified by the new State Worker Profiling system as likely to become long-term unemployed. Once meeting these criteria, a claimant is eligible for the self-employment option.

In addition to targeting the programme narrowly to those at risk of becoming unemployed over the long-term, self-screening techniques are sometimes used to educate eligible participants about the risks and responsibilities of becoming self-employed. The purpose of such screening is to weed out less motivated individuals and business ideas that are vague (not screening based on the likelihood of business success). Inexpensive instruments such as information sessions, application forms and interviews can sharply reduce the number of potential programme participants, by making them aware of the private costs and benefits of participation. For example, in a number of countries attendance at an information session is mandatory before obtaining a programme application. In other countries, such as Canada, the application form is designed to lead the applicant through a process which examines the validity of the enterprise proposal. Authorities in the United Kingdom estimate that only half of those attending an information seminar go on to submit an application. In the United States (Washington and Massachusetts demonstrations), less than 8 per cent of the target population attended the compulsory information meeting and, of those, only a little over half chose to submit an application.³ Although the US national legislation on self-employment has a "5 Per cent Rule" (the aggregate number of individuals receiving the self-employment allowance must not at any time exceed 5 per cent of the number of individuals receive regular UI benefits), it is unlikely, given the results of the demonstration projects, that the number of eligible participants who have gone through the self-screening process will exceed 5 per cent.

Table 1 describes the participation rates of self-employment programmes in six OECD countries, all of which have targeted their programmes to the unemployed and have screening procedures. Except for

³ US Department of Labor. 1992. *Self-Employment Programmes for Unemployed Workers*. Washington D.C., Department of Labor.

Washington State, less than 2.5 percent of unemployed workers qualified for and chose to participate in a self-employment assistance programme.

Programme benefits

Self-employment programmes must walk a fine line between offering the benefits needed to create a successful new enterprise and those that raise costs unreasonably and attract the unemployed away from other less costly forms of employment assistance. Generally, two types of benefits are offered in self-employment assistance programmes, financial benefits and business advisory services. In most countries, including the United States, financial benefits are provided in lieu of unemployment benefits. It is also common for the financial benefit to be closely related to the UI benefit in order to avoid creating perverse incentives. In the US the financial benefit is, in fact, identical in amount and duration to the unemployment insurance benefit the claimant would otherwise have received. The difference with the self-employment payment is that the claimant is no longer required to be available for work, actively search for work or accept work. Also, the participant's financial benefit is not affected by state requirement relating to disqualifying income if such income is earned from self-employment, as would be the case with an UI benefit.

Table 1: Self-employment programme participation rates

	Number of programme participants	Participation rate
Australia (1991)	3 349	0.5
Canada (1992)	4 129	n.a. ^a
France (1992)	49 337	2.2
Germany (1992)	31 587	1.1
United Kingdom (1991)	40 500	2.2
United States		
Massachusetts (1992)	614 ^b	1.9
Washington (1990)	755 ^b	3.6

a. The programme in Canada, in 1992, was geographically targeted and, therefore, did not allow the calculation of national participation rates.

b. The programmes in Massachusetts and Washington were pilot programmes offered only in specific areas.

Source: OECD/TDS Datafile.

In an effort to increase the survival rate of new businesses, business advisory services offering training and counselling have become a feature of many programmes. Business advisory services can provide training, but also help monitor the development of newly created businesses and help them over rough spots. The US legislation requires that business advisory services be offered and, in addition, attendance is compulsory. Table 2 describes the business advisory services offered by a number of self-employment programmes. Generally, a mix of in-class training and one-on-one counselling is offered. The Australian scheme requires that participants attend a 5-7 week enterprise training course, and business counselling is offered to participants for up to year after start-up. In Canada, participants must follow a training programme if it was identified as necessary during a pre-programme interview, and participants

are also eligible for business counselling during and after the programme. Counselling is available in the UK and it is often made a condition for continuing to receive the self-employment allowance.

The specialised business experience that is necessary for the delivery of business training and counselling is often not available in Ministries of Labor or State Employment Security Agency Services. Consequently, most programmes contract with the private sector for this experience. In France, the government offers self-employment participants the option of purchasing booklets of vouchers, each booklet containing 6 vouchers that can be exchanged for one hour of private sector legal, accounting, and other business services (valued at approximately US\$ 80). The participant pays one-quarter of the cost and the government pays the remainder. In addition, participants are encouraged to attend a short training course which, depending on the region, is delivered by various private sector and non-government organisations financed by national, regional and local authorities.⁴ The UK Department of Employment transferred in 1991 the delivery of its training and business assistance schemes to newly created limited companies called Training and Enterprise Councils (TECs), which contract with private firms to provide training to the self-employment participants.

Table 2: Business advisory services and their delivery

	Services	Delivery of programme contracted to...
Australia	5-7 week business plan training Business counselling for 12 months	Public-private local development organisations
Canada	Training as identified during pre-entry assessment; business counselling for 12 months; business counselling also available	Business Development Centres, public-private local development organisation.
France	3 day enterprise training course in some areas; business counselling vouchers	local development organisations or private sector firms
United Kingdom	Business Skills training course; business counselling during and after participation in self-employment programme	Local development organisations or private sector firms
United States	(Demonstration Projects)	
Massachusetts	Mandatory business training and business counselling	Local development organisations or private sector firms including small business development centres (the state makes the determination)
Washington	Enterprise training workshops, Entrepreneur Club	Local development organisations or private sector firms including small business development centres (the state makes the determination)

Source: OECD/TDS Datafile.

⁴ The term “Regional” refers to the 22 Régions in France and the term “local” refers to the approximately 100 Départements.

The impact of the Self-Employment Programmes

Participants of self-employment programmes tend to be well-educated, well qualified, and unemployed for short periods. They are also predominantly male. In France, for example, only 20 per cent of the participants in 1992 were women, even though they accounted for more than half the unemployed.⁵ In Australia, new initiatives are being undertaken by managing agents to develop a specific client group focus providing assistance for people with disabilities, women and migrants. In 1994, the UK programme announced a similar policy to target disadvantaged groups.

Allowance-based schemes tend to generate enterprise creation in the service industry. For example, the allowance-based scheme in the UK has been shown to have an over-representation of small-scale service activities. By comparison, participants in the French scheme who receive lump-sum payments are over-represented in more capital-intensive production activities. This difference is considered important because manufacturing activities tend to create more employment than service activities. The US legislation only allows for periodic payments, and may, therefore, favour the creation of service-type enterprises. If the authorities prefer a more balanced mix of enterprise creation which maximised the employment generation effects, the business advisory services may be adapted to, for example, offer advice on applying for small business loans.

In addition to offering business advisory services, a grant or loan system can be created alongside a self-employment programme. In Italy, the Agency for the Development of Youth Entrepreneurship provides grants to aspiring entrepreneurs and assists them throughout the creation of the enterprise and during the crucial early months of start-up. The survival rate of enterprises five years after start-up has been 82.5 per cent. Over half of the new firms are involved in manufacturing and employ on average 8 workers. Currently, in the US there are a number of small programmes which offer seed capital to new entrepreneurs. Creating links between the UI self-employment option and existing public or private grant bodies may also help in overcoming the slight bias that may be created by periodic payments.

Table 3 describes the survival rates estimated for a number of countries. The attrition of new businesses in most self-employment programmes is high, with approximately one of every two failing during the first year of operation. Most business failures occur within the first couple of years after which the failure rate stabilises. It is interesting to note that the two demonstration projects in the United States displays a more favourable survival rate.

These survival rates tend to underestimate the total impact of self-employment programmes. Some entrepreneurs voluntarily return to wage and salary employment, or may sell the business. It is, perhaps, more meaningful from a job creation perspective to estimate how many participants are employed, whether it is in self-employment or not. In the United Kingdom, a recent evaluation of non-survivors of self-employment assistance programmes found that 27 per cent had full-time jobs, 8 per cent had part-time jobs, and a further 2 per cent said their business was being operated by someone else.⁶ 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. Data from the US demonstration projects show that a higher percentage of self-employment

⁵ Aucouturier, Anne-Lise and Catherine Daniel. 1993. *Du chômage à la création d'entreprise*. Paris: Ministère du Travail, de l'Emploi et de la Formation Professionnelle. Collection des rapports Travail-Emploi.

⁶ Tremlett, Nigel. 1993. *The Business Start-Up Scheme: 18 Month Follow-Up Survey*. London: Social and Community Planning Research.

programme participants are employed at least 12 months after leaving the programme than those who had remained in the unemployment insurance scheme.

Moreover, some self-employment programmes have an employment generation effect in the sense that some of the self-employed hire additional workers. About 10 per cent of the self-employed in Australia's New Enterprise Incentive Scheme had hired full-time workers, and another 12 per cent had hired part-time workers.⁷ The UK's experience was similar. In France, after four years 29 per cent of the self-employed had hired additional full-time or part-time workers. Thus, an additional one-half full-time job is created for each self-employed survivor in some programmes. The net impact on job creation for non-participants was somewhat lower in the American demonstration projects.

Who are most likely to survive in self-employment? The age of the entrepreneur and sector of the economy in which a business is established seem to influence survival rates. In Denmark, a recent study of factors influencing survival in the Enterprise Allowance Scheme revealed that the age of the participant was significant, with persons under the age of 35 having a lower probability of survival.⁸ Another significant factor in a number of countries is the sector of the economy in which the business is 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 was the size of the capital base and the use of business advisory services.

In view of this evidence, it may be tempting for the authorities to further tighten their screening procedures to weed out participants that may not have a high probability of success. However, rigorous screening can result in a bigger 'windfall' effect. That is, participants who would have become self-employed anyway are attracted to the programme. Instead of making screening more rigorous, authorities may want to consider increasing expenditures on or improving current training, advisory and counselling services in order to improve enterprise survival rates.

Does the self-employment assistance programme cost more than unemployment insurance? In the US, the national self-employment legislation does not allow self-employment payments to exceed the cost that would have occurred if the participant had remained on the regular UI payment. But it does require that business advisory services be offered in addition to the payments. However, the findings of the US demonstration programmes using a rigorous random experimental design indicate that the higher overall employment rates found for self-employment programme participants make these programmes cost-beneficial. For example, in the Massachusetts demonstration project 80 per cent of the self-employment group were still employed 13 to 15 months after leaving the programme whereas only 64 per cent of the UI group were employed.⁹ Thus, self-employment programmes help people create jobs (or find jobs) over the long term and may also have other employment generation effects.

⁷ Johnstone, Helen. 1993. *Evaluation of NEIS Managing Agents - Administrative Arrangements and Issues*. EMB Working Paper. Canberra: Department of Employment, Education and Training.

⁸ Rosdahl, Anders. 1993. *The Danish Enterprise Allowance Scheme*. Copenhagen: The Danish National Institute of Social Research. (English mimeograph).

⁹ 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.

Table 3: Survival rates for participants of Self-Employment Programmes

	Intake year	Months since leaving programme	Survival rate %
Australia	1990	12	54
Denmark	1989	12	40
France	1986	54	51
Netherlands	1985	36	52
United Kingdom	1991	7	71
United States			
Washington State	1990	15	63
Massachusetts	1990-92	13	77

Source: OECD/TDS Datafile

**AGENDA OF THE INTERNATIONAL CONFERENCE ON
SELF-EMPLOYMENT PROGRAMMES FOR THE UNEMPLOYED**

Monday, 12 June 1995

**18:00 - 19:30: Registration and reception, Historic Lobby of the Postal Museum,
Postal Square Building**

Tuesday, 13 June 1995

Morning Session

**Co-Chairs: Steve Wandner, Deputy Director of Legislation and Actuarial Services,
Employment and Training Administration, US Department of Labor,**

**Sergio Arzeni, Head of Local Economic and Employment Development Programme
(LEED), OECD.**

8:55 - 9:00 *Welcome Statement*
Steve Wandner, Employment and Training Administration, DOL

9:00 - 9:15 *Opening remarks*
US Secretary of Labor, Robert Reich

9:15 - 9:30 *Self-Employment Programmes for the Unemployed in OECD Countries,*
Sergio Arzeni, Head LEED Programme, OECD

9:30 - 10:00 *The UK Experience*
Michael G. Scott, Professor of Entrepreneurial Studies, Stirling University, UK

10:00 - 10:15 Questions and Discussion

10:15 - 10:30 Coffee Break

10:30 - 12:00 Panel Discussion: *Implementation issues: improving the effectiveness of
self-employment programmes.*

Moderator: Michael G. Scott, UK.

Henri Le Marois, President, Northern France Network of Management Workshops, (ESPACE) Lille, France.

Peter Nares, Director Self-Employment Development Initiatives, Canada.

Warren Snowdon, Parliamentary Secretary to the Minister of Employment, Education and Training, Australia.

Questions and Comments.

12:00 - 13:30 Lunch

Afternoon Session

13:30 - 14:00 *The United States Self-Employment Experiments: Findings of the Final Evaluation Report*, Jacob Benus, Abt Associates, Bethesda, Maryland, USA.

14:00 -14:15 Questions

14:15 - 14:45 *The importance of training, counselling, and follow-up: Lessons learned from France.* Henri Le Marois, ESPACE, France.

15:45 - 15:00 Coffee

15:00 - 16:30 *Panel Discussion: How to finance and deliver cost-effective business advisory services,*

Moderator: Henri Le Marois.

Gino Salica, Director, Italian Agency for Youth Entrepreneurship, Italy.

Peter Nares, Self-Employment Development Initiatives, Canada.

John Sweeney, Commissioner, New York State Department of Labor.

Carolyn Vaccaro, Programme Director, New York Self-Employment Assistance Programme.

Questions and comments.

16:30 - 17:00 *Summary : Future Directions for Self-Employment Programmes in the United States.*

Robert Friedman, Corporation for Enterprise Development, CFED, US.

CONFERENCE PROCEEDINGS

The following is a summary of the presentations at the conference.

Opening remarks: Robert Reich, US Secretary of Labor

I would like to begin by thanking Steve Wandner and Jon Messenger, of ETA for their efforts to create self-employment programmes for the unemployed in the US, and the Local Economic and Employment Development Programme of the OECD for its support in the process, and more specifically, for organising this conference. As we now know, there has been a dramatic change in the nature of unemployment in industrialised economies over the past two decades, during which the world economy has been transformed by new technologies and globalization. As a result of these changes, unemployed workers can no longer expect to return to their old jobs, but must be prepared to embark on new jobs requiring new skills. The US has shifted the emphasis of its employment security system in response to this challenge. Formerly, the employment security system aimed to support "laid-off" workers temporarily until they could return to their former or similar jobs. Now, the aim is to create a comprehensive re-employment system, of which self-employment programmes are a small, but integral part. SEA programmes provide some unemployed workers with the capacity to move to self-employment.

We know that SEA works. The department has sponsored two demonstration projects in the states of Washington and Massachusetts which stringently tested the viability and cost-effectiveness of self-employment as a re-employment option for permanently laid-off workers. Based on positive preliminary results, DOL supported a provision allowing States to start SEA programmes as part of their unemployment insurance (UI) programmes for a period of five years. The Department of Labor issued guidelines regarding self-employment programmes last year, and States have the flexibility to establish their own programmes within those guidelines. States will need to enact conforming State legislation to establish their self-employment programmes, and then, develop a State plan describing how their self-employment programme will operate.

This conference is about the next steps in making self-employment assistance programmes for unemployed workers a reality in the United States, as they are already in many other OECD countries. It addresses the key issues in designing effective self-employment programmes, such as financing and delivering business advisory services. The conference also provides an opportunity to bring to full circle the partnership between the OECD and the Department of Labor on self-employment that began back in 1988 when DOL staff visited the UK, France, and Sweden to learn first-hand about their self-employment programmes for unemployed workers in preparation for the two US demonstration projects.

Furthermore, DOL would like to use this opportunity to release the final evaluation report of these projects, which confirms the earlier findings that self-employment assistance works. More specifically, it indicates that self-employment assistance increased business starts, increased total time in employment including wage and salary jobs, and reduced the length of unemployment. I quote from the final evaluation report: "These results indicate that SEA is a cost-effective approach to promote the rapid

re-employment of unemployed workers and should be permanently incorporated into the US employment security and economic development system." To make this recommendation a reality, I am pleased to announce bipartisan legislation (H.R.1789), sponsored by congressman Ron Wyden of Oregon and Congressman Amo Houghton of New York, was introduced on June 8 to make the temporary provisions of the self-employment programme law permanent.

Steve Wandner, Deputy Director of Legislation and Actuarial Services, ETA

I would like to remind participants that the purpose of the conference, is first, to provide information and guidance for States that want to set up self-employment programmes, and second, to provide the international audience with an understanding of their role in bringing SEA to the US. At present, eight States have enacted self-employment laws: California, Connecticut, Maine, Maryland, Minnesota, New York, Oregon, and Rhode Island, and New York is the first to implement a self-employment programme. (Subsequent to the conference, the state of Delaware passed SEA legislation, Maine and Oregon implemented their SEA programmes). I urge State employment officials present today to take advantage of the conference to gain as much information as possible from experts abroad, as well as from SEA colleagues in the United States.

**Sergio Arzeni, Head of Local Economic and Employment Development Programme (LEED):
Self-Employment Programmes for the Unemployed in OECD Countries**

The origins of the LEED Programme, the division of the OECD Secretariat concerned with local development and job creation, reside in the combination of economic and social conditions which came to a head in the early eighties. First, high and lasting unemployment in many OECD countries challenged the former notion of 'cyclical' unemployment, while at the same time, public expenditure for passive income maintenance benefits could no longer feasibly be sustained at present levels. LEED has subsequently involved itself with finding innovative solutions to joblessness which rely on local resources, promotion of entrepreneurship and using public funds toward active endeavours, rather than passive income maintenance. In this context, LEED has followed the progress of self-employment programmes in 17 OECD countries for the last fifteen years, and has shared this information with the US Department of Labor.

Self-employment assistance programmes for the unemployed are now an integral part of the arsenal of active labour market and small and medium-sized enterprise (SME) promotion policies in 18 OECD countries. They promote an entrepreneurial society, while also creating jobs. Self-employment programmes are generally small in relation to the number of unemployed, but some have been around for 10 years or more, and are well established. Self-employment is not a panacea for unemployment but the programmes are cost-effective alternatives to regular unemployment benefits. In addition, the programmes have the advantage of allowing participants to be productive and have had success in moving some of the unemployed back into employment.

This conference is intended to provide an international forum for discussion of issues pertaining to the 1993 US legislation on self-employment assistance programmes. The legislation presents an opportunity for States to broaden the scope of their employment policy in a potentially important direction. However, it also raises a number of questions on how best to design such programmes. However, the Spanish programme has been revived at the regional level with a new structure and is being managed by regional governments. It is clear that appropriate programme design is vital if the full benefits of self-employment programmes are to be realised.

Some design lessons

Targeting keeps costs down. None of the 18 OECD country self-employment assistance programmes have unlimited budgets. One successful method for keeping costs down is to channel scarce resources to those applicants most likely to benefit from them. Inexpensive instruments such as information sessions and interviews can sharply reduce the number of potential programme participants by giving them a full understanding of entrepreneurship and its responsibilities.

Do not try to pick winners. It may be tempting for authorities to weed out participants that may not have a high probability of success but experience shows that this is not effective. First, governments know very little about picking winners and such a strategy could easily back-fire. Second, “self-help” programmes such as self-employment programmes should provide assistance to all eligible participants not just those who are sure to succeed.

Helping the new businesses survive. Many OECD programmes are currently offering business advisory services in an effort to increase the survival rate of new business. For example, the Italian SEA programme for youth unemployed has seen a survival rate for new businesses of up to 80 per cent thanks to a system of tutoring which shares the know-how of existing businesses.

Creating Partnerships with the Private Sector. The specialised business experience that is necessary for the delivery of business training and counselling is often not available in Ministries of Labour or State Employment Security Agency Services. Consequently, most programmes create partnerships with the private sector for this experience. For example, the UK Department of Employment transferred the delivery of its training and business assistance schemes to newly created limited companies called Training and Enterprise Councils (TECs) which contract with private firms to provide training to self-employment participants.

Future work

The LEED Programme would like to create closer links with the State Employment Security Agencies and Departments of Labor, and to this end, extends an open invitation to co-organise focused workshops like this one, in order to assist the process of gaining political support from economic actors for SEA legislation, or equally, on technical aspects of design and implementation of the SEA programmes. Interested States and organisations should contact me directly.

Professor Michael Scott, Stirling University, UK: The Enterprise Allowance Scheme (EAS)

Background

The self-employment assistance programme for the unemployed in the UK, the Enterprise Allowance Scheme (EAS), evolved in a context of deep structural change in the British economy which led to high and lasting unemployment in the early eighties. There was, hence, strong political pressure to "do something about unemployment", which combined with the Thatcher government's ideological preference for "enterprise", deregulation, anti-dependency/welfare state, which saw small business as epitome of Victorian values (thrift, self-reliance, independence, hard work). This political context should not be underestimated when assessing the reasons for the introduction of EAS, which in a simple-to-

administer way, simultaneously removed people from the unemployed count and encouraged "enterprise" and the creation of new businesses.

The immediate "trigger" for EAS was the recognition that unemployment benefit regulations prevented people from starting a business. The Employment Department wrote at the time: "underlying the introduction of EAS was the belief that many unemployed people were deterred from setting up in business because they would immediately lose unemployment or supplementary benefit, but would take time to generate a corresponding level of income." It was determined early on that some sort of information and guidance on running a business would have to be built into the programme. A modest pilot was carried out in 1982-3, although not a real demonstration project like those conducted in the US. It was a case of political necessity, rather than economic calculations.

The initial scheme criteria were simple and broadly remained in force throughout EAS' existence. Eligible applicants had to :

- be in receipt of unemployment benefit or supplementary benefit (i.e. State support at the time of application);
- have been out of work (or under notice of redundancy) for at least 13 weeks prior to application;
- have at least £1 000 available (including bank loan) to invest in their business while in receipt of the allowance;
- propose a business that is suitable for public support;
- undertake that the business is to be their sole employment and that they will work full-time (at least 36 hours per week).

This was an all-purpose policy. Those on the political left could be persuaded it was helping the disadvantaged, and removing the benefit "trap"; those on the right could be persuaded it helped people to become independent and become tax-payers rather than benefit receivers, as well as removing an anomaly from the taxation/benefit system which was a disincentive to work.

The main features of the scheme were as follows:

- £40 per week for 52 weeks. This was a slight premium initially over employment benefit;
- eligibility criteria were clear, and did not involve assessment of business idea. There was a "right" to the allowance irrespective of business competence;
- However, some "support" was available to new entrants.

EAS affected a small proportion (less than 5%) of the unemployment population, but it became a key underpinning element in a widespread national system of start-up training at a time when new business start ups were running at a very high level (500 new businesses every working day for a decade).

There were criticisms of the scheme, notably that it was a "massaging" of the unemployment figures, rather than a serious attempt to create wealth. The lack of business screening and low level of business training support were also cited. EAS remained broadly unchanged from 1982-91, although after

3 years the unemployment eligibility criteria were reduced (possibly because of the perceived success of the scheme), and the level of business training support increased throughout the period.

Operational aspects

In summary therefore EAS:

- had no “screening” for business competence. The allowance was of right, if the criteria were met;
- was easy to administer, and application procedures were simple, and linked closely to the benefits payment system (e.g. same officials);
- paid flat rate benefit, which was not really a monetary incentive;
- was monitored against the eligibility criteria only, and this did involve site visits of a simple kind;
- linked centrally to a whole range of training, counselling and advice mechanisms nationally to encourage business start up. This underpinning role should not to be overlooked when evaluating EAS' impact.

Participant profile

Because several studies were undertaken, large data sets of findings related to profiles of EAS participants exist. They indicate that participants were more likely to be male (though the percentage of women more than doubled in the first 2 years), which might reflect the fact that men were more likely to be registered unemployed. Male entrepreneurs had a better survival rate of 70 per cent against 55 per cent for women. One fourth of participants had previous self-employment experience of some kind. Survivors were more likely to be married, with a spouse who was employed. In addition, they had experienced shorter periods of unemployment, and were less likely to have had long-term health problems or disabilities. The average age of survivors was 41. The entrepreneurs whose businesses survived were more likely to have invested more money in the business, and to have said that they would have started one anyway. Finally, two thirds of participants ran their businesses from home, with a majority single person businesses in competition with other local businesses.

Changes to the scheme

The UK system of local business support (heavily influenced by Private Industry Councils in USA) changed in 1991 to a “privatised and localised” delivery system. Funding passed to private sector local Training and Enterprise Councils (TECs) in England and Wales, and Local Enterprise Companies (LECs) in Scotland. These organisations were allowed to make substantial modifications to national schemes, including EAS. The principal changes to eligibility criteria were the following:

- applicants no longer needed to be in receipt of benefit;
- applicants no longer needed to have £1 000 to invest in the new businesses, TECs could alter the level and duration of payment;

- TECs could create their own entry criteria, and in particular, insist on applicants producing a business plan.

From 1991, therefore EAS ceased to be a national programme, and varied quite considerably from TEC to TEC.

In summary, whilst a national programme, EAS underwent minor changes to selection and training, but after 1991, the locally determined schemes made changes in level and duration of payment, imposed stricter (and business-related) selection criteria, and provided much more business training and support. The scheme disappeared after April 1995 to be replaced by all-purpose business start-up support grants, with the link to the unemployed no longer emphasised.

Evaluation of EAS

Internal monitoring and evaluation was carried out by the Employment Department, with empirical emphasis on dead-weight and displacement effects. Frankly, the measures of both these elements were open to criticism, as they relied on self-report data with no external validation or triangulation. However, based on these “estimates”, politicians were provided with figures indicating positive job creation arising from the scheme.

A number of small scale “external” studies were carried out, and on the basis of both internal and external studies, serious attempts to evaluate the whole scheme was carried out by Story (See UK Background Paper), which does show that the programme was, after all, cost efficient on its own terms. Given the ease of administration, and the rather hidden benefit in terms of EAS' contribution to the success of other start-up initiatives, our overall judgement of EAS has to be positive.

Panel Discussion One: Implementation issues: improving the effectiveness of Self-Employment Programmes for unemployed workers

Henri Le Marois, President of ESPACE, Northern France Regional Network of Management Workshops, Lille, France

France has a rate of unemployment of 12 per cent, or 3.3 million unemployed. This level represents a threefold increase over the last fifteen years. The French self-employment programme for the unemployed, ACCRE (Aide aux Chômeurs Créateurs et aux Repreneurs d'Entreprises), began in 1980 and owes its existence partly to the former French Prime Minister, Raymond Barre, who set the political climate when he stated that the unemployed should simply "start their own businesses".

France has some 2.4 million businesses, of which two thirds are single-person firms without additional employees, and 2 000 with more than 500 employees. Job creation has occurred almost exclusively in small and medium sized enterprises, which provide between one third to one half of 1.2 million jobs generated annually. France has quite a strong potential for new entrepreneurship and surveys indicate that 20 per cent of the population is "considering" starting a business at any given time, and 6 per cent claiming to have a "project idea". Roughly one out of five people claiming to have a business idea actually implements it per year.

During its fifteen years of experience, the French Chômeurs Créateurs programme has assisted approximately 800 000 unemployed people to start a business. In 1994, 80 031 people, or 2.5 per cent of the unemployed population, benefited from the programme. The programme is open to all registered job seekers, to those that have been given notice of imminent lay-off, as well as to recipients of the social minimum income (RMI) and their spouses. The assistance is in the form of a lump sum payment of \$6 400 in lieu of regular periodic unemployment insurance payments. Participants also enjoy exemption from state social security charges for the first year of activity, worth approximately \$6 000. ACCRE offers the possibility of receiving business counselling and advice at favourable rates with a booklet containing "Counselling Vouchers", each voucher worth one hour of counselling from a deliverer of the participants choice at a total value of \$1 100.

The total cost in monetary terms per person in the self-employment programme is thus approximately \$13 500. The French programme does not require applicants to participate in special training or counselling as a prerequisite for receiving the lump-sum payment¹⁰, however, local authorities and regional councils often propose entrepreneurial training programmes through public/private networks. One such network, ESPACE, of which I am the director, will be described in the second panel discussion.

The application procedure for ACCRE begins with attendance at an information session offered by the local labour office, usually organised on a weekly basis, open to all job seekers interested in the programme. Participants receive a list of existing organisations, public and private, capable of assisting them to start a business. The application for acceptance into the programme is 12 pages long, and is meant as a teaching aid, covering issues related to setting-up of a business like production, sales and management. Applicants can receive assistance in filling out the application from various sources. The economic viability of the project is then evaluated by a Commission composed of local staff of the Ministry of Labour and small business experts. The commission must supply an answer within one

¹⁰The Juppé Government has recently announced its plans (August 1995) to reform ACCRE: participation in business training will become mandatory for all recipients.

month, and the applicant has to start activities within three months of acceptance into the programme. In the case of business failure during the first six months, the grant must be paid back in full.

Assessment of the 80 031 businesses created through ACCRE in 1994 illustrates that the profiles of entrepreneurs do not differ greatly from others outside the programme. Twenty six per cent of participants were female, 40 per cent were between the ages of 30 and 39, and 35 per cent were over forty. In terms of qualifications, 20 per cent have university degrees, and 22 per cent were executives. The characteristics of the businesses created were as follows: 75 per cent in services, 15 per cent in construction, 10 per cent in manufacturing. Sixty per cent of the businesses were one person firms, and 2 per cent had six or more employees. The average survival rate after five years was 50 per cent.

Estimates indicate that 2.2 jobs are created over a five year period for every business started by an ACCRE recipient. This means that approximately 82 500 jobs will result from the annual average 75 000 businesses. The cost to the French government per additional job created in 1994 was about \$5 000. This represents a substantial savings to the state if one considers that an unemployed person receiving regular unemployment insurance costs the government \$24 000 per year.

Peter Nares, Self-Employment Development Initiatives (SEDI), Canada

The Canadian self-employment programme for the unemployed began in 1987, as the Self-Employment Initiative Option (SEI). It was one of four options available to high-unemployment communities participating in a national programme to support local economic development, "Community Futures", and was conceived purely as a labour market programme for skills development. Initially, there was no discussion of specific issues linked to small business development such as seed capital and credit. SEI was administered by the Federal Government of Canada (Department of Human Resources Development), and provided eligible (with a valid business plan) UI beneficiaries and social welfare recipients with a training allowance and business consulting for up to 52 weeks to start a business. Funding for the programme was drawn from the UI fund based on employee and employer contributions through a special "Developmental Uses Budget".

Starting in 1991, the Canadian government began to change the programme, enlarging its scope to urban as well as rural areas, adding the requirement that SEI participants prepare a business plan as part of the programme process, rather than before. In 1993, the programme was renamed the Self-employment Assistance Programme (SEA), for which the total national budget was expanded from 1988 level of \$17 million to \$178 million. This unequalled expansion in expenditure for self-employment assistance at a time of budgetary retrenchment can be explained partly by the positive initial results of the SEI programme. Secondly, Canada witnessed a continual rise in the level of unemployment during this time, while traditional active labour market strategies were not working as well as planned. Finally, the sheer number of self-employed people still conducting activities three years into the programme, approximately 90 per cent, added credibility to SEA in Canada.

The Department for Human Resources Development conducted an evaluation of the initial SEI programme in 1993 which revealed that almost 60 per cent of participants were male, 75 per cent were between the ages of 25 and 44. The number of participants in the SEA programme increased from an initial 3 000 in 1990, to 12 000 projected for 1995-1996. Survival rates of businesses thus far for a three year period have been approximately 76 per cent, 80 per cent for services. The programme delivery cost per participant varies greatly across the country, from \$1 500 to \$5 000, depending on the length and duration of UI benefits, as well as the package of training delivered on the Province level. More details of the progress of SEA can be found in the Canada Country paper.

Canada's experience with SEA has illustrated that the role of government in these programmes should be decided in advance, and should not include participation in the screening of applicants. Decisions concerning small business development should be left to private sector actors who can be contracted directly by the government to deliver certain services. The Federal government might consider taking a more long term view of SEA programmes, for example, through redesigning the funding process so that it is not based on a one year period. Presently, the Canadian SEA programme contains a perverse incentive, since UI benefits are automatically extended for a 52 week period, regardless of how many months the unemployed person may have already received UI. The funding for SEA is hence too generous, and the programme could be more cost efficient if stricter limits were installed. Finally, we have found it difficult to estimate demand for SEA since it is inadvisable to produce large information campaigns due to limited resources.

Warren P. Snowdon, Parliamentary Secretary to the Minister for Employment, Education and Training, Australia

The Australian labour market has witnessed dramatic changes in the past few years driven by industrial restructuring, increasing international competition and the freeing of the world financial markets. These developments are impacting on employment patterns and approaches to employment in our more traditional industries. At the same time, there has been a dramatic rise in employment in the services sector and job shedding among traditional businesses. It was in response to these trends the Australian government launched in 1994 an ambitious and comprehensive policy package -*Working Nation* - designed to promote economic growth and reduce unemployment, with special emphasis on helping the long term unemployed enter the workforce. Through the combination of the measures contained in *Working Nation* and strong economic growth, there has been around a 23 per cent drop in the number of long term unemployed - a significant achievement. At the same time unemployment has fallen from around 10 per cent to 8.3 per cent in trend terms.

In Australia, small and medium-sized enterprises (SME) play a crucial role in innovation and employment. Over the last decade, small business has been the major source of employment growth and there is no doubt that it will continue to develop as a major feature of the labour market in the future. Small business is now the largest employer in Australia, accounting for over half of all private sector employment. Between 1990 and 1993 small business created almost all the net new jobs. The majority of employment growth has come from small firms hiring employees, with the strongest gain in firms with fewer than 20 employees.

The Commonwealth of Australia offers assistance to unemployed people who wish to create their own enterprises through the Department of Employment and Training and on-going support to assist growth through the Department of Industry, Science and Technology. The Commonwealth primarily supports the development of small business ventures through its self-employment programme for the unemployed, the New Enterprise Incentive Scheme - or NEIS. The goal is to develop enterprises and an enterprise culture within the community which will increase Australia's capacity to respond to economic and social challenges.

NEIS is a labour market programme which offers a comprehensive package of assistance to help unemployed people to establish viable self-employment ventures. The Department of Education and Training (DEET) first piloted the programme ten years ago and since then has steadily increased the number of programme places. NEIS comprises three main elements: Training in business management and small business skills; income support called NEIS allowance; and mentor support during the first year of business operation. The programme is delivered through a range of public and private sector organisations, known as managing agents.

The NEIS process

Firstly, unemployed people who are in receipt of UI benefit are eligible to apply for a place on the programme. Applicants attend information sessions at which they are informed of the eligibility criteria for both themselves as applicants and their business ideas. (Of a sample of around 100 people attending an information session, some 50 people would proceed on to complete a NEIS application form which is then considered by the managing agents). Those with a suitable business idea, (around 40 of our sample), are invited to an interview during which the managing agent conducts an in depth discussion with the applicant to understand his or her motivation, understanding of business and the proposed venture. If the business proposal meets the NEIS eligibility criteria and shows the potential to be commercially viable, the applicant is approved to attend the NEIS training. (Around 25 of our sample would undertake the NEIS training).

The training provides essential management skills in the areas of business planning, marketing, financial planning and legal requirements necessary to establish and manage their new business. It lasts approximately six weeks, during which the participants will produce a detailed business plan. This business plan is then considered by an independent NEIS advisory committee, made up of a representative from DEET and two independent business people. In particular the advisory committee considers carefully the criteria that the proposed business must not compete directly with existing local businesses. After approval by the advisory committee and DEET, the participant is eligible for up to 52 weeks of NEIS allowance. (Twenty of our sample would be placed on NEIS allowance and with a 98 per cent completion rate, only one is likely not to complete the year).

NEIS allowance is income support paid to the participant and is equivalent to the prevailing rate unemployment benefit (currently AU\$ 301.50 per fortnight for an adult with no children - rates also vary with age) . Participants are also provided, through the managing agent, with mentor support during the period of NEIS allowance. Mentors give encouragement and general business advice about organisational, financial and marketing issues.

Managing agents

Pivotal to this process are the managing agents. These are private and public sector organisations contracted by the government to deliver NEIS and the programme is heavily reliant on the skills, knowledge and expertise they bring to it. These include accounting firms, training consultants, further education institutions, small business centres and community organisations. They are selected through open tendering exercises based on their ability to meet an extensive range of selection criteria. Currently, there are over 140 organisations contracted to act as NEIS managing agents and they are responsible for delivering over 95 per cent of NEIS places with the balance delivered through state governments. Some state governments continue to participate in NEIS through the provision of training and start-up capital. (state government involvement in the programme is detailed in the Australia Country paper.) Part of the role of managing agents is to assist participants to access finance, a task aided through the production of a comprehensive business plan. The success rate of NEIS businesses across the states of Australia is broadly the same, despite the availability of finance from some state governments and not from others.

Programme intake

The number of NEIS places available has increased from fairly modest numbers in the mid to late 1980s, to the current and substantial levels of support. This increase reflects the Commonwealth's

recognition of the benefits of enterprise development and acceptance of self-employment as a credible and viable employment option for unemployed people. Through *Working Nation* the Commonwealth is committed to increasing NEIS places by 80 per cent over the next three years, with particular emphasis on the long term unemployed. This new focus presents DEET and its managing agents with the challenge of developing appropriate strategies to ensure that very long term unemployed people come to NEIS with the personal motivation and business and technical skills necessary to successfully embark in small business. NEIS shares links with other labour market assistance offered by DEET, as well as with those of other departments. *Working Nation*, also introduced two new initiatives which will assist unemployed people in preparing for entry onto the NEIS programme.

Firstly, eligible unemployed people are now able to spend up to twelve months developing self-employment and group or co-operative enterprises whilst continuing to receive unemployment benefits. During this time clients are relieved of the obligation to be actively seeking employment. Secondly, eligible unemployed people are now able to access an advance payment of their unemployment benefits of up to 1 000 Australian dollars (or around US\$ 700) to assist in their search for employment, including establishing a self-employment venture. Further, the commonwealth government, in its 1995-96 budget, made a commitment to assist up to 90 business incubators at a cost of 31 million Australian dollars (or around US\$ 22 million).

In addition, there is a linkage to self-employment related programmes offered to indigenous Australians by their national statutory body, the Aboriginal and Torres Strait Islander Commission (ATSIC). ATSIC runs a business funding scheme, which as its name implies, offers loans and loan guarantees to indigenous Australians to help them acquire or develop commercially successful businesses. To assist indigenous Australians develop small businesses DEET and ATSIC have recently signed a service agreement which will enable much stronger links to be made between NEIS and these programmes.

Evaluation

NEIS has achieved excellent results. In 1993 DEET undertook a major evaluation of the programme, which showed that for participants who had finished NEIS allowance three months previously, 64 per cent were still in self-employment and a further 9 per cent were in other employment. For participants who finished NEIS allowance twelve months previously 54 per cent were still in self-employment with a further 9 per cent in other employment. The 1993 NEIS evaluation also found that, on average, every 10 NEIS businesses employ a further 5 people. So NEIS provides real jobs, new jobs for unemployed people who prefer the option of self-employment and new jobs for those who are employed in the NEIS businesses.

DEET also conducts continuous monitoring of NEIS participants three months after completing programme assistance. The most recent post programme monitoring figures show that three months after completion of the programme, that is fifteen months after business commencement, 73 per cent of participants remain in self-employment and a further 10 per cent are in other employment.

Comparative outcomes and programme costs

The post programme monitoring figures for NEIS compare very favourably with other DEET labour market programmes. Compared to other programmes NEIS is relatively expensive. The unit cost per NEIS business is around 14 500 Australian dollars (or 10 000 US dollars) but over 80 per cent of this

cost is incurred through the payment of the NEIS allowance. The high regard in which the programme is held is reinforced by the Commonwealth's commitment to expanding the programme over the next few years. NEIS is an important element in the Australian government's commitment to both the development of small business and assistance to the unemployed.

Discussion and conclusions

The moderator, Michael Scott, outlined the following critical themes of the morning's presentations:

- Most of the national self-employment programmes for the unemployed that we have discussed have undergone a large degree of decentralisation, especially in the delivery of business training and advisory services (the topic of Panel Discussion Two).
- These SEA programmes create linkages with other labour market policies and programmes.
- There is a general difficulty in estimating demand for SEA programmes, since public information campaigns are not appropriate in light of limited resources for serving participants.
- Each national scheme has varied its funding arrangements according to the needs and customs of the particular unemployment insurance systems. For example, in the UK, since the changes to the EAS programme, funding has become variable and discretion is left to each local Training and Enterprise Council to decide, whereas in the France, the lump-sum offered to participants is invariable.

Conference participants underlined the fact that the value of the original British EAS programme was its simplicity and transparency, relying on self-screening and hence, reducing costs. They agreed that States planning to start SEA programmes should build in self-screening as an effective means of controlling costs. In addition, participants underlined the value of designing SEA programmes in a flexible manner, with the possibility of combining them with other programmes. It was noted that the French and Australian schemes both have a mechanism for involving workers in SEA early on, before actually becoming unemployed, while the UK does not have such a feature. The worker profiling system of the US Department of Labor has a similar mechanism. Concern for determining displacement effects of SEA programmes was also mentioned by some, and the fact that the Australian SEA programme has a detailed process for doing this. (Displacement effects are extremely difficult to determine accurately). Finally, the importance of volunteers, i.e. business people, willing to give advice to potential entrepreneurs through tutoring or more formal arrangements emerged as an important issue to be considered when designing an SEA programme.

Jacob Benus, Abt Associates, US:

The United States self-employment experiment: findings of the final evaluation report

Six years ago, when I was asked to direct a new US Department of Labor project to evaluate the effectiveness of self-employment programmes for the unemployed, my immediate reaction was of disbelief: turning unemployed people into entrepreneurs seemed like an impossible task to me. As a trained economist with substantial experience in evaluating government training programmes, as well as an entrepreneur, I was convinced that entrepreneurs are born, not trained. Today, I am convinced that self-employment programmes for the unemployed work. While self-employment assistance programmes are not a panacea for the country's unemployment problems, they should be included in the arsenal of tools available to combat unemployment.

In February 1987, the US DOL decided to test the effectiveness of a lump-sum payment self-employment programme. The test was to be conducted in one State as a classical experiment. The DOL selected Washington State as the site for this experiment. Before the Washington self-employment demonstration began, however, Congress passed legislation that mandated the DOL to conduct a second self-employment experiment. The legislation (Omnibus Budget Reconciliation act of 1987) mandated the DOL to conduct an experiment using periodic payments. This legislation mandated the project to be a classical experiment with randomly assigned treatment and control groups, called for a periodic payment approach, and finally, the demonstration was required to have a neutral effect on the Federal Budget. The last point meant that if the treatment group collected more benefits than would have been paid out in the absence of the demonstration, then the State would have to reimburse the "excess costs" to the unemployment trust fund. The DOL chose Massachusetts to participate in this periodic payment demonstration, and Abt. Associates was chosen to design, monitor, and evaluate the projects.

A classical experimental design was developed to rigorously evaluate programme effectiveness. In this design, individuals were randomly assigned either to a treatment group, which was eligible to receive all programme services, or to a control group, which was not eligible to receive programme services, but remained eligible for regular UI benefits. Both projects targeted new UI claimants to promote early intervention. One key design difference was the financial assistance component: in Massachusetts, participants were eligible to receive periodic payments, while the Washington participants were eligible to receive their remaining available UI benefits in one lump-sum payment. The process began with clients being invited to attend an orientation meeting after which they submitted an application to the programme. Those who met requirements were then randomly assigned to the treatment or the control group. Treatment group members were offered business start-up services and financial assistance.

Business start-up services and financial assistance

The first step in the Massachusetts programme was to attend an enterprise Seminar. This seminar was a one day training session, conducted by one or more business experts. Within two weeks of the enterprise seminar, participants were required to attend an individual session with their business counsellor. Massachusetts participants were also required to attend six workshop sessions on a variety of business topics. The financial assistance component in the Massachusetts demonstration included payment of regular bi-weekly UI benefits with an exemption from the regular UI work search requirements while in the demonstration. The demonstration design set the duration of UI work search waiver at 24 weeks. Thus, Massachusetts treatment group members could collect 24 weeks of self-employment allowance payment.

The business start-up services provided in the Washington demonstration differ in many respects from the Massachusetts demonstration. Within two weeks after random assignment, the treatment group members were scheduled to attend a set of four business training sessions presented during a one week period: in contrast, the six Massachusetts sessions were presented over a twelve week period. In the Washington demonstration, participants received regular bi-weekly UI payments while engaged in business activity, and were also eligible to receive lump-sum payment equal to their remaining UI entitlement when they achieved five programme milestones. There was no lump-sum available in the Massachusetts demonstration.

In both Washington and Massachusetts, only a relatively small fraction of targeted UI claimants met the initial demonstration requirements of attending an orientation meeting and submitting an application. In Washington, four per cent of targeted UI claimants completed the initial requirements; in Massachusetts, an even smaller proportion, two per cent, met these requirements. Thus, relatively few UI claimants choose to pursue self-employment when the opportunity is presented.

Demonstration impacts

To estimate programme impacts outcomes were compared for the treatment and the control groups. Since the two groups were randomly assigned, they are similar in every respect. Thus, the difference in outcomes between these two groups reflects the impact of the programme. The impacts are divided into three categories: self-employment impacts, wage and salary impacts, combined wage and self-employment impacts.

Self-employment impacts: The Washington programme had a very large and positive impact on the self-employment outcomes analysed. In contrast, the Massachusetts programme had a positive impact only on some of the self-employment outcomes analysed. Specifically, in both states treatment group members were much more likely than controls to become self-employed: they also spent more time per year in self-employment. However only in Washington were self-employment earnings increased (by over 1 600 dollars per year).

Wage and salary Outcomes: In Washington, the estimated programme impact on wage and salary employment measures were consistently negative. In contrast, the Massachusetts impacts on wage and salary outcomes were generally insignificant. In Massachusetts, the impacts on earnings, however, were positive. That is, the Massachusetts programme increased wage and salary earnings.

Combined Employment and Earnings: The Washington demonstration did increase total time in employment (both self-employment and wage and salary employment). Furthermore, the impact on total earnings was not statistically different than zero. Thus, it appears that Washington's positive impact on self-employment earnings together with its negative impact on wage and salary earnings resulted in a zero impact on claimants total earnings. In contrast, the effect of the Massachusetts project on total employment and earnings was large and consistent. Specifically, the programme significantly increased the likelihood of finding employment, and it increased the time worked per year. Perhaps the greatest impact, however, was on total earnings. The demonstration increased combined annual earnings by nearly \$6 000. Thus the Massachusetts had a dramatic positive impact.

Conclusions

The results of the study indicate that both the Washington and Massachusetts demonstrations increased the likelihood of self-employment, both demonstrations increased the total time in employment, and both reduced the length of unemployment. Moreover, a cost-benefit analysis indicated that both programmes are cost-effective from society's perspective. These results indicate that self-employment programmes for the unemployed represent a cost-effective approach to promote the rapid re-employment of unemployed workers. Thus, we conclude that a self-employment assistance programme should be permanently incorporated into the US employment security and economic development system.

Henri Le Marois, ESPACE, Northern Regional Network of Management Workshops: The importance of training, counselling, and follow-up: lessons from France

France has 22 regions and 94 Departments. The Nord-Pas-de-Calais region consists of two Departments with industry traditionally in manufacturing and coal steel textile naval construction. Geographically, the Region is well placed, within travelling distance from London and Brussels. ESPACE is a non-profit organisation founded at the end of 1979, consisting of eight independent associations, and 14 permanent offices in the cities of the region. These offices, known as "Management Workshops", offer a package of business training and advisory services to potential entrepreneurs before start-up, and follow-up activities in the early stages of the new business. The philosophy behind ESPACE is that it is not enough simply to give money to potential entrepreneurs, but necessary to give them advice, training in business start-up. In France, most people are not trained in starting a business, and the unemployed are often endowed with high technical skills. ESPACE was created to accompany the entrepreneur through every stage of the process.

For example, prior to start-up there is an initial consultation during which an evaluation takes place, questions are asked and the entrepreneur is given an orientation. This process is critical in order to determine the motivation of a potential entrepreneur, whether he or she is really interested in business, or simply seeking to extend UI benefits. (More details of ESPACE activities are available in the background paper) These activities are funded largely by the Regional Councils, and training funds. The main lessons from our experience in training new businesses are that counselling and training can significantly reduce the failure rate, especially in the early stage of operation. Second, a minority of these new businesses actually create new jobs. Third, pedagogical methods must be adapted to the needs of each entrepreneur. Fourthly, evaluation is necessary to measure impacts, justify costs, especially where public money is at stake. The quality of the counsellors and trainees must always be maintained. Finally, I would underline the importance of orientation for the incoming entrepreneurs who must be made aware of the benefits, as well as the costs and sacrifices of entrepreneurship.

Panel Discussion Two: how to finance and deliver cost-effective business advisory services

Gino Salica, Director, Italian Agency for Youth Entrepreneurship, Italy

The Italian Law 44 is a self-employment programme launched in 1986 to attempt to combat the lack of entrepreneurial culture in the south of Italy, especially targeted at unemployed youth. The central aim of Law 44 is to increase opportunities for the young and to cultivate optimism. The overall long term goals of the law are to create a self-propelled mechanism capable of reducing the role of public administration in the delivery and finance of the self-employment programme, and to create a web of innovative small and medium sized enterprises.

The main benefits of the programme are financial incentives in the form of grants and soft loans, and investments envisaged in the business plans, and of course, business training and advice at the start-up and initial phases of the enterprise. It is targeted to the age bracket of 18 to 35 years. I direct the Agency in charge of implementation of the Youth Entrepreneurship programme. The Agency offers assistance in all phases of the project: promotion, project selection financing and assistance to the start-up, and consultancy follow-up through a system of enterprise tutoring. Over the past nine years, 4 300 projects have been financed by the Law 44, with an average of seven partners per enterprise, we have had more than 30 000 young people work on a business plan. Nine hundred and fifteen projects have actually been approved and creation of 25 000 new jobs has resulted. In general, there are 25-26 employees per firm. The failure rate has been approximately 20 per cent after five years. About 70 businesses have actually failed. We suspect that the failure rate will rise to 25 per cent during the next two years.

One of the most distinguishing features of the project is the use of tutoring to develop business skills of the unemployed. From the beginning of the investment phase and for a period of two years, the SEA participants are supported by a tutor that helps them overcome obstacles and difficulties. Tutoring is the most direct instrument for the transmission of entrepreneurial culture, as well as to cope with the complexity of counterpart training which requires tailoring to the specific needs of each individual enterprise. Existing companies agree to provide on the job training concentrated in areas of production and organisation, screening of human resources, problem solving, balancing relationships with share holders, and improvement of networking capacities. Empirical evidence has proved the benefits of tutoring. The tutor serves as a "shock absorber" to the system. The cost of the tutoring programme is about 4.7 per cent of the total SEA budget, however, this is a necessary investment for the success of the businesses.

The implementation of the tutoring is based on a three way relationship between the internal Committee of the Agency for Youth Entrepreneurship, the tutor and the new enterprise. This provides a channel of communication that prevents opportunistic behaviour and moral hazard. Tutoring cost per participant is about \$10 000, which should be compared to the cost of the average management training course in the US of \$ 16 000. The tutor performs a mix of traditional and innovative functions, moulding them in relation to the specific needs of each entrepreneur. In the Italian context, tutoring has proved to be a powerful tool in the self-employment scheme for youth unemployed. The cost that this instrument adds to the self-employment programme should be seen in light of the enormous benefits.

Peter Nares, Self-Employment Development Initiatives (SEDI), Canada

The delivery and costs of training services is the focus of this second presentation. Overall, the SEA programme in Canada is a training-lead, not credit-lead programme. The main focus of the SEA is human resource development. The three "C's" are the key to this process: competence, connections and capital (CFED). The training is approached in full partnership with the government much like a joint venture, however, the point is always driven home that it is community development, and not simply another public programme. Delivery agents are tendered, not given the contract, and have to prove that they are sufficiently rooted in local economic community. In general, eight weeks are allotted per participant for business plan development training, and eight hours per month of consulting. The funding is paid by the training service in the amount of \$5 000 per client.

In Canada, the role of the government in SEA is to monitor and evaluate the process, not to choose the new entrepreneurs. If the training delivery organisms are well-rooted in the community, then equity will be assured. The finance of the training is dispersed from national training allowance funds on a per capita basis to Provinces, and additional funding is made available based on performance results. Delivery agents tend to prefer the first method since there is less incentive to "cream" and choose certain clients who are the easiest to reach. (The result of the training and business advisory services to date can be found in the Canada country paper)

John E. Sweeney, Commissioner, New York State Department of Labor

The self-employment programme for the unemployed in the State of New York is the first to actually be implemented in the US since the National legislation was enacted in 1993. In 1995 we will serve 1 000 clients to date, and hope to have 3 500 by next year. In New York, the last seven years have seen a deep recession, and the New York State Department of Labor has tended to take a reactive stance towards unemployment, rather than pre-emptive. This mentality had to change, which is why we embraced the opportunity to start an SEA programme in the state, to encourage an active approach to job creation which relies on the abilities of people to create their own businesses. The role of the State government in the process is to first, facilitate, and second to evaluate. The process of worker profiling is probably the most important role for the Department of Labor. New York State has a very innovative UI system and SEA will further help to build into it an active, job creation function. The overall economic development strategy for the state of New York is centred in the growth of small and medium sized enterprises, and the construction sector, and SEA will be an integral part of this process.

One of the main obstacles we faced in the process of creating SEA legislation was concern on the part of the various economic actors that the programme would create subsidised competition to existing businesses, or displacement. Carolyn Vaccarro was instrumental in the process of overcoming this obstacle, in that she brought together employers, labour, Republicans and Democrats to come to agreement on our SEA programme. The types of businesses that would be accepted were more clearly defined, and a time frame for the application process was determined. We hope that the bipartisan bill (HR. 1789) to end the five-year time limit on SEA programmes will be enacted by Congress, and will do all we can to support it.

Carolyn Vaccaro, Director, New York State Self-employment Programme, New York State Department of Labor

The self-employment programme for the unemployed in the State of New York is described in detail in the New York State SEA plan, so I will focus on a few points for my colleagues intending to

create SEA programmes in their states. First, Employment Security Administrations and state Departments of Labor should make an effort to include as much of the staff as possible in the process. They should take time to educate and train the agents on the issues related to SEA. It will be important to realise that the quality of relationships with private sector and other local actors will vary from place to place, and hence will affect the delivery process. In the state of New York, we have been fortunate to share a good working relationship with the Small Business Development Centres partly sponsored by the Small Business Administration, as well as with existing businesses who have offered their services on a *volunteer* basis to assist the programme. We have not found any correlation between worker profiling and business success or lack of success. Another point to remember when designing the actual SEA legislation is that there should be a clause preventing certain types of businesses, e.g. pornography etc., built into the legislation. We failed to do this, and have had some difficulty. Finally, legislation should allow unemployed workers to waive the obligation to accept job offers during the time he or she is participating in the SEA programme.

(For technical reasons, the New York State Self-Employment Assistance Program document could not be included in this publication. To receive a copy, please contact Carolyn Vaccaro, New York State Department of Labor, Building 12 - Room 266, Albany 12240, New York. Telephone 518 457 3101.)

Discussion and conclusions

The moderator for Panel Discussion Two, Henri Le Marois, outlined the following critical themes of the afternoon presentations:

- In each SEA programme (France, Italy, Canada, and the United States) the delivery and funding of business training and advisory services has varied according to each national context and culture. For example, in France, with a highly centralised system, the ESPACE network has managed to create a delivery mechanism for business advisory services tailored to local needs, however, formal links between this network and ACCRE are quite weak. In Canada, a nation with a relatively decentralised federal system, the role of each level of government is well defined in the SEA programme, especially in the delivery of business advisory services which is left to contracted local private agencies. The Italian Law 44 illustrates the mechanism of tutoring for sharing of know-how and information, a concept related to Italy's systems of local small firm networks.
- SEA programmes should ideally focus more on the quality of new businesses created, rather than on quantity, hence, the incentive structures within public programmes should be designed accordingly.
- There is a strong role for tutoring or advice from existing businesses in all of the SEA programmes discussed, and especially in New York state and Italy. However, the former benefits from this assistance on a volunteer basis, a distinguishing characteristic of the American context, and the latter allocates an important part of its budget to contract existing firms to fill this function.
- Public/private partnerships, whether in the form of contract or other arrangements, are the life-blood of all successful SEA programmes.

Participants raised a number of concerns about the types relationships that should be created between the Departments of Labor and the private sector delivery agents. From the point of view of one public administrator, it would be difficult to take a "hands-off" approach where expenditure of public funds is concerned. The Canadian expert reiterated that indeed, government always maintains its right to

monitor programmes and to make funding decisions, however, in the field of small business start-up, it should not make decisions.

A second area of concern to participants was how to define appropriate mechanisms for performance evaluation that do not create perverse incentives to "cream", or to pick winners. A representative from the Massachusetts Employment and Training Administration reminded colleagues from other states that looking only at the number of jobs created, or the number of new companies as performance criteria for SEA programmes is inappropriate, and that evaluation should focus also on development of skills that enable some participants to obtain wage and salary jobs. Participants strongly agreed that service providers (those who deliver business advisory services) should not be rated simply on these criteria, and recognised that in any programme seeking to promote local economic and employment development, traditional measures of success are not enough. SEA programmes will perhaps require a new set of qualitative indicators which measure development.

Concluding remarks: From pilot to practice, the next steps for self-employment programmes for unemployed workers in the United States

Robert E. Friedman, Chair, Corporation for Enterprise Development

I would first like to highlight how far the international movement to create self-employment programmes for unemployed workers has come in the last decade. Second, I will focus on the steps we must take in the United States to transform the now-proven and authorised self-employment option for unemployed workers into an enduring national practice.

In 1983, at the height of talk about the "American miracle" of job creation and entrepreneurship, the Corporation for Enterprise Development (CFED) approached the German Marshall Fund of the US proposing to lead a study tour to Europe to learn about European attempts to help dislocated and disadvantaged communities create jobs. The initial reaction was one of shock. But on that trip we first learned about the British Enterprise Allowance Scheme (EAS) and the French Chômeur Créateur (ACCRE) programmes. In this age of telecommunications and jet aeroplanes, news of those initiatives, already several years old, had taken quite some time to travel to this country. Upon our return, I wrote an article for Inc. magazine entitled "61 000 Entrepreneurs", then the number of disadvantaged entrepreneurs in the British and French programmes. Congressman Ron Wyden (D-OR) picked up that article, circulated it among people for a year, and then became the driving force for national legislation for demonstrations and subsequently the Self-Employment Assistance programme passed as part of NAFTA implementation package.

Three lessons can be drawn from this experience. First, there would probably have never been an American UI self-employment option but for the model other OECD Member countries provided. The US should never allow itself to become so insular again. It is important, especially now as the history of the self-employment/microenterprise movement in the US is rewritten to suggest it is an outgrowth of developing country programmes like Bangladesh's Grameen Bank, that the impetus from Europe's success preceded knowledge from the developing world by several years.

The second lesson is that but for the OECD programme on Local Economic and Employment Development (LEED) and its assistance in facilitating the spread of international experience and learning, neither the US programme, nor some of the UI self-employment programmes that now exist in 18 OECD countries would have come to pass. Credit must go to Chris Brooks, Sergio Arzeni, Paul Paradis, and their colleagues in the LEED programme for their skilful internationalism and their belief in community capacity and efforts.

The third lesson is an old one: individual efforts do make a difference. We have arrived at this point today due to the determination and skill of people like Steve Wandner and Jon Messenger of the Employment and Training Administration, who orchestrated the careful experimentation and evaluation with UI self-employment programmes at the Federal level; of state leaders like Bonnie Dallinger and Kay Stratton in Massachusetts and Kathy Countryman and Judy Johnson in Washington; the singular effort of Congressman Ron Wyden whose only lobby was his own faith and energy.

It is quite amazing to think that 18 developed countries have come to recognise the importance of the very smallest of businesses and the most unlikely of entrepreneurs, and elevate their recognition to the level of national policy. Self-employment will not clean up or cure national economies, but it can do amazing things.

Based on today's reports from France, Britain, Australia, Italy and Canada, there are some overall patterns that are emerging, and which resemble those emerging in the US. In each country:

- A few percent (1-4 per cent) of the unemployed are choosing self-employment when given the chance;
- More than half, and sometimes up to 80 per cent of those businesses are still surviving 2-3 years after inception;
- About 1/3 of businesses are creating jobs in addition to those of the owner-entrepreneur.
- These businesses are generating on average 1.5 jobs per business after a couple of years, with more thereafter.
- Technical assistance and training resources are increasing in an effort -- apparently successful -- to grow more successful business.
- Most programmes rely on self-screening to choose participants.
- The average cost per business started exceeds \$10 000 US, but is generally considered to generate benefits well in excess of that.

Now for a discussion of the challenge ahead for the US. As has been noted, the promise of self-employment for the unemployed is generally loose in this country; we know from scientific evaluation that it can work and provide benefits well in excess of costs; and legislation authorising states to initiate their own programmes is in place. The challenge and the adventure now is in the hands of state officials to take a proven national idea and move it into an effective and enduring practice. In taking up that challenge, I would urge you to consider seven Ps: Purpose, Practice, Partnership, Profiling, Permanence, Performance and People.

Purpose

As you may know, the 1935 legislation authorising the creation of the Federal-state unemployment compensation system was one of few carrying no statement of purpose. No one could agree; moreover, the real purpose of the legislation was to encourage and enable states to do something, innovating as they saw fit. In thinking about implementing the Self-Employment Assistance programmes, I would urge states to avoid the pitfall of seeing the programme too narrowly or mechanistically. They might use this opportunity to consider purpose and how to make the most of the particular economic, social and political structure of their state. In fact, purpose must be considered in the context of a radically changed context for unemployment compensation, one so different as to require a new paradigm. Indeed, the most lasting significance of opening unemployment compensation to self-employment may be that it leads the whole system into a new role (without undermining its traditional purposes and responsibilities).

Self-employment programmes can serve many purposes: they may be pursued as economic development programmes, human development programmes, community development programmes. They may achieve social ends (offering an entry to the economy for women, minorities, older workers, etc.) or economic ends (creation of businesses and jobs) or both. But the same design will not achieve all ends. Note, for example, that the evaluation shows the Massachusetts programme to be a more successful overall

employment programme while it shows the Washington approach more successful in developing businesses.

In considering purpose for self-employment programmes and indeed the unemployment compensation system generally, it is crucial to recognise that the economy has changed fundamentally and irrevocably. The unemployment compensation system grew up in an economy dominated by large firms; in the United States, at the advent of the Federal-state UI system, self-employment rates had been declining for more than a century-and-a-half. But, beginning in 1973, that pattern reversed, and not only self-employment rates, but the role of smaller, newer businesses started to become important. Driven by global integration, technological change, and increasing rates of change in production methods to satisfy the demands of ever more varied, global and more discriminating markets, the structure of the economy has changed irrevocably. For the last decade, the Fortune 1000 firms have produced almost no new jobs in the US. Meanwhile, from 1989 to 1991 (the latest period for which we have data), microenterprises -- firms with four or fewer employees -- contributed 2.5 million net new jobs of the 2.6 million produced. The implication is simple enough: old jobs in large firms are less likely to reappear and their most likely replacements will in many cases be the jobs we make.

When Sir Thomas Beveridge designed the British unemployment compensation system on which the entire US income maintenance system is based, he assumed that John Keynes had discovered the key to full employment, and that therefore, all the UI system had to do was to hold people temporarily until the economy reached equilibrium again and reabsorbed them. The assumption is clearly counterfactual, and its implied strategy of "human resource conservation" is similarly inadequate. It is important to recognise that not just the unemployment compensation system, but all the other parts of the US income maintenance system -- welfare, disability insurance, social security -- are having to adjust to the new realities. Merely maintaining consumption or "conserving" resources are inadequate; instead the safety net is being called upon to become more of a ladder -- or as Secretary Reich called it, a springboard -- to future employment. That is, the systems must encourage, prepare, and enable the unemployed to reenter the labour market, and must even help build that labour market by promoting entrepreneurship and job creation.

Not only should adding a self-employment element to the UI system be done with knowledge of similar changes in other transfer payment systems, but also with the knowledge that this opens new opportunities and necessities for engaging other public programmes -- training, economic development, investment, service.

It is also important to try to understand the full dynamic of self-employment. The Abt evaluation of the pilot programmes is excellent and enlightening, but it sheds light only on a part of the phenomenon. We are learning from evaluations of other self-employment programmes, in particular the evaluations of the Self-Employment Learning Project of the Aspen Institute and the evaluation of the Self-Employment Investment Demonstration for welfare recipients sponsored by CFED, that there are important assets, family, skill and civic components to self-employment. For example, we note in the SEID programme that welfare entrepreneurs achieve (like the UI pilot participants) only modest income increases; but they also average gains of \$4 800 in net business assets and \$9 000 in gross personal assets. When asked, these entrepreneurs comment that they are investing in their businesses in the expectation of greater future income; if they, with their very limited resources make such decisions, can we doubt that similar dynamics are occurring among the unemployed? There are also important family effects -- stabilising unstable situations, increased involvement in children's education, increased self-esteem, increased civic participation. Michael Sherraden's seminal book, *Assets and the Poor: A New American Welfare Policy*, advances the thesis that for too long we have thought only in terms of income and

spending, when saving and investment -- asset development -- are the routes by which people escape economical marginalisation. This framework is probably as important for UI policy as for welfare.

Practice

The principal challenge for the US unemployment compensation system with respect to self-employment, now that the pilots worked, the evaluation is positive, and a permissive policy is in place, is to translate policy into practice -- that is, for states to put legislation and programmes in place. When designing and implementing SEA programmes, State employment security officials should:

- Realise that they are only able to offer a piece of a programme -- temporary income support -- not training or technical assistance or investment.
- Keep programmes simple, and easy to combine with other streams, target client pools, and programmes.
- Think broadly -- about the issues raised above and more -- then act practically.
- Consider the potential benefits of self-employment broadly, while observing the authorising legislation's directive to control costs to the UI trust fund.
- Keep a limited "steering" role for government, leaving the rowing mostly to community based non-profit service providers. As suggested by Peter Nares from Canada, government should select programmes (on a competitive basis preferring those who know their communities and or self-employment), monitor and evaluate them, refer eligible claimants, and provide income support.
- Above all, should collaborate with others by establishing partnerships.

Profiling

The issue of profiling may seem inappropriately technical and narrow in this list. But in many ways, States' decisions on how to cope with this requirement of the authorising legislation will largely determine and reflect the overall effect of their SEA programmes. The profiling provision is designed to ensure that SEA programmes do not cost the unemployment trust funds money, by limiting benefits to claimants who would be likely to have exhausted their UI benefits anyway. But herein lies the rub: those most likely to exhaust UI benefits may often (though not always) be those least likely to choose self-employment or be successful at it. The tighter the eligibility criteria for participation in the SEA programme, the smaller the pool of eligible participants, often so small that service providers can't afford to serve them.

The US Department of Labor has made it clear that the profiling system and cut off used for the SEA programme need not be the same as the overall profiling system used, and in fact, should be much more inclusive than that, as was the case in the demonstration projects. After all, the self-employed come in all colours, genders, ages, education levels, ethnicities, and sectors, and the profiling system should take advantage of this.

Partnership

We do live in De Toqueville's America. Two hundred years ago, Alexis De Toqueville commented on how efficient the French were; once they decided on a programme, it would roll out to the countryside from central government. In America, by contrast, there were innumerable voluntary efforts, associations and initiatives that were ingenious even if they never spread. So it is with self-employment programmes.

Today there are around 800 self-employment programmes operating in the United States, up from a bare handful only a decade ago. Providing training, technical assistance, access to loans and other supports to low income people and other would-be entrepreneurs locked out of the market, these programmes constitute essential and ready partners for state Self-employment Assistance programmes. According to a 1994 survey of just 195 of these programmes, they have already helped start 26 000 businesses and expand an additional 32 000. They hold \$44 million in loan funds, and often operating relationships with banks and other financial sources. Increasingly, they are forming state networks and even state intermediaries.

By contracting with these programmes to deliver services to eligible unemployed entrepreneurs, states can make their jobs easier, cheaper and more effective while leveraging significant financial, technical and institutional resources. Through these programmes, states can establish relationships with other crucial partners in the private and public sectors.

Permanence

Those of us who witnessed the dismantling of the Washington and Massachusetts self-employment demonstrations just as they had been perfected, cannot take the prospect of a future loss of such capacity, investment, and resources lightly. For this reason, it is not too early to fight for legislation like HR 1789 making the five-year life of SEA programmes permanent. Moreover, this permanence should ease one of the greatest problems of self-employment funding, -- its year to year character -- which prevents long term planning and development.

Performance

The self-employment system set up by any state unemployment compensation office will not operate at full effectiveness immediately. Enhancing the performance --the effectiveness, efficiency, integration, scale and sustainability -- of the self-employment systems will require constant communication and learning among partners. State UI agencies should seek periodic meetings and other communications channels with other involved state agencies, community service deliverers, and private sector and local participants. The LEED Programme of the OECD has indicated its interest in interacting with states through focused seminars in the future. Finally, states should meet together as much as possible to exchange information, holding meetings similar to that which took place recently in New England.

People

Just as the efforts of a relatively few devoted individuals helped self-employment programmes evolve to where they are today, so will individual efforts transform pilots to enduring national practice. The State officials in this room and their colleagues outside are key to that. In May 1991, I received a call from a ship builder in Washington State. His shipyard had closed, and he knew his old job would never reappear. He had a business idea that he thought would work. But he was distraught because the Washington SEED demonstration had by that time ceased enrolling new participants. The very least we owe the unemployed in this turbulent treacherous and daunting global economy is the chance to find a corner of opportunity to create a job and an economic future for themselves and their families if they can.

PART II
COUNTRY PAPERS

AUSTRALIA
By Warren Snowdon, Parliamentary Secretary to the
Minister of Employment, Education and Training, Australia

Introduction: small business in Australia

Australia's industrial landscape is dominated by a large number of small enterprises with small business making up 95 per cent of all business operations. Of the 783 800 non-agricultural private sector businesses operating in Australia, some 757 000 are small businesses. This represents 96 per cent of all enterprises and over 50 per cent of total employment in this sector. In the agricultural sector, there are 101 900 small businesses which account for 88 per cent of all businesses. However, while small businesses dominate in numerical terms, they account for only 30 per cent of total industrial production and sales and only 19 per cent of total industry profits.

1993 data show that of the 859 000 small businesses in Australia, 630 100 are very small - employing less than five people, including proprietors and partners- and 418 000 are self-employment ventures. The number of small businesses in Australia grew at a rate of 6 per cent between 1983-84 and 1991-92. In the same period, employment in the private sector increased by 20 per cent, however self-employment increased by 40 per cent and employment in firms with less than 10 employees increased by 31 per cent.

Small business is regarded as the major source of jobs growth in the future, while large businesses are expected to continue to shed labour due to structural change and the demands of international competition. The Commonwealth of Australia aims to stimulate the growth of the small business sector through encouraging more people, particularly unemployed people, to enter self-employment. It primarily supports the development of small business ventures by unemployed people through the New Enterprise Incentive Scheme (NEIS) which is administered by the Department of Employment, Education and Training (DEET). This paper aims to provide information on Australia's experience in developing and administering NEIS.

NEIS 1985-1989

NEIS was introduced as a pilot programme by the Commonwealth Government in March 1985. Its objective was to create new employment opportunities by providing income support and training to those unemployed persons who have the capacity to establish a small business. At that time the labour market in Australia, along with many other OECD countries, was sluggish following the recession of the early 1980s. Self-employment was seen as a viable alternative for unemployed people who were encountering difficulties in obtaining paid employment.

The approach adopted was based on the premise that many unemployed people may wish to start their own business but in doing so they normally lose their unemployment entitlements. The potential loss of this guaranteed income could act as a disincentive. It seemed anomalous to provide income support to

the unemployed in the form of unemployment benefit, but to deny similar support to those among them who could generate their own employment after an initial establishment period.

Schemes of this nature had already been implemented in other OECD countries and indeed within Australia some of the State governments had established schemes which provided capital assistance in the form of loans and/or grants. NEIS was planned to be introduced on a complementary basis with State and Territory Governments prepared to commit resources along the lines of existing schemes. NEIS was designed to improve on existing schemes in Australia and overseas, in that it would provide for a comprehensive package made up of income support and training from the Commonwealth and a business viability assessment process, capital assistance, and on-going advisory services from the States.

NEIS was available to unemployed people aged 18 years and over who, at the time of application, were registered for full-time work with the Commonwealth Employment Service and in receipt of unemployment benefits. The pilot scheme was extended to cover dependent spouses of beneficiaries and recipients of other Social Security income support payments in order to ensure greater access and equity for women.

Applicants had to submit a researched business proposal indicating prospects of business viability. Details of the assessment procedures varied between States, reflecting local views and circumstances. However, common eligibility requirements for the NEIS Allowance applied. Only new and independent enterprises would be eligible for support and proposals to establish enterprises in saturated markets or which involve activities which could bring the programme or Governments into disrepute would not be funded.

Participants were paid a flat rate allowance, broadly in line with the unemployment benefit entitlement (income support). The allowance was paid for up to 52 weeks. The NEIS Allowance was not indexed linked but subject to annual review. NEIS Allowance was taxable, however an income test would not apply in respect of the Allowance to ensure a guaranteed and constant level of income support for the operation of the enterprise in the first year.

Participants were advised and encouraged to attend appropriate training courses to make them fully conversant with the range of issues and responsibilities associated with establishing a small business enterprise.

An evaluation of the programme in 1987 found that NEIS was having a positive effect on sustained self-employment. 69 per cent of NEIS participants were still in self-employment in their NEIS assisted businesses three months after the NEIS Allowance ceased, with a further 7 per cent of respondents in other employment. This compared favourably with an informal evaluation group, who had received assistance from State government small business loans in the pre-NEIS period, where 54 per cent were still in self-employment.

NEIS made a further contribution to employment by generating employment for others. The evaluation found that NEIS businesses had created one additional job for every 1.5 businesses in operation. In comparison, the informal group had only generated one additional job for every 2.6 businesses in operation. The net impact of the programme compared favourably with net outcomes of other labour market programmes. In 1987-88 the Government formally established the programme.

NEIS 1990 to present: introduction of managing agents

In 1989-90 the Government decided to encourage private and non-government organisations to participate as intermediaries in the delivery of the programme. Delivery by these organisations, Managing Agents, was to supplement, and in some cases replace, the joint delivery of the programme by the States and the Commonwealth. The decision was seen as being consistent with the Commonwealth's objective of greater involvement of the business community in the Government's employment, education and training programmes. Delivery of the programme through Managing Agents was designed to enhance its equity, efficiency and effectiveness.

Managing Agents were expected to improve targeting to disadvantaged areas and groups in the labour market and bring additional expertise and resources to the programme. The move to delivery of the programme at the more local level aimed to achieve closer links with the business and local communities in which the new businesses would operate. This would redress the situation where NEIS take-up had largely occurred in metropolitan areas of capital cities rather than more rural and remote areas.

In general, it was envisaged that the administration of the programme would closely reflect that of the existing Commonwealth/State scheme, with more local delivery through the Managing Agents. Participants continued to receive income support and training from the Commonwealth, loans from State governments and private institutions. Managing Agents roles were to assess business viability and deliver training and mentor support.

Since that time the role of Managing Agents in the delivery of the programme has increased markedly, while the continued involvement of State governments has varied. This evolution can be explained by the rapid expansion of the programme in the early 1990s. Places available to the unemployed under the programme have increased almost 1 400 per cent from 467 in 1989-90 to the current allocation of 6 500 in 1994-95. This increase forced many State governments to consider the increased financial and resource implications of continued involvement in the programme. As a consequence State government involvement now varies from a continued high level, including the assessment of business plans and provision of training and loans, through just financial or training assistance, to no involvement in the program.

Currently, over 95 per cent of NEIS places are delivered through Managing Agents. Details on NEIS programme places and budgets since 1986-87 are contained in Table 1 below.

Table 1. NEIS programme places and budgets from 1986-87 to 1993-94

Year	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
Programme places	398	362	365	467	1 134	2 752	3 349	4 890
Budget (Aus\$m)	2.721	3.298	4.118	5.248	12.184	28.167	44.151	59.974

Source: DEET

Information on NEIS participants and their businesses are in Attachment 1.

Managing Agents are appointed following competitive open tendering exercises conducted in each State. Managing Agents are required to submit extensive tenders which detail their experience in the small business field, previous experience with unemployed people, number of places they wish to deliver and a unit cost price per place delivered.

Managing Agents are paid an agreed fee based on achieved outcomes, i.e. for each unemployed person that is approved for the NEIS Allowance. This fee covers all costs incurred by Managing Agents and takes account of the 20 per cent attrition rate between training and placement onto NEIS Allowance. Managing Agents contracts are Standing Offers for a three year period.

There are currently over 140 organisations around Australia contracted to act as NEIS Managing Agents. These include national networks such as Business Enterprise Centres, accountants, private business organisations and public and private training companies. A number of Managing Agents specialise in clients from specific categories or with specific business ideas, including:

- Young people (18 to 25 years old)
- People with disabilities
- Women
- Migrants
- Rural, and
- Clients with business ideas in the field of Arts

DEET considers the more intensive assistance usually required by clients in these categories when assessing tenders from specialist Managing Agents.

Managing Agents meet regularly on a State-wide basis to discuss issues and concerns surrounding NEIS. They currently have an informal Working Party through which representations and consultations take place with DEET. At a recent national conference, Managing Agents agreed to the formation of an Incorporated National Association. The Commonwealth is supportive of the formation of this Association and expects that the consolidation of a formal network will capitalise the resources that have been developed by individual Agents, provide a structure for the formal exchange of information and act as a useful resource for consultation in the development of programme policy and best practice.

The Commonwealth's White Paper on Employment and Growth, *Working Nation*

In May 1994 the Commonwealth released its White Paper on Employment and Growth, *Working Nation*. This major policy statement set a target of an unemployment rate of around 5 per cent for Australia by the turn of the century. *Working Nation* highlighted the fact that **all** Australians should benefit from the current economic recovery and as a consequence announced a number of labour market initiatives to achieve this goal.

The centrepiece of *Working Nation* was the Job Compact, an offer of a job placement or training for people who have been unemployed and in receipt of benefits for 18 months or more. The Job Compact can be delivered through a suite of labour market programs, including NEIS. Case management of unemployed people has also been introduced to provide tailored assistance to Job Compact clients.

In recognition of the success of NEIS, *Working Nation* announced an expansion of the programme and a range of initiatives to further strengthen it. These include:

- NEIS is one of the options available as part of the Job Compact;

- an increase in the number of programme places (and budget) from 5 000 (Aus\$ 59.974m) in 1993-94 to:
 - 6 500 (Aus\$91.338m) in 1994-95 (including 1 500 places for Job Compact clients)
 - 7 700 (Aus\$110.021m) in 1995-96 (including 3 800 places for Job Compact clients)
 - 8 500 (Aus\$119.003m) in 1996-97 (including 4 400 places for Job Compact clients)
- a broadening of the focus of the programme to address barriers to take up by clients from Non-English Speaking Backgrounds (NESB) and women, in particular;
- city based Migrant Resource Centres (MRCs) have been encouraged to tender as Managing Agents for NEIS and to identify mentors to help NEIS participants. Five MRCs and one ethno-specific organisation have been contracted to develop strategies to enhance the access of unemployed Non English Speaking Background clients to the program;
- a strategy is being developed to address the barriers to women's participation in NEIS. The primary element in the development of the strategy is a research project which will:
 - quantify the true level of women's participation in NEIS;
 - identify the barriers to women's participation in small business and particularly in NEIS;
 - make recommendations regarding options to overcome any barriers identified and address emerging issues.

A further initiative of *Working Nation* is to enable unemployed clients who have been in receipt of income support for more than six months to develop self or group employment ventures (whilst continuing to receive income support) for up to 12 months. A process has been developed for assessing clients' applications for Self-Employment Development (SED) and Group/Community Co-operative Enterprises (GCCE) using the expertise of NEIS Managing Agents in small business management, training and familiarity with the client group. This initiative is seen as complementing NEIS and generating increased demand for the program.

A recent legislative change, foreshadowed in *Working Nation*, now allows certain unemployed clients to access up to Aus\$1 000 as an advance payment of their income support. This advance is in the form of an interest free loan and must be used to assist in seeking employment, for example; the purchase of work related clothing or equipment. Eligible NEIS participants can access this advance payment, prior to commencement on NEIS Allowance, to assist in establishing their business. Repayments of the advance are deducted from a participant's NEIS Allowance.

Targeting of programme places

Since one of the principal eligibility criteria for NEIS is business viability, assistance has not historically been targeted specifically to long term unemployed jobseekers. However, the allocation of targets for NEIS, through *Working Nation*, has led to a strengthening of the linkages between labour

market programs. Due to the debilitating effect of long periods of unemployment, additional assistance is available for such clients to prepare them for NEIS.

Through SED and GCCE many long term unemployed clients are able to research and develop their business idea and access skills training, through other labour market programs, if required. This ensures that they have a clear understanding of what self-employment entails and that they are able to attain an advanced stage of development of their business idea before applying for NEIS.

The recent introduction of higher targets for the longer term unemployed has opened debate about whether these clients can achieve a high rate of commercially viable businesses. At this stage it is too early to answer this question, but there is a recognition within DEET and among Managing Agents that additional and more intensive assistance will need to be provided to these people. Details of the unemployment duration's of NEIS participants since July 1994 are contained in Table 2 below.

Table 2. Duration of unemployment of NEIS participants: July 1994- May 1995

Duration of Unemployment	0 to 5 months	6 to 11 months	12 to 17 months	18 to 23 months	24 to 35 months	36+ months
% of NEIS participants	32.1	23.1	13.6	11.1	10.1	9.9

Source: DEET

The split between male and female participants is similar to the figures in Table 2 however, on average, female participants are more likely to have shorter durations of unemployment than men. The Table shows that in the last eleven months almost 45 per cent of NEIS participants had been unemployed for more than one year prior to commencement on the program. This is an increase on the 1990-91 figure of 30.5 per cent of participants who had been unemployed for more than one year. Although no specific targets have been set for other disadvantaged clients, active strategies are being developed to increase access by women, migrants and indigenous people.

Programme eligibility and entitlements

To be eligible for NEIS clients must be:

- registered with the Commonwealth Employment Service for full time employment;
- 18 years of age or over and less than the Age Pension age during the period of NEIS Allowance; and
- receiving or dependent on a Department of Social Security pension/benefit/allowance.

In addition a client's proposed business must be:

- new, independent and not in competition with existing businesses;
- assessed as commercially viable after 12 months of NEIS assistance; and
- reputable, non controversial and legal.

The NEIS programme contains three distinct elements:

- training in small business management and small business skills;
- NEIS Allowance (income support paid at a rate equivalent to unemployment benefits) for a period of up to 52 weeks; and
- mentor support during the first year of business operation.

Applications are accepted from eligible unemployed people. Those with a viable business idea are accepted for initial training during which a detailed business plan is developed. This business plan is considered by an Advisory committee which makes an assessment of business viability. The Advisory committee must contain a DEET representative and at least two independent business people.

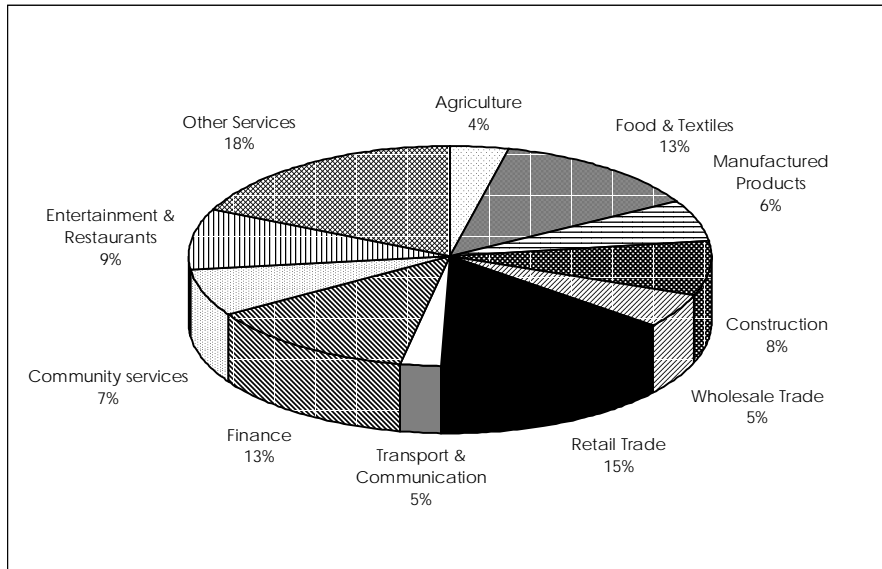
The decision to progress onto the income support and mentor elements of the programme after training is made by DEET following the recommendation of the Advisory Committee. It is also dependent on the availability of NEIS places. Clients who do not have their business plan approved are able to undertake further work on the plan and re-submit it at a later date. Around 20 per cent of applicants who receive NEIS training do not continue onto the income support element, they may decide to withdraw from the programme or they obtain employment.

Chart 1 shows the industry profile of NEIS businesses. This shows that there is a fairly even distribution between industry classifications for the type of NEIS businesses established. This reflects the broad appeal of the programme and variety of business ideas generated by unemployed people. The distribution of businesses is also fairly consistent with the general distribution of small businesses in Australia.

DEET encourages Group NEIS proposals, where a number of eligible applicants form a business partnership. Non NEIS participants are able to participate in the business provided the NEIS participants hold the majority share in the business. This approach has proven to be particularly effective in attracting indigenous Australians to establish commercial ventures within their communities. Recently, this has been further strengthened through the signing of an agreement between DEET and the Aboriginal and Torres Strait Islander Commission (ATSIC) which combines the training and support available through NEIS with the access to start-up capital through ATSIC.

Table 3 shows NEIS commencements, i.e. NEIS Allowance recipients, by age and gender over the past five years. Though this shows the participation rate of women in receipt of NEIS Allowance to be only 24 per cent of total places it is estimated that approximately 80 per cent of women work in the business with their spouses, who receive the NEIS Allowance, giving a participation rate for women of around 44 per cent.

Chart 1 - Industry profile of NEIS businesses



Source: DEET

Currently NEIS Allowance is paid at three rates, Partnered, Single and Half-Partnered. The Partnered rate is paid, usually, to the person who was in receipt of the unemployment benefit prior to commencement on NEIS, usually the male, and covers both the male and the female participants. As a consequence women may be involved in the NEIS business but not counted as participants because the male is in receipt of the NEIS Allowance. From July 1995 NEIS will move to paying only one rate of Allowance to all participants and, therefore, a more accurate indication of female participation will be possible.

Table 3. NEIS commencements by age and gender July 1990 to May 1995

Age	18 to 19 yrs	20 to 24 yrs	25 to 34 yrs	35 to 44 yrs	45+ yrs	Total
Male (%)	1	11	35	34	19	76
Female (%)	2	18	37	27	16	24

Source: DEET

Evaluation

The Commonwealth Government has undertaken three evaluations of NEIS, in 1987, 1990 and 1993. The findings of the first two evaluations were limited in that the numbers surveyed were too small to deliver reliable data due to the small number of clients that had completed the programme (398 in 1986-87 and 467 in 1989-90).

In 1993 the Commonwealth commissioned a major evaluation of the effectiveness of NEIS, with particular reference to assessing the delivery and administration of the programme following the introduction of Managing Agents. A copy of the 1993 Evaluation is at Attachment 1.

Overall the evaluation found that NEIS was successful in assisting participants into self-employment. The secondary job creation effects of the programme were also found to be significant. However, the net impact of the programme, i.e. the change in participant outcomes that can be attributed directly to programme intervention, could not be assessed as there was no comparison group used in the evaluation.

The main findings of the evaluation were:

Three months after cessation of Commonwealth assistance;

- 64 per cent of participants were self employed;
- a further 9 per cent were in other employment; and
- for every 10 NEIS businesses an additional one full-time and four part-time jobs were created.

Twelve months after cessation of assistance;

- 54 per cent of participants were self employed;
- a further 9 per cent were in other employment; and
- for every 10 NEIS businesses an additional two full-time and three part-time jobs were created.

These figures represent the minimum percentage of participants in self-employment as it was assumed that participants who could not be contacted (i.e. 19 per cent of the three month group and 31 per cent of the twelve month group) had ceased operating their business.

The evaluation also indicated that Managing Agents were more effective in delivering NEIS (as measured by positive programme outcomes) than under the previous inter governmental arrangements. Managing Agents appeared to have improved delivery of the programme through their location in local communities and therefore their ability to keep in contact with participants to provide business advice and mentor support, and their expertise in enterprise development.

The evaluation highlighted a number of areas in the programme that could be improved. These included:

- the introduction of measures to ensure that long-term unemployed clients are adequately represented in the programme;
- improvements in the reliability of the computerised management information systems;
- the provision of greater financial assistance to Managing Agents who must service large geographical areas or clients in more remote locations; and

- measures to encourage Managing Agents to become more involved in the provision of post-approval training to participants and the provision of mentor support.

In addition to the formal evaluation of the programme, DEET, also conducts continuous Post Programme Monitoring (PPM) of all clients three months after completing a labour market program. The most recent available data shows that 83 per cent of former NEIS participants are in employment (73 per cent self employed and 10 per cent in other employment) three months after the end of NEIS assistance, i.e. 15 months after business start-up.

PPM figures relate to respondents only. Non respondents (i.e. 33 per cent) are assumed to have achieved similar outcomes. As a consequence comparisons between the PPM figures and the 1993 evaluation should be treated with caution.

NEIS compares favourably with other labour market programmes in PPMs. A comparison of NEIS PPMs with other major Australian labour market programs for the year ending December 1994 is contained in Table 4 below.

Table 4. Labour market programme employment outcomes, year ended December 1994

Labour Market Program	% in unsubsidised employment
Australian Traineeship System	84.4
JobTrain (formal vocational training)	30.5
JobStart (wage subsidy)	59.5
JobSkills (work experience program)	36.5
JobClubs (jobsearch techniques)	37.5
SkillShare (skills training)	32.3
New Enterprise Incentive Scheme (NEIS)	82.7

Source: DEET

Note: NEIS data has only been available for the previous six months and may be subject to seasonal variation.

Table 5 below, shows how the level of employment outcomes for participants reduces in line with increased duration of unemployment prior to participation on NEIS. This may be explained by the greater difficulties encountered by the longer-term unemployed in accessing start-up capital and the general debilitating effect of long-term unemployment (see above - Targeting of Programme Places)

Table 5. NEIS employment outcomes by participants prior unemployment duration

Duration of unemployment	0 to 5 months	6 to 11 months	12 to 17 months	18 to 23 months	24 to 35 months	36+ months
% employment outcomes	83.0	86.9	82.1	80.4	75.4	71.1

Source: DEET

Programme costs

Compared to other labour market programmes NEIS is costly but as evaluation and PPM data show it is more effective. The gross unit cost per business for 1994-95 is Aus\$ 14 592. This is attributed as follows:

Component	Cost (Aus\$)
Income support	11,753
Managing Agent Fee	2,539
Mentor Support	300

Given the latest PPM figures for NEIS, the gross cost per successful employment outcome is Aus\$ 17 581. Assuming the secondary job creation effects of the programme found in the 1993 evaluation, the gross cost of NEIS for each person employed three months consequent to the programme is Aus\$ 12 658.

These measures of cost effectiveness represent the upper limits as they do not take into account offsets from income support payments. Taking into account direct offsets from income support, the net unit cost per business is Aus\$ 6 722, the net cost per successful employment outcome is Aus\$ 8 098 and the net for each person employed consequent to NEIS is Aus\$ 5 851.

The displacement effect of NEIS is considered to be low, around 10 per cent, due to the restrictive business eligibility criteria. The exclusion of any proposed business which might be in direct competition with an existing business reduces the risk of possible job displacement.

'Dead-weight', i.e. NEIS participants who would have established their own businesses without Commonwealth assistance, is difficult to quantify, and no reliable evaluation of the level of dead-weight has been undertaken. However, recent targeting of NEIS towards longer term unemployed people should help reduce any dead-weight in the programme.

Training

The provision of practical training to NEIS participants has been highlighted as one of the key elements of the programme. In line with Commonwealth policy to improve the quality and national consistency of training, an accredited NEIS curriculum was developed in 1994. A copy of the curriculum is at Attachment 2.

The curriculum consists of a nominal 200 hours, made up of 160 hours of core modules and 40 hours for the development of the NEIS business plan. The curriculum is aligned to the Australian Standards Framework Levels 3 and 4 established by the Australian National Training Board. It contains the broad management competencies that are consistent with NEIS businesses.

The curriculum offers a range of learning outcomes to be met and was designed to accommodate the various delivery strategies of Managing Agents and so cater for the learning needs of clients regardless of their location. It also contains mechanisms for the ongoing assessment of participants' business plans. The modules are not presented in a prescriptive order and may be delivered in a sequence according to local needs. Successful completion of the curriculum by a participant leads to the awarding of a Certificate in Small Business Management (NEIS).

The core NEIS curriculum modules are:

- Small Business
- Business Planning
- Small Business Law and Tax
- Marketing
- Pricing, Costing and Break-Even
- Financial Planning
- Operations Plan
- Record Keeping

The length of time spent by a participant on training is dependent on local circumstances. On average, participants spend six weeks in full time training. During this period they continue to receive income support payments from the Commonwealth.

Use of the curriculum is being incorporated into all Managing Agents contracts from 1 July 1995. Access to the NEIS Allowance remains contingent on an assessment of the viability of the participants business plan and availability of NEIS places. Success or failure to gain the Certificate by a participant does not in itself determine eligibility for the NEIS Allowance.

Mentor support

Mentor support provides business advice and counselling for participants during business plan development and the first year of business operation in order to maximise the success of the business. Managing Agents may decide whether to provide mentor support directly or recruit mentors.

Mentors are expected to discuss business performance with participants on a one-to-one basis at least six times during the first year of business operation. Mentors are encouraged to arrange group meetings of NEIS participants in order for participants to benefit from the experience of others, to develop a network of business contacts as well as receive general advice and guidance on a range of business issues. If specialist advice is required, it is expected that the mentor will be able to refer participants to an appropriate adviser. However, the costs of accessing specialist advice must be met by the participant.

Income and viability testing

As a proposed budget saving, DEET has recently introduced income and viability testing arrangements for NEIS participants.

Participants have to complete quarterly business returns at 3, 6 and 9 months after business commencement. Based on the income figures from these returns, if a participant's income is above average weekly earnings then entitlement to the NEIS Allowance is withdrawn. Seasonal factors are taken into account when assessing income for the previous quarter.

The quarterly business returns are also used to assess the progress of participants' businesses against the approved business plan. If the quarterly business return indicates that a participant's business is under-achieving then the Managing Agent will agree with the participant corrective action to be taken to return the business to plan. If the business continues to under-achieve or corrective action cannot be taken then the participant is removed from NEIS Allowance.

The income and viability testing arrangements have only recently been introduced to NEIS and it is difficult to quantify how many participants might be affected by their introduction. The arrangements were introduced as a possible savings option for NEIS, and their impact and cost of implementation will be evaluated. Possible further savings may be achieved through blanket reductions in the rate of NEIS Allowance paid to all participants. Possible options could be a reduction to 75 per cent of the Allowance at six months and 50 per cent of the Allowance at nine months. This would generate programme savings of around 10 per cent.

Business incubators

Business Incubators are property developments which accommodate the start-up and early development of small new firms. They provide small space on flexible terms and a range of back-up services plus management support. The same commercial criteria which normally apply to all business activities also apply to the establishment and management of incubators.

There are currently about 44 incubators operating in Australia, most of which have been established in the past 2-3 years. About a dozen incubators have been purpose built, but the tradition in Australia has been to convert pre-existing buildings to facilities with, on average, 20 'workspaces' suitable for new small businesses. Tenants enter into a short term, flexible licensing arrangement, rather than a long term lease, and centralised services such as reception and bookkeeping are provided to them either as a component of their rent or on a user pays basis.

Since 1988, the Commonwealth and State governments have provided roughly Aus\$ 9m in support of about 40 incubators. Of this about one third has been through the Commonwealth. In the 1995-96 budget, the Commonwealth made a commitment to assist up to 90 business incubators at a direct cost of Aus\$ 31m over three years. Grants of up to Aus\$ 500 000 over three years will be available for eligible new incubators to meet up-front infrastructure and establishment costs and infrastructure enhancement. Grants of up to Aus\$ 100 000 will be available for eligible incubators already operating in the first two years of the program.

Business Incubators represent another dimension of potential support for NEIS participants and for small business development in general.

Future directions

A number of issues are currently being considered by DEET to improve the administration and effectiveness of NEIS. These include:

- access to start-up capital;
- best practice covering:
 - more flexible mentoring arrangements;
 - approval of business plans by the Advisory Committee, and
 - assistance to Job Compact clients;

- greater national consistency in the delivery of the programme;
- simplifying and streamlining payment systems.

The rapid increase in programme places over the past and coming years raises the question of the saturation level for Government assistance. This is particularly relevant to NEIS with its restrictive criteria regarding business eligibility. However, evidence from Managing Agents indicate that saturation levels have not yet been reached and this is reinforced by the fact that:

- the participation rate in NEIS continues to be less than one percent of eligible applicants;
- there will be forecast growth of around 3.5 per cent for the Australian economy;
- annual growth in the number of small businesses is currently around 6 per cent;
- there is a continuing high level of demand for NEIS places.

At a more general level, a recent report of the Industry Task Force on Leadership and Management Skills highlighted the need for the development of an 'Enterprise Culture' within Australia. One of the major recommendations of the report was the introduction of enterprise and entrepreneurship units into school, vocational and tertiary education. The primary aim of these units is to promote the need for individuals to proactively take charge of their own future, including their own economic future. The units aim to promote the wealth and job creation potential of small business and provide some exposure to the skills needed to be a small business manager.

This focus on promoting small business and entrepreneurship as a viable career option may well strengthen the appeal of programs such as NEIS.

Conclusion

NEIS has gained widespread support within Government, the business community and the general public. It is viewed as a positive, creative and successful programme which has assisted the establishment of over 18 000 new businesses in Australia.

The intensive and extensive assistance offered are seen as the major reasons for the excellent employment outcomes generated by the program. NEIS offers the unemployed the option to create their own employment whilst continuing to receive support and highlights the increasing entrepreneurial measures adopted by Government in assisting the unemployed. NEIS also highlights the ability of the unemployed themselves to find solutions to their employment problems.

CANADA

By Peter Nares, Self-Employment Development Initiatives (SEDI), Canada

Introduction

Since recent national SEA evaluation results are not yet available (at the time of publication) to the public, the paper will review the results of the precursor to SEA, the Self-Employment Incentive. It will also review the results of SEA delivery in Metropolitan Toronto since 1993. These two data sources combined with observations derived from SEDI's own policy and research work in self-employment since (see Annex I) 1986 will provide a thorough overview of federal government supported self-employment strategies in Canada. To provide an overview, this paper will describe: the relevance of Self-Employment in Canada; the two Federal self-employment programmes; the Metropolitan Toronto SEA Programme; and Determinants of Success.

The reader should note that Annex II is a brief outline of the province of Ontario's Community Enterprise Program which targets self-employment specifically to social assistance recipients.

Relevance of self-employment in Canada

Self-employment has been the fastest growing segment of the Canadian labour market over the past fifteen years. This growth has remained constant through two major recessions, two recovery periods and one period of sustained economic growth. The growth during the two recessions, in particular, illustrates the relevance of self-employment as an option to the labour market and to the unemployed.

To the labour market

Self-employment has always been an important component of the Canadian labour market. Historically, Canada has had relatively high levels of self-employment as a result of our dependence on the agriculture and fishing sectors. The decline in agriculture, formerly the country's major employer, has had a profound effect on the overall rate of self-employment. In 1931, 29 per cent of Canadian workers were in agricultural occupations; over half, 57 per cent, were self-employed, a rate far higher than that in any other occupation. In 1971, although 65 per cent of workers in agriculture were self-employed, barely 4 per cent of the workforce was employed in agriculture. The fishing industry demonstrates a similar pattern. The historical decline of these two industrial sectors as employers, along with the more recent decline in the manufacturing sector, created a gap in the labour market that is currently being filled by the rapid growth of the service sector.

Although a much smaller number of people today are running their own businesses, a natural outcome of a mass production economy, self-employment is on the rise. Since the late 1970's and, in particular, since the recession of the early 1980's, self-employment has dramatically increased its share of the labour market. Between 1981 and 1991, the number of self-employed workers grew twice as fast as the number of paid workers. It is also not surprising that the bulk of new self-employment starts are

within the service sector of the economy. In 1990, 2.15 million Canadians were self-employed, accounting for about 12 percent of the working age (16-69) population or nearly 16 percent of the total employed.

To the unemployed

In March 1995, there were 1.2 million unemployed Canadians, representing 9.7 per cent of the labour force. The unemployment rate in Canada has not been below 7.5 per cent for many years. In addition, within the province of Ontario, there are 1.3 million people (1 in every 8 citizens) in receipt of welfare. The number of long term welfare recipients, primarily sole support mothers and people with disabilities, have been steadily increasing across Canada since the early 1980's.

Structural adjustment in Canadian industry has resulted in the permanent loss of hundreds of thousands of formerly high paying, manufacturing, resource extraction and white collar middle management jobs. No sector has been immune. The Federal Government recently announced in its February 1995 Budget that 45 000 civil service jobs will be eliminated over the next three years. Cuts in Federal transfers to the provinces will mean similar wage and job cuts in provincial and municipal civil services and to the extended public service (i.e. Health Care, Education) in the 1996 - 1997 fiscal year.

In other words, Canadians and their governments are being forced to rethink virtually every aspect of spending on Welfare, Unemployment Insurance and other social safety net programs. The fact that government is apparently incapable of creating sustainable (real) jobs has permeated public policy.

Governments, left with a very limited menu of effective job development options, dwindling cash reserves, and a general public intolerance of new taxes, have become more entrepreneurial in their own thinking. This has created room for self-employment programming to move from the margins towards the centre of job creation policy. It is perceived by government as real in terms of job creation; competitive cost wise, when measured against other job creation strategies; and, the results are readily visible and occur within a relatively short time frame. Finally, in some communities self-employment is literally the only option to dependency on government income support.

Self-Employment Incentive (SEI) Program

Federal, Provincial and Municipal governments in Canada first began supporting self-employment initiatives in the mid 1980's. A mix of programmes has evolved. Some were targeted to specific sectors of self-employment such as the province of British Columbia's home based business oriented "Start" programme. Others were focused solely on the provision of business start up capital such as the province of Ontario's New Ventures and Youth Ventures loan guarantee initiatives.

Only one programme, at that time, specifically targeted its efforts to the unemployed. The Self-Employment Incentive Programme (SEI) was one of four local programme options available through the government of Canada's Community Futures programme. Under this option, Unemployment Insurance (UI) and welfare recipients who wanted to start a new business and, had prepared a suitable business plan, were eligible to receive a training allowance and business consulting for up to 52 weeks. SEI was available only in rural, northern and single industry communities with a higher than the national average unemployment rate.

Initial SEI data collection was sporadic and somewhat anecdotal. However, the results were positive enough to warrant annual increases in programme expenditures from 1987 until 1992.

In 1991, the Federal government initiated a process to re-design SEI. This produced two fundamental changes. First, the programme was expanded to reach a larger number of recipients in more communities, including cities. Second, the programme became more developmental, by requiring participants to develop a business plan rather than demanding a plan as an eligibility requirement. This latter element was a result of persistent lobbying by self-employment practitioners who would often end up writing the business plan for participants.

In 1993, an in-depth evaluation of the SEI was released and reported general success (See Appendix III for Highlights).

Self-Employment Assistance (SEA) Programme

In 1993, the Government of Canada launched the new SEA programme across Canada. SEA was modelled after the SEI programme (See Annex IV for SEI - SEA Comparison Chart). The 1995 Federal allocation for SEA has expanded to \$178 million, from \$17 million in 1988 for SEI.

Policy and budget parameters

SEA is a legislated programme of the Federal Government of Canada (Department of Human Resources Development). Under Bill C21, the Unemployment Insurance Act provides for a Developmental Uses Budget which underwrites the costs of delivering a range of labour market adjustment initiatives to the unemployed. The revenues for the Developmental Uses Budget are derived from the UI Fund which is supported by employer and employee contributions. The 1995 Developmental Uses Budget will total approximately \$2 billion. The SEA allocation nationally will be approximately \$178 million. Under the terms of the Act, SEA must include income support, training and technical assistance (business consulting). The Developmental Uses Budget provides income support for UI recipients only. Welfare recipients receive the Canada training allowance (usually an amount lower than their benefit) or exit welfare. The Federal government establishes equity targets for all their programmes. The targets are the same across all adjustment programmes. Supplementary supports are available for people with disabilities (i.e. attendant care, special business related equipment).

SEA will serve between 10 000 and 12 000 unemployed Canadians between April 1, 1995 and March 31, 1996.

Delivery structure

SEA is a national programme administered through each of Canada's ten provinces. In Federal Government terms these are referred to as regions (e.g. the Region of Ontario). Setting the final annual resource allocations for the SEA programme is a process which combines regional estimates of SEA demand based on UI caseload information, and Ottawa's assessment of SEA budget implications against other programme requests. Regions are then notified by Ottawa of their annual allocation. For example in fiscal 1995 the Ontario region will receive approximately \$45 million for SEA or 25 per cent of the total national budget.

Each region has responsibility for allocating a portion of their allotment to each of their local Canada Employment Centres (CEC's). These Centres in turn are expected to:

- solicit proposals from and contract with third party delivery agent(s);
- refer eligible clients to contracted third party delivery agencies;
- verify client eligibility (confirm their UI status);
- enter into an SEA contractual arrangement with the client;
- provide regular, periodic income support payments;
- expel (where necessary) clients who violate the terms of the SEA programme;
- undertake random monitoring of clients during and after their involvement with the programme.

The Provincial and Municipal governments have no direct responsibility for the administration or delivery of any component of the SEA programme. The Federal government administers the income support cheques to the clients directly through the UI system by making a coding adjustment to their regional data bank.

Delivery process

The delivery process is generally the same across Canada. SEA is marketed to clients by CEC counsellors. Prior to a programme intake, the CEC's prepare lists of interested and eligible clients. This inventory of names is then provided to third party delivery agencies contracted by the government. The agencies notify the interested applicants as to when an SEA orientation session will be held. People attend the orientations at which time they receive information about self-employment in general and the SEA programme in particular. Those still interested after an orientation session are expected to complete a written application form. Based on the application, about half engage in self assessment work and are interviewed. A final appraisal of an applicant's suitability is made, followed by a final selection of applicants to the programme. The delivery agents then notify the CEC of the finalised client list. After formal verification of applicant's eligibility the person is informed of the decision and the commencement date for the next programme delivery period. Successful applicants then sign an SEA agreement and begin receiving up to 52 weeks of income support.

Client eligibility requirements and responsibilities

Only people eligible for and/or receiving UI or welfare benefits are eligible to participate in the SEA Programme. Recent legislative changes also enable persons who have lost their jobs and who are in receipt of severance funds to participate in the training and consulting components of the programme. However, they are not eligible for income support until their severance income has been exhausted. All applicants to the SEA programme must have their UI or welfare eligibility confirmed by the local UI or welfare agents prior to acceptance into the programme. Applicants are expected to be able to present a 'reasonable' business idea and meet an equity investment of up to 25 per cent, in cash or kind, of the total amount of benefits they will receive in a year. Welfare recipients are required to notify the local welfare administrator to participate in SEA, since they are normally expected to be conducting a job search.

Participants must be starting a new, full time (minimum of 30 hours per week) business or be taking over an existing business that was declared bankrupt.

SEA is available once in a lifetime. The programme is aimed at those “most in need” to avoid creaming of business ready clients.

Participants are responsible for:

- indicating their interest in self-employment to their CEC;
- attending an orientation session on the SEA programme;
- filling in and submitting a written application to the third party delivery agent;
- (if accepted) signing a SEA contract with the government and a participation agreement with the third party delivery agent.

All SEA clients are expected to abide by the rules of the programme throughout their participation agreement.

Delivery agent eligibility requirements and responsibilities

Delivery agents in Canada are a mix of not for profit and private organisations. To be eligible to be a contracted third party delivery agent groups must have:

- demonstrated experience in the delivery of self-employment and/or small business support services;
- demonstrated knowledge of the target client group (e.g. experience working with the unemployed);
and
- a community location (e.g. services must be delivered within the CEC catchment area).

A delivery agent is contracted by a local Canada Employment Centre to provide SEA services to a specified number of UI eligible clients. Specifically, delivery agents are required to provide:

- an orientation session to SEA;
- a recommended list of selected participants to the government agency;
- eight to ten weeks of training in business plan development; and,
- forty-two to forty-four weeks of technical business consulting (depending on the duration of training).

Delivery agents are also expected to monitor clients to ensure they adhere to programme rules throughout their SEA contract period.

Key programme delivery components

1) Orientation and self assessment

This first step in the self-employment development process is intended to produce the most “eligible clients” for the programme. Generally, this programme element involves a one or half day session to orient interested applicants to the SEA programme purpose, rules and entitlements. Applicants are expected to complete and submit a written application which is then followed by an interview with at least two programme delivery staff persons. Some delivery agents provide up to four days of self assessment support prior to selecting clients. Once the process is completed a list of applicants selected by the delivery agent is forwarded to the CEC for verification of eligibility. The principal intent of the process is to assist clients to make the right decision about self-employment. Choosing not to participate is viewed as a positive result. The overall focus of this element is self directed; that is clients decide for themselves whether or not SEA is the right strategy at the right time. Once the CEC has verified eligibility clients enter the training segment of the programme. Normally, a CEC would refer forty to sixty people to achieve twenty to twenty five programme clients.

2) Training

Training was included as a new component to the SEA when the SEI programme was reformed. The rationale for including training was predicated on growing evidence that training contributed to business start up success and sustainability. The general objectives of self-employment programmes are confidence, competence, connections and capital. Business plan development training is intended to develop confidence (belief in oneself), teach competence (business management skills) and facilitate access to capital. The actual business plan is a product of the training. The process is just as important as the plan. Training is generally structured as classroom sessions combined with self directed learning. Training curricula typically address the full range of business information needs: legal, bookkeeping, market research, advertising, selling, etc. Training courses are expected to be 8 - 10 weeks in duration. Class sizes average from 20 - 25 clients. Instructors usually have some business experience and understand adult education principles and procedures. Individual technical and personal support is also provided throughout the training process.

3) Business consulting

Once an SEA client has established a business (expected within four weeks of the completion of training), they are entitled to receive regular business consulting assistance. The third party delivery agent is contracted to provide this service as part of their overall agreement with a CEC. Normally, this amounts to approximately one day per month for each client. It is a service that is also used to monitor a client’s activity to ensure s/he is continuing to meet SEA programme participation criteria. Where training is more process oriented, consultation is geared to problem solving and the transfer of technical and specific business information. Generally, the consultant to client(s) ratio has been one consultant to forty clients, although ratio’s of one to sixty or seventy are not uncommon.

4) Termination of a client from the programme

Only the federal government has the legal right to expel a client from the SEA programme. If such action is deemed warranted by a delivery agent the following occurs:

- the delivery agent notifies the CEC in writing stating the clients name and issue;
- the delivery agent notifies the client that the action is being taken; and
- the CEC decides a course of action based on input from the delivery agent. There is no appeal process.

5) *Income support*

SEA participants are entitled to receive financial assistance from the programme for a maximum of fifty-two weeks. UI claimants receive either a training allowance or their allowable UI benefits, whichever is higher. They are also entitled to receive supplementary allowances to assist with child care, commuting, living away from home and disability. Cheques are received twice per month.

Non U.I. claimants are only allowed the training allowance and supplementary benefits as paid for by the local CEC.

6) *Per capita costs*

As previously noted, SEA programme underwrites costs in four basic areas: income support, training and business consulting, and administration.

Income support costs can range from a low of \$257 per week (the Canada Training Allowance) to a high of \$448 per week (the maximum U.I. insurable benefit). Income support is available for a maximum of 52 weeks upon acceptance into the programme, regardless of how many weeks of benefits an applicant may have already used. Thus, the government could disburse between \$13 364 - \$24 336 per SEA client over a 52 week period (not including already exhausted benefits).

Programme delivery costs nationally range between \$1 500 and \$5 000 per client including administration. Programmes vary considerably from community to community and CEC to CEC. For example, in some areas training simply means revising a business plan a client has already prepared. In other areas, it can mean the full provision of up to ten weeks of classroom teaching to assist a client to develop a business plan.

Urban SEA initiatives in Canada seldom involve more than one hundred clients per annum. In small rural communities there may be only fifteen to twenty five clients involved in SEA per year. Metropolitan Toronto is the largest single SEA initiative in Canada with over five hundred clients expected to participate this year. Consequently, a community's SEA budget may range from \$172 500 (15 clients at \$1 500 each for services and \$10 000 each in income support) to \$9 500 000 (500 clients at \$5 000 each for services and \$14 000 each in income support).

Unlike some other programmes, such as jobsOntario, which are funded on a per business start up outcome basis, SEA is funded on a per participant in training basis. In other words, delivery agents are being paid to work with clients who may not start a business. This arrangement reflects governments belief in the inherent value of training to unemployed individuals overall employability. The higher per capita delivery costs generally indicate programmes which emphasise training. The cost of orientation and training relative to business consulting is roughly equal.

7) SEA programme monitoring and evaluation

As mentioned earlier CEC's are expected to monitor the programme in two ways. One, through delivery, that is through regular contact with the delivery agents. Two, by conducting legislatively mandated random follow up surveys with programme participants.

This latter survey captures:

- the number of participants by age, gender, education level, previous experience with self-employment,
- cultural background and disability;
- the number of business start up's by participants; and
- the survivability of businesses after six months, one year, two years and three years.

There is no national standardised collection of data with respect to items such as:

- programme services;
- demand for services;
- business income generation;
- employability of participants;
- start up's by industrial sector; and
- start up capital sources.

The Metropolitan Toronto Sea Program

At the time of publication of this paper, the evaluation data on SEA was not available for public release. Therefore, we are presenting an overview of the SEA programme as it is delivered in Metropolitan Toronto as a case example. Toronto has the largest programme in Canada. SEDI collects substantial data with respect to process and outcomes.

Background

Prior to the advent of SEA, there was no other government sponsored self-employment initiative in Metropolitan Toronto. The previous SEI programme was available only to rural, northern and single industry communities. In 1991, SEDI, in partnership with the Ontario Region of HRDC, began a planning process to develop a self-employment strategy for Metro Toronto. Parallel to this local project, the federal government also launched a national planning process to reform the Self-Employment Incentive programme. In 1993 the federal SEA programme was born and launched across Canada, including Toronto.

Programme structure

The sheer size of the Metro Toronto SEA programme produced a somewhat different approach to delivery than in other Canadian communities. Where most programmes serviced on average from 20 to 40 clients per year, SEA in Toronto will reach over 500 in its third year. The sheer volume of clients, the newness of the programme and the de-centralised structure of the Canada Employment Centres, (30 offices across Toronto) required a different management strategy for Toronto.

As a result, SEDI rather than a government agency, was contracted by the federal government to manage delivery of SEA on a three year pilot basis. In this role, SEDI, rather than the government, selects and contracts with third party delivery agents for the delivery of training and business consulting. SEDI is responsible for:

- co-ordinating activities between delivery agents and CEC's;
- monitoring the quality of programme delivery;
- collecting data on programme results; and,
- reporting regularly to the Federal Government.

Since inception of the programme in 1993 and based on the result of a call for proposals process, SEDI has maintained contracts with six third party delivery agents. Each delivery agent is located approximately in the same geographic area as each of five CEC area offices which make up Metro Toronto. The sixth agency services clients from two area offices. Each area office expects to receive one fifth of the total programme resources. This means that in 1995/1996 each delivery agent is expected to work with eighty-three clients over the course of the delivery year.

In order to keep class sizes manageable (20-25 clients) four programme intakes are offered over the course of one year. These usually occur in May, August, October and January. CEC's keep running lists of interested and eligible clients in order to be prepared for the referral necessary for each intake .

Programme targets

Delivery agents have specified targets they are expected to achieve. These include:

- business start up rate;
- client completion rate from the training portion of the programme;
- meeting the government established guidelines for equity group participation.

All delivery agents are expected to abide by all other programme criteria.

Programme funding

SEDI receives a set amount of funding based on the total number of clients to be served over the course of one year. For example, in 1994 - 1995 SEDI received \$1.4 million from HRDC to administer the programme and ensure service delivery to four hundred and twenty-eight clients. This amounts to close to \$5 000 per client. Administration (SEDI's costs) accounts for some \$700 per client with the balance (\$4 300) being transferred to the delivery agents. Thus, a delivery agent would have received approximately \$305 000 to provide services to seventy-one clients in fiscal 1994 - 1995. Income support, as stated earlier, is calculated and disbursed directly by the federal government. The total training budget for 1995 - 1996 is \$2.5 million.

Programme administration

SEDI has two full time professionals, a full time secretary and a part time data entry clerk to manage the SEA programme. The programme also purchases occasional time from the SEDI Executive Director and Manager of Research and Communications to address matters of policy and marketing. The SEDI Executive Director also supervises the full time SEA staff. Professional staff are responsible for monitoring delivery agent performance and conducting client evaluations upon the completion of each training session (4 times per year per site). Based on the evaluation outcomes, information from delivery agents and input from the CEC's, SEDI makes the necessary changes to improve in the delivery for the following year.

Programme results 1993-1995

Due to the unique programme structure in Metropolitan Toronto, SEDI manages the largest database specifically on SEA clients. The following are programme result highlights (Please see Annex V for 1993 - 1994 SEA Year Fiscal Report and Annex VI for Third Quarterly Report 1994 - 1995).

1) Client volume and attrition rate

The one major difference between first and second year of operation, is the addition of a fourth intake for each delivery agent. This increased the number of applicants and clients approximately by 30 per cent, in each of the phases. To date there have been:

- 453 applicants who participated in the self assessment phase;
- 869 clients who entered training phase;
- 841 clients who completed training phase;
- 306 first year clients who completed or are in support phase;
- 490 second year clients who are in support phase.

The attrition rate is extremely low. In the first year of implementation, there was a 4 per cent drop out rate during the training phase. The drop rate for this year is 3 per cent.

2) Business types and start-ups

Similar to economic trends, most businesses are in the service sector.

The majority of the clients who complete the training phase do start a business. 81 per cent of the first year clients who entered training have started a business. In other words, the SEA programme help the start-up of 320 businesses in Metropolitan Toronto, between 1993 - 1994.

3) Equity participation

Equity participation during training phase for this year compare to last year has: increased for women (304) , decreased for visible minorities (190), and maintained for Aboriginal (9) and persons with disabilities (18).

4) Programme demand

Over the past five years the U.I. caseload has remained close to 245,000 clients or approximately 9 per cent of the work force. Demand is estimated to be somewhere between 3 per cent and 5 per cent of this total or 7 350 to 12 250 people. Approximately three qualified clients are turned away from the programme for each client admitted.

Determinants of programme success

After two full years of experience with the delivery of the Federal SEA and Community Enterprise programmes , combined with the previous four years of SEI and numerous pilot projects dating back to the mid-eighties, we have learned some lessons worth communicating. These have been categorised in terms of programme delivery and policy.

Programme delivery lessons

1) Demand for programmes

There is no currently affordable and efficient scientific procedure for accurately assessing the extent of demand for self-employment support services. There are simply too many variables (awareness of the program, understanding of the programme etc.). Rough estimates suggest that upwards of 5 per cent of the unemployed population can benefit from self-employment. The volume of demand for services has kept pace with growth in programme revenues. In Metropolitan Toronto, with an average annual UI caseload between 225 000 and 250 000 people we are able to serve 500 to 600 quality clients each programme year. It should be noted that there is very little programme marketing for SEA. An aggressive advertising campaign would likely double or triple the number of qualified applications. The demand by welfare recipients is less constant, and very difficult to estimate. Word of mouth is currently the most effective marketing strategy for programmes targeted to Social Assistance Recipients (SARs). Participation of SAR's in SEA is generally less than 10 per cent on a national basis. In Toronto, because of the existence of the provincial Community Enterprise Program, SAR's are not eligible to participate in SEA.

2) Delivery agent capacity

The optimum number of clients a single delivery agent can effectively serve over the course of one year is approximately 80 to 100. This allows for reasonable class size (15-25) and desirable consulting staff to client ratio of 1 per 40. Welfare recipients require more training and personal development support on average than do U.I. recipients. Four programme intakes per year allows for delivery continuity and avoids “bunching” clients which can result in staff burnout.

3) Training

Training is important but not as important to success as originally believed. Over time we have come to learn that participants benefit most from an almost equal mix of training to one on one consulting. Training is more efficient to deliver than consulting and therefore appeals to both funders and delivery agents. The self-employed are looking for “Just in Time Education” with a micro enterprise specific focus. Training curriculum, while necessary, is secondary in importance to the skills of trainers. Funders should not allocate significant resources to curriculum development. There are numerous products already available.

4) Consulting

Business consulting is critical to programme success. Consulting should be provided at the clients place of business. Contact should be made at least monthly. The consultant is also in a good position to monitor client progress for purposes of impact evaluation. Consulting should be goal oriented while continually promoting independence. Consultants should have strong generic small business skills. A larger programme may wish to have a consultant team with a mix of specialised skills. Consulting requires a different skills concentration (business) than training (adult education).

5) Staff qualifications

The ideal trainer/business consultant will have experience in teaching and in owning/operating a small business. It is not enough to just understand the dynamics and realities of small business. Effective communication is just as important. Staff will spend time on personal, as well as, business development issues. This is not 9-5 work.

6) Inter-organisational relationships

Self-employment programmes are generally best delivered by not for profit community based agencies. There are two reasons for this conclusion.

1. Community based agencies are local, usually have a track record working with the target group(s) and are available to clients after they have completed the formal programme period.
2. Community agencies can be held accountable for their actions, which in turn provides government more quality control over their expenditures. However it is important to note many staff hired by these agencies will have private sector experience.

The appropriate role for government is to support but not to deliver self-employment programmes. Support may include: setting eligibility criteria, client referral, evaluation of results, programme marketing, funding and creating an enabling regulatory environment.

Government should enter into three year contracts with delivery agencies, renewable annually. This will ensure continuity of service, programme scale and effective data collection and management.

7) Access to business start up capital

Access to capital will be an issue for many clients. How many will face difficulties depends on such variables as: availability of severance funds, access to alternative lenders such as an Small Business Administration Loan programme, supportive family and friends and the lending policies of local banks and trust companies. Effective delivery programs form relationships with lenders prior to delivery to ensure that access to start up business capital is an available option for those who need it. Peer group lending is an emerging new financing strategy across Canada.

In communities with more than one self-employment programme it will be important for the funder to encourage co-ordination in administration and delivery of services. Such efforts discourage clients from programme jumping, eliminate or reduce cost duplications, promote creativity of design and implementation and promote the formation of joint ventures between delivery agents and their clients.

Policy lessons

1) Equity group access

Self-employment programmes funded by the government benefit from clearly established equity group participation targets. The ability of programmes to meet these targets has varied and, is affected by: location, “group characteristics”, marketing and referral strategies, and, programming typology. Programmes located in inner city neighbourhoods have been generally more successful in reaching visible minorities than have institutionally based (community college) programs which have tended to be more accessible to predominately white and male white collar workers. There is little evidence that taking a multicultural approach to classroom training negatively impacts client learning. In fact, the opposite is more often true, as clients broaden their market opportunities through learning about different cultures. Equity targets also temper the creaming impulse endemic to programme delivery agents. At present equity group quotas do not appear necessary in Canada. This may change if SEA does not become more accessible to people with physical disabilities.

2) Income support

Participants often remark on the importance of the income support component of the programme to their overall success. Most indicate that the income cushion supplied by the programme was critical to their reaching their start up objectives within twelve months. However, there is one issue which needs to be addressed: income support under SEA is, in our view, too generous.

Rather than allowing the maximum benefit level through UI, the government should establish a flat rate training allowance. This stipend should be set at two thirds of the maximum allowable UI benefit. In Canada, this would amount to close to \$350.00 per week. The net effect of this reform would include:

- increasing the number of participants without increasing income support costs;
- reducing the number of applicants who are simply looking to extend their UI benefits for an additional 52 weeks;,,
- maintaining the provision of an adequate level of income in the critical business start up period.

The current SEA income support provisions were a result of labour influence on the programme design process. Labour does not support using UI contributions to underwrite training costs. In order to secure support for the UI legislation from organised labour, the federal government agreed to allow SEA participants to receive either their UI claim on the Canada Training Allowance (whichever is higher). This was a significant change from the SEI programme which allowed only the training allowance rate. The Canadian government also vetoed the option of “lump-sum” payments for similar reasons.

3) Resources/planning

Unlike other labour market adjustment programmes in Canada, SEA is relatively well funded. This reality is the result of the sourcing of SEA dollars (the U.I. Fund rather than general tax revenues) and the success of the programme in getting the unemployed back into the local economy and labour market. Given the persistently high unemployment rate, the continued volatility of the marketplace and the absence of new revenue sources, it is unlikely that government will expand the programme much beyond its current capacity or reduce it in scale.

Planning SEA expenditures is made difficult by the absence of reliable data. Over the past two years efforts have been made to collect information that will help in identifying such issues as: demand for the programme within the U.I. caseload and a demographic breakdown of the caseload by equity group representation. Further efforts are being made to standardise the collection of programme information that will: provide the Federal Government with a clear overview of results by programme; identify who the participants are by age, education, etc.; and, identify the types of businesses started and their durability. At present the Canadian government does not have a set of national standards or even guidelines with respect to SEA’s anticipated outcomes, purchased services or tracked results on a programme by programme basis.

4) Harmonisation of programmes

There is currently no joint planning or delivery of Federal and Provincial self-employment programmes in Canada. This has resulted in some duplication of services, particularly administrative. It also has the effect of requiring local delivery agents to set up and operate two programs offering essentially the same services- one to UI beneficiaries and one to welfare recipients. To some extent the learning needs of the two groups vary but programme efficiencies could still be improved.

5) Self sufficiency and the definition of success

In Canada, defining success in terms of self-employment is being debated. It is becoming clear that for many people, particularly those living in areas where seasonal employment is the norm, that self-employment may be one of several income generating activities. If public policy limits the definition of success (as it currently does) to self sufficiency solely through self-employment, it risks further

marginalising people who have few other options. If, however, the public policy objective is self sufficiency rather than only or simply self-employment, the opportunity and impact of self-employment grows dramatically.

Conclusions

Self-employment and self-employment support programmes are a growing reality in Canada. The debate is not about whether self-employment should be on the menu of available development options. It is not about whether or not government has an important role to play in encouraging and supporting self-employment. The debate has shifted from the experiment demonstration phase to the achieving scale and sustainability phase.

By the start of the next millennium we expect close to 20 per cent of the Canadian work force to be self-employed. Many people will be working from home. The challenge in our country is to now develop policies, regulations and programmes for the self employed which incorporate the social and economic values we believe in while encouraging and supporting people to self sufficiency.

ANNEX I

Information on SEDI

SEDI is a non-profit organisation (founded in 1986). SEDI's mission is to increase access to the option of self-employment and enterprise development for unemployed and underemployed people who are pursuing social and economic independence. To fulfil this mandate, SEDI is engaged in research, policy analysis and development, advocacy and the provision of a range of technical and management consulting support to self-employment services across Canada.

Statement of principles

SEDI upholds the following statement of principles.

- SEDI believes that people want to be productive and contributing members of society.
- SEDI believes that many unemployed people face barriers to employment (including self-employment) that are not of their own making and which they need information, training and support to overcome.
- SEDI believes that people armed with the right information and support networks are capable and have the right to make their own decisions about their lives and their careers.
- SEDI believes that self-employment is a legitimate and viable employment option for a significant percentage of unemployed and underemployed Canadians.
- SEDI believes that community based self-employment support services provide the people with the confidence and business knowledge they require to succeed in business.

Project and programme profiles

Jobs Ontario training

SEDI provides quality assurance management consulting and technical assistance to the Jobs Ontario funded self-employment projects across Ontario.

Policy advocacy

Through demonstration projects, policy papers, workshops and the media SEDI is carrying out advocacy on issues pertaining to self-employment.

Relevant policy areas include: federal and provincial welfare and income security reforms; federal and provincial small business financing initiatives; and labour marketing training and development.

Rural enterprise development initiatives

In partnership with the Women and Rural Economic Development, SEDI is assisting rural and farm women: to start new businesses; to develop the capacity to deliver self-employment training; and to establish networks to guide the community economic development for rural women. This project is funded by the Jobs Ontario Training and Jobs Ontario Community Action Program.

Self-employment assistance program

The Federal Department of the Human Resources has contracted SEDI to administrate and co-ordinate the delivery of the self-employment programmes for Unemployment Insurance recipient of Metropolitan Toronto. SEDI provides technical support to the delivery sites.

Communications

SEDI issues a newsletter, organises policy forums and conference on selected issues, and develops and circulates research papers on topics of concern to the field of self-employment.

ANNEX II

Summary of the Province of Ontario Community Enterprise Program

Since the states are reviewing their role and responsibility with respect to self-employment assistance, it is appropriate to appendix to this paper a summary of a provincial self-employment initiative; the Province of Ontario's Community Enterprise programme. Canada is currently debating the merits of decentralisation of labour market authority and resources to the provinces making a review of the provincial initiative timely and useful to state governments. A central theme of these discussions is the implied loss of national training standards inherent in the decentralisation process. This has significant implications for self-employment programmes at the national and provincial levels.

Background and purpose of the Provincial Community Enterprise Program

Ontario is the only province in Canada to have a **comprehensive** government supported self-employment strategy. The jobsOntario Community Enterprise programme was initiated by the provincial government as a component of a larger job creation strategy in early 1993. The Province has also launched several ancillary initiatives which are also intended to support micro enterprise development. Foremost among these is the Community Loan Fund (CLF) program. This is a government loan guarantee programme. The Province guarantees 100 per cent of the principal on loans made to the self employed who are unable to access financing from traditional sources. The capital is raised and administered locally. Small grants are available to assist community groups to structure a CLF and to support local fund raising. The clients of the Community Enterprise programme are referred to the CLF's where they co-exist.

The purpose of the Community Enterprise programme is to assist the unemployed (particularly social assistance recipients) to self sufficiency through self-employment.

Eligibility requirements

The community Enterprise programme is targeted to social assistance recipients (SAR'S), UI exhaustees and the long-term unemployed who are seeking to re-enter the workforce through self-employment. At least 50 per cent of all programme participants are expected to be SAR's. There are also equity group targets for women (50 per cent of participants), people with disabilities (15 per cent of participants) and visible minorities (25 per cent of participants). Participants are expected to have a reasonable business idea. The programme was designed to complement the SEA initiative in Ontario.

Programme delivery structure

The programme is delivered through contracted (with the provincial government) community based, not-for-profit delivery agencies. There are 27 such programmes across the province, including the far north. Delivery agents are funded on a per outcome basis. For example, if the delivery agent projected results of 50 new business starts over the period of twelve months, they would be entitled to receive approximately \$375 000 or \$7 500 per business created. Examples of delivery agents include not for profit agencies, community colleges and Federal Business Development Bank affiliates.

Programmes are expected to provide a standard set of services to their clients. These include: client recruitment and selection, self-employment self-assessment, business plan development training and post business start up consulting. Given the target group(s) most programmes have integrated personal development components into their training curricula. Training is approximately ten to twelve weeks in duration, emphasises self direction and mixes classroom instruction with one to one consulting. Programmes are expected to provide regular monthly on site consulting visits at the clients place of business for up to 52 weeks after the business has started.

Income support

SAR's continue to receive their social assistance while they are participating in the programme. This was made possible by the province waiving the job search requirements for recipients and designating the Community Enterprise agencies as approved programmes under provincial regulations. Any income earned through the business during the 52 week waiver period is to be deposited in a business bank account and cannot be drawn for personal use by the business owner. Delivery agents are expected to monitor this end of the agreement. In special circumstances a welfare administrator can authorise an extension to a participant of twelve weeks if he or she feels the business will achieve viability in that extra time.

Other non SAR participants do not receive any income support through the programme.

Definition of success

Current definitions of success are listed below. They are influenced by welfare regulations, welfare re-investment savings and traditional business measurements.

Only new jobs created through newly developed JobsOntario Training self-employment initiatives count toward job targets.

For participants registered before May 31, 1995, a successful outcome is considered to be:

A new full-time business created through the programme by a social assistance recipients (SAR) participant which is generating sufficient personal income for the participants so that the participant is no longer in need nor in receipt of social assistance benefits. The business must last a minimum of one year. SAR participants continuing to receive social assistance through the Steps to Employment programme (STEP) incentive, would not count towards targets unless they also achieved the gross business revenue objectives described below.

Or

A new, full-time business created through the programme which has lasted a minimum of one year, has \$5 000 in gross business revenues in the fourth quarter of operation, and for which there is solid evidence that the business will gross at least \$20 000 in business revenues in quarters four through seven of operation.

Or

JobsOntario Training eligible participants who get full time jobs, minimum wage or above, with businesses created by participants in the programme. The jobs must be considered permanent and will count toward targets after they have lasted a minimum of three months.

Overview of programme results

The following represents conclusions derived from the 1993/1994 programme delivery year. The information is confined to business starts only. Business earnings information was unavailable at the time of publication.

Programme funding mechanisms

Community Enterprise is funded primarily by provincial government tax revenues. The total allocation to the programme in fiscal 1994 was approximately \$8 million (not including income support). This amount is a small piece of the much larger job creation strategy known as Jobs Ontario (approximately \$100 million). The Community Enterprise initiative was supplemented in 1994 with \$2 million in cost shared (Federal/Provincial) funds to increase the participation of welfare recipients in the program.

Lessons learned from delivery

Client recruitment and selection

Demand for the programme has been steady but not excessive. Programmes tended to capture the “self-employment ready” clients in their first year of delivery. In the second year, delivery agents have had to spend more time and resources on establishing referral and marketing strategies. Non SAR participants find the programme less attractive due to the absence of income support. These clients will require different marketing approaches.

Training

Training courses have generally been shortened over the life of the programme. An average course runs for approximately ten to twelve weeks. There has been a shift away from simple information transfer to business and personal development processes. Creaming as opposed to client development continues to be a temptation for delivery agents. Some experimentation is underway with small peer group approaches and using external (to the programme) volunteer mentors.

Business consulting

The demand for consulting generally outstrips a delivery agents' capacity to respond. Clients prefer one to one contact to group training. Most delivery agents have shifted resources from training to consulting to better serve their clients needs. Business consulting should be done at a clients place of business to achieve the best results. It also permits the consultant to monitor the client to ensure compliance with the welfare regulations for approved programs. An optimal consultant to client caseload ratio is approximately 40 clients per consultant. Business consulting skills are different than training skills. Delivery agents are advised to hire different people for different functions.

Client tracking and results measurement

The definition of success in programme terms should be clear to all stakeholders from the outset. Establishing a strictly economic definition (e.g. the only thing that matters is a sustainable business) is too narrow in focus and limiting in practice. Self-employment can often be only one of a range of income generating options for the unemployed. It is the patchwork of options collectively which contribute to self sufficiency. Self-employment should be measured in terms of its contribution to self sufficiency.

In order to ensure the retrieval of relevant and reliable programme data, information objectives must be established, understood and agreed to prior to programme implementation. Data collection forms and procedures need to be standardised to produce useful information.

Welfare and other regulations

When waivers are required, it is vital that the terms and conditions of the waivers be developed and communicated to local welfare administrators in advance of programme implementation. Sufficient time is then required for administrators to in turn communicate with their workers. The Community Enterprise delivery agents spent considerable time and energy explaining the rules to the welfare workers who were, out of ignorance, sometimes applying the old guidelines which resulted in some clients being terminated from welfare.

Access to business start up capital

Access to capital has been a significant problem for welfare recipients in the program. The slow start up of the Community Loan Fund programme has also contributed to the issue. As a result, while most businesses are still starting, they are starting smaller and taking longer to achieve self sufficiency. Banks and other traditional lenders have and will not lend to the Community Enterprise participants leaving clients with few options. It is important that delivery agents communicate clearly to clients at the time of application that start up funding sources are scarce. This reality needs to be taken into account during the self assessment phase of the programme to enable clients to weigh the implications for their business plan.

ANNEX III

Self-employment initiative option, 1987-1991

Socio-demographic profile

- British Columbia had the highest provincial representation, approximately 25.7 per cent of SEI participants. Manitoba had the smallest representation at 0.1 per cent of all participants.
- Participants were more likely to be male than female. Males represented approximately 58.7 per cent of the participant group.
- The average SEI participant was between the ages of 25 to 44. Approximately 74.5 per cent of participants were in this age category.
- The majority of SEI were married. Approximately 58.8 per cent of clients were married and 25.7 per cent indicated they were single.
- English was the language spoken by the majority of SEI participants, approximately 75 per cent of participants.
- Visible minorities accounted for 3.3 per cent of SEI participants as did disabled persons, while aboriginal Canadians made up approximately 6.6 per cent of the participant group.

Work history

- Shortage of work, followed by voluntary departure, were cited as most likely reasons that SEI participants were unemployed at the time of entry into SEI.
- The general service occupation was the most prevalent previous job categories indicated by programme participants prior to programme enrolment.
- The job tenure for the job immediately prior to SEI enrolment was brief. Approximately 71.7 per cent of UI participants worked one year or less in the job immediately prior to SEI enrolment.

Gross programme impacts:

U.I. dependence

- SEI participants had fewer claims after SEI. In general, SEI clients experienced 1.2 fewer claims in the three year period post-SEI than in an equivalent period prior to enrolment.
- The reduction in the number of claims post-SEI resulted in a general decline in the number of paid weeks of U.I. receipt. Overall, SEI participants received 35.6 less weeks of paid U.I. after the programme participation.
- The reduction in the level of paid weeks resulted in an average declining benefits paid. programme participants received an average of \$6 430 less in U.I. benefits in the three years post SEI.

Earnings impacts

- SEI participants had a moderate level of previous self-employment experience. The level of experience varied by cohort, ranging from 18.3 per cent of the 1988 cohort to 24.3 per cent for the 1991 cohort.
- SEI participants, on average, have lower pre-programme total earnings in comparison to the paid employment earnings reported by a U.I. only group for an equivalent period.
- All SEI cohorts experienced a substantial earnings dip during the year of SEI participation although earnings from self-employment increased substantially.
- Participants also experienced a substantial growth in earnings two to three years after programme participation.
- Earnings from self-employment usually peaked in the year immediately following SEI participation .
- Earnings from self-employment never exceeded 37 percent of total earnings for SEI participants.
- Mean earnings from self-employment were 66.1 percent higher for participants with previous self-employment experience when all cohorts and relevant calendar years are considered.
- From the SEI start year and onward, the average level of self-employment earnings for female portion of a given SEI cohort ranged from 38.0 to 78.9 per cent of men's earnings.

Incrementality

- The incremental impact of the SEI program, was to increase total earnings of participants by an average of \$3 911 relative to the comparison group of non-participants.

- Participants in the provinces of Newfoundland, Quebec, and British Columbia benefited most from the SEI programme. The impact for participants in these provinces were \$9 853, \$6 975, and \$5 521 respectively.

Participation in SEI had a positive and significant impact on both men and women. The estimated benefits were slightly higher for men, but the difference was small (\$4 005 for men and \$3 845 for women).

ANNEX IV

Programme parameters for SEI and SEA	
SEI	SEA
<p>Criteria for Eligibility - applicant must:</p> <ul style="list-style-type: none"> • be eligible to collect U.I. or social assistance • be legally entitled to work in Canada; 	<p>Criteria for Eligibility -applicant must:</p> <ul style="list-style-type: none"> • be eligible to collect U.I. or social assistance; • be legally entitled to work in Canada;
<ul style="list-style-type: none"> • be living in a Community Futures Community when the application to SEI is made and during the subsidy period; or <p>have worked for an employer located in a community futures area;</p>	<ul style="list-style-type: none"> • be living in a community futures community; or <p>have worked for an employer located in a community futures community or within selected labour market areas; or</p> <p>be residing in a selected labour market area (as defined through regional strategies);</p>
<ul style="list-style-type: none"> • agree to work full-time in the business; 	<ul style="list-style-type: none"> • agree to work a minimum of 30 hrs per week in the business;
<ul style="list-style-type: none"> • be able to show that he/she has money (or capital) available to make a personal investment equivalent to 25% of the total income support, net of allowances, that she/he will be receiving under SEI. 	<ul style="list-style-type: none"> • be able to show that he/she has money (or capital) available to make a personal investment equivalent to 25% of the total income support, net of allowances, that she/he will be receiving under SEA (to \$4000 maximum);
<ul style="list-style-type: none"> • not have previously in SEI. 	<ul style="list-style-type: none"> • not have previously participated in SEA.
<ul style="list-style-type: none"> • furthermore, the proposed business must be approved by EIC as suitable for public support (for all SEI participants). 	<ul style="list-style-type: none"> • Approval of the business for public support (i.e. business not involved in commercial exploitation of sex, religion or politics) is required for U.I. participants. SAR participants are looked after by their co-ordinators.
<ul style="list-style-type: none"> • SEI participants are not required to complete the self evaluation or attend an orientation seminar. 	<ul style="list-style-type: none"> • Clients must attend an orientation session and complete a self evaluation exercise on suitability for self-employment.
<p>Other Comparisons</p> <ul style="list-style-type: none"> • in the case of SEI, clients were paid bi-weekly based on a flat rate of \$230 per week plus special assistance for the handicapped. 	<p>Other Comparisons</p> <ul style="list-style-type: none"> • U.I. eligible participants receive U.I. benefits for a maximum of 52 weeks based on the higher of their regular U.I. benefit rate or the basic participant allowance. Participants may also be eligible for supplementary allowances (i.e. for dependent care, commuting, ...); or <p>The basic participant allowance will be paid by co-ordinators to:</p> <ul style="list-style-type: none"> > participants who are potential U.I. claimants and who have applied for U.I. benefits and who are serving a waiting period; > participants who are eligible for U.I. benefits but have been disentitled; > social assistance recipients. <p>these benefits are paid bi-weekly.</p>
<ul style="list-style-type: none"> • Funding for SEI came from Consolidated Revenue Funds. 	<ul style="list-style-type: none"> • Funding for SEA comes from both the U.I. fund (section 26.1d) as well as Consolidated Revenue Funds (CRF).
<ul style="list-style-type: none"> • Clients were not selected on the basis of equity targets. 	<ul style="list-style-type: none"> • Priority is given to designated groups under the Employment Equity Act (aboriginal people, visible minorities, etc.).
<ul style="list-style-type: none"> • Under the SEI program, training was left up to the participants. 	<ul style="list-style-type: none"> • Each SEA participant has to be supported by a co-ordinator (Business Development Centre). EIC subcontracts with these co-ordinators to provide training to SEA participants.

ANNEX V

Self-employment assistance year end report for fiscal 1993 - 1994

Introduction

In the spring of 1993 Human Resources Development Canada (HRDC) contracted Self-Employment Development Initiatives (SEDI) to manage delivery of the Self-Employment Assistance (SEA) program in Metropolitan Toronto. SEDI then purchased (through a sub contractual arrangement) the training and business consulting services of six community based agencies.

These agencies were chosen based on their ability to meet the self-employment needs of the Unemployment Insurance Recipient (UIR) target group, and the geographic coverage necessitated by the location of the five Canada Employment Centre (CEC) management areas that comprise Metro Toronto. Approximately 70 Clients from each management areas were trained. The Delivery Agents' location and numbers of Clients trained were:

Centennial College - Centre of Entrepreneurship: Scarborough	73 Clients
Community Business Centre: Toronto South	35 Clients
Jewish Vocational Services - Start Smart: Toronto North	35 Clients
Toronto New Business Development Centre: Toronto South	63 Clients
York Business Opportunities Centre: Toronto East	63 Clients
YMCA - Enterprise Centre: Toronto North/Centre	80 Clients

	349 Clients

Background to year I - 1993/1994

HRDC, (formerly Employment & Immigration Canada) budgeted funding, totalling \$2,007,000 for the co-ordination and delivery of the Self-Employment Assistance program, (SEA) in Metro Toronto, available to Self-Employment Development Initiatives, (SEDI) in:

February 1993 - SEA Part "A" - \$1,443,347
April 1993 - SEA Part "B" - \$ 563,459

General programme development was undertaken in February and March 1993, including: the development of delivery parameters; issuance of a Request For Proposals; review of submissions; selection of, and negotiations with, prospective Delivery Agents; and the finalization of contracts.

In April, working relationships were established between Delivery Agents and the Canada Employment Centres, (CECs). Systems of referral, by the CECs to the Delivery Agents, of eligible SEA

Candidates were established. April saw the delivery of the initial Information Sessions, (Program Phase I) and Self Assessment, (Phase II) to the prospective Clients. And the first intakes of Clients to Training, (Phase III, - signing of SEA Agreements between the Clients and HRDC) occurred in June and July. Training was delivered to 13 Groups, of about 27 Clients each, over the following 6 months. Training of the last Group was completed in early January 1994. Phase III Training lasted an average of 10 weeks for each Group. Clients successfully completing Phase III, graduated to After Care, (Phase IV) in which they continue to be provided with approximately 42 weeks of business counselling and business support services.

Year end results

A. *Fiscal:*

Budgeted: \$2 007 000. Actual: \$1,986,000. Balance: \$21 000.		
Expenditures:		
SEDI - co-ordination & administration:	\$274 000	(14%)
Delivery - pre-operational assistance, training, professional & client development:	\$1 661 000	(83%)
Sub-total:	\$1 935 000	(97%)
Taxes - GST:	\$51 000	(3%)
TOTAL:	\$1 986 000	(100%)
Unaudited		

The first year operation concluded with a modest saving of 1.5 per cent to budget. Administration costs were 14 per cent of the total budget, and 83 per cent of funds were applied to delivery. The per Client training cost of the program, before GST, equals \$5,540.

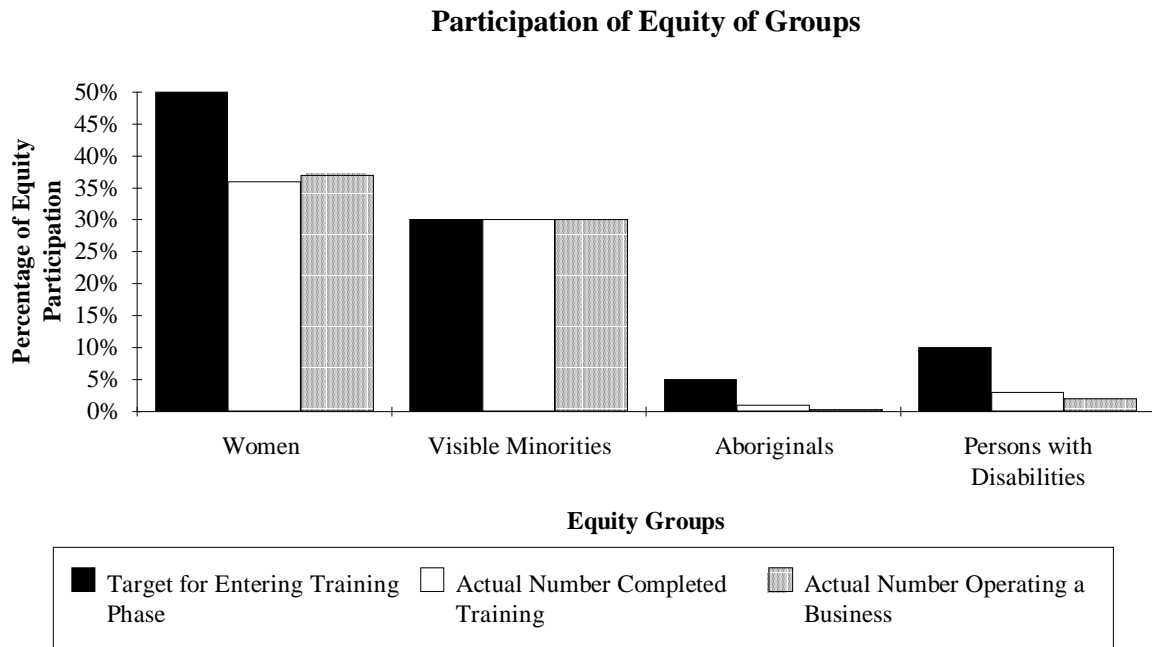
Training and business starts

Training and business start targets have been exceeded. SEDI established specific bench marks and definitions for each stage of the program, and these include: Completed Training - Clients are considered to have successfully completed training only if a business plan of sufficient quality is produced; and Business Start - occurs only when gross revenues are generated.

Training

Three hundred and thirty-six Clients (96 per cent) of the 349 Clients who entered training, completed training successfully, against a target of 300 or 85 per cent. And while equity group participation was adequate, it could have been better, particularly among women and people with

disabilities. Negligible aboriginal participation was somewhat anticipated, due to other Metro-SEA initiatives specific to Aboriginal people.



Source: SEDI

Business starts

The most recent figures available, most closely correspond to the programme completion of the first 80 Clients, as of late April/mid May, 1994. Although this period falls into the current Year II fiscal year, these figures represent the first completion of the Year I cycle, and therefore give a more accurate indication of the programs outcomes.

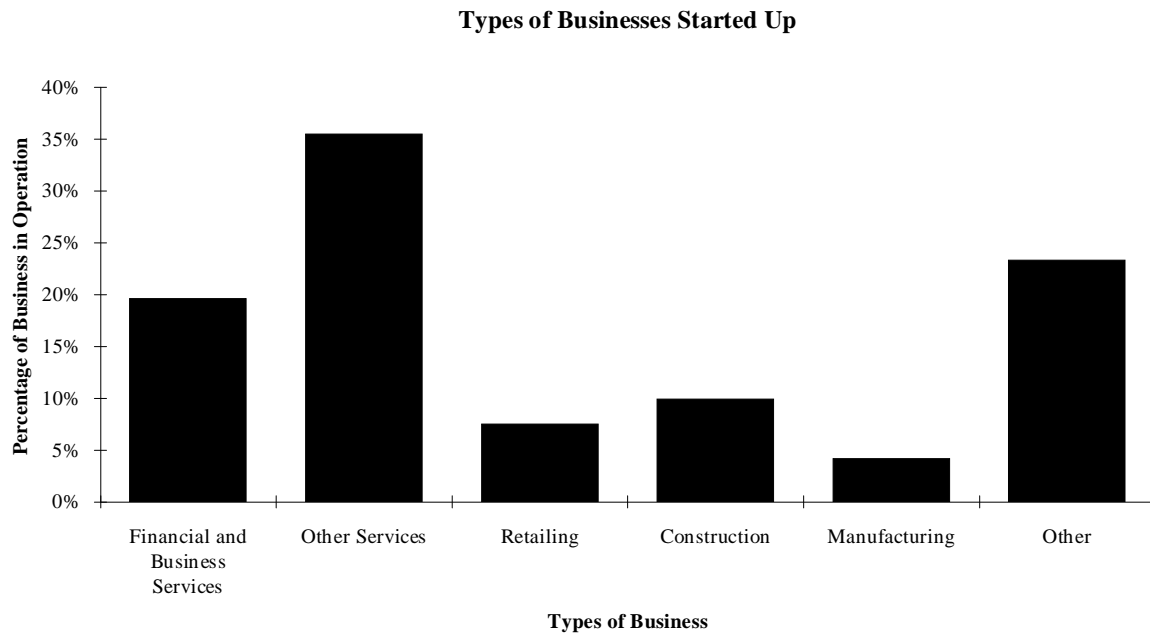
Of the 349 Clients who entered training, 308 or 88 per cent started a new business, substantially above the target of 250 clients (70 per cent). Two hundred and ninety-two (292) or 84 per cent are still in operation. These businesses generated approximately \$6,000,000 in gross revenues, with an additional \$1,470,000 in future business written through contracts, for a total revenue generation of \$7,470,000.

Equity participation in business starts has shown a modest increase over programme participation. Of businesses still in operation:

- I. One hundred and nine (109) or 37 per cent are operated by women, an increase of 2 per cent from a participation in training rate of 35 per cent.
- II. Eighty-nine (89) or 30 per cent are operated by visible minorities, an increase of 4 per cent from a participation in training rate of 26 per cent.

III. Operation of businesses by disabled persons and aboriginal persons has remained equal to participation in training rates of 3 per cent and 1 per cent respectively.

The types of new businesses, similar to current economic trends, are mostly in service sectors. However every economic sector is represented. As well the majority, (70.4 per cent) are sole proprietorships; with 8.7 per cent reporting partnerships; and 5.1 per cent reporting incorporations.



Source: SEDI

The majority of the Clients projected that their primary source of financing for their businesses will be their personal savings. The low rate of Clients who use traditional lending institutions, reflects the issue of the perceived credit worthiness of newly self employed businesses. More work needs to be done to increase the access to traditional lending institutions. There is some concern that for businesses to grow they will require capital, not usually available from personal savings or family.

Client's projected primary source of financing

Institutional lenders	11.9%
Personal savings	64.5%
Equity	10.4%
Family and Friends	6%
Other	2.1%

Modifications - year II

Although the first year of SEA is characterised by success, there are challenges to overcome to further improve the program.

Managing cost

SEA has been, for the most part, cost efficient. However, SEDI realises that all government funded programs have an obligation to continuously search for more cost effective means of delivery. Our goal will be to reduce delivery costs from \$5,540/Client last year to \$5,130/Client in 1994-95. In addition, an effort will be to modestly reduce administration costs, as a percent to the total budget.

Managing demand

The demand for the SEA programme was significant in Metro Toronto. Delivery agents on average turned away three participants for each successful applicant. Some of those rejected were eligible and would have been served if additional resources were available. Canada Employment Centres were the sole source of referral to the program. No overt direct marketing was undertaken. This was a joint decision made by SEDI and the CEC's to prevent an avalanche of applications to the program. Although anticipated demand will remain high in the second year, more pro-active marketing may be required by SEDI, the Delivery Agents and the CECs. Special recruitment/marketing efforts will be made to attract even greater equity participation.

Increasing community involvement

SEA is a local economic and human resource development strategy. Consequently, it is important for the community at large to be involved in the program. The priority of the past year was to implement a quality service for the Clients. We feel this has largely been accomplished.

This year SEDI will involve the broader community, especially the business community in the program. This will broaden the range of business contacts for Clients, as well as provide an opportunity for the community to have input on improving SEA delivery.

SEDI will implement a broad community based Advisory Committee, which will focus the interest in self-employment programming, of: ethno-racial groups; the disabled; social service agencies; and the business community. This SEDI Advisory Committee will concentrate on: increasing equity participation; developing practical links with the business and social service communities, (which can directly benefit Clients); and increasing the efficiency and effectiveness of self-employment programming in Metro Toronto.

All Delivery Agents will be required to demonstrate that they have in place, similar Advisory Committees, with equivalent mandates.

Effective communications

SEDI, in consultation with Canadian Jobs Strategy (CJS)-Metro, the Management Areas/CECs, and Delivery Agents, will clarify the implementation of SEA and related HRDC policies and regulations.

As well, CJS Metro will be provided with information on problems that Clients have with benefit payments, so they can be dealt with promptly.

Participation Reports will be produced, and provided to CJS-Metro and the Management Areas, on a quarterly basis. These reports will be followed by quarterly meetings held with each Management Area's SEA Representative, by SEDI and the respective Delivery Agent. In addition Delivery Agents will be required to maintain frequent contact with their SEA Representatives. Close communications with CJS-Metro will be further improved through a realignment of SEDI staff, and the designation of one Project Manager, (versus three staff so designated in Year I).

Professional development

SEDI will co-ordinate, in co-operation with Delivery Agents, professional development and information exchange opportunities for Instructors and Business Counsellors.

Delivery

In co-operation with CJS-Metro, the Management Area Representatives and the Delivery Agents, SEDI will affect change in the four Phases of delivery.

Phase I:

It became apparent in Year I, that some Management Areas developed more effective recruitment and referral methods than others. Problems included: the lack of SEA programme information available to Candidates between intakes; both the pre-mature cutoff, or over-extended acceptance of names to the referral lists; the "re-cycling" of rejected Candidates from one intake to the next, (Delivery Agent to Delivery Agent); and Management Area/CEC screening, based primarily on only one criteria - equity. Similarly, some Delivery Agents were more effective than others, in co-ordinating their activities and needs with those of the CECs. Delivery Agents will be expected to clearly indicate their requirements and discuss required changes with the Management Areas Representatives.

Phase II:

All Delivery Agents will be required to interview each prospective Client, before a final recommendation of SEA participation is made to HRDC. This will give individuals, under recommendation, clear guidelines; and those not selected, an explanation. As well, letters of non-acceptance to the program, will be furnished by the CECs, not the Delivery Agents.

Phase III:

A greater emphasis will be placed on "the practical" aspects of start-up and operations, and less on "pure" business plan development. More help will be given Clients to develop basic business skills, especially in the areas of selling, marketing and advertising. Clients will be given an opportunity to practice these skills in small group settings, (workshops).

Delivery Agents will be pro-active, giving clear and timely direction to Clients as required. Too much valuable time has been lost by the late recognition that a Client has been off on an unproductive tangent, needlessly learning by trial and error, or less competent and confident than was first apparent. Instructors will be encouraged to instil, a “sense of urgency”, by demonstrating a sense of urgency. In summary, Delivery Agents will be asked to incorporate “Phase IV business counselling” into their “Phase III training”.

Phase IV:

The monitoring requirement and procedure will be made clear to Clients from the beginning of Phase III. However this needs to be done, less in the terms of a Government requirement, and more in the context of business.

Greater emphasis will be placed on business counselling, with the expectation Counsellors are pro-active, giving clear and timely direction to Clients as required. As an augment to the Delivery Agents’ support services, SEDI, (in consultation with the Delivery Agents) will co-ordinate programme wide services, (Business Clinics, etc.).

ANNEX VI

Metro Toronto SEA results: third quarterly report - April 1995

Program statistics

	Self Assessment	Entered Training	Completed Training	In Support		Businesses Started ²	
				#	% ¹	#	%
Centennial	131	95	95	91	96%	74/74	100%
CBC	137	60	58	56	93%	36/40	90%
JVS	159	80	80	79	99%	60/60	99%
TNBDC	126	100	98	93	93%	56/80	70%
YBOC	132	100	99	97	97%	51/79	65%
YMCA	196	85	75	74	87%	43/63	68%
Total	881	520	505	490	94%	320/396	81%
Target			442-85%			234	70%

Source: SEDI

Equity participation

	Entered Training	Women		V. M.		Aboriginal		Disabled	
		#	%	#	%	#	%	#	%
Centennial	95	30	32%	31	33%	0	0%	2	2%
CBC	60	25	42%	16	27%	0	0%	3	5%
JVS	80	22	28%	14	18%	0	0%	1	1%
TNBDC	100	47	47%	20	20%	2	2%	2	2%
YBOC	100	46	46%	13	13%	0	0%	5	5%
YMCA	85	39	46%	15	18%	0	0%	2	2%
Total	520	209	40%	109	21%	2	0.3%	15	3%
Target		260	50%	156	30%	5	1%	52	10%

Source: SEDI

Gross revenues generated

Centennial	\$747 600	TNBDC	\$669 600
CBC	\$850 600	YBOC	\$676 000
JVS	\$2 244 200	YMCA	\$548 000

Total: \$5 736 000

* Statistics are based on the four intakes of 1994/'95.

1 Percentages based on number of clients who entered training.

2 Businesses started are from the first three intakes only.

Metro Toronto SEA Summary: third quarterly report - April 1995

Programme statistics

	Participated in Self Assessment	Entered Training	Completed Training	In Support		Businesses Started ²	
				# ¹	%	#	%
Actual	881	520	505	490	94%	320/39 6	81%
Target			442-85%			234	70%

Source: SEDI

* Statistics are based on the first four intakes of 1994/'95.

1 Percentages based on number of clients who entered training.

2 Businesses started are from the first three intakes only.

Equity participation

	Entered Training	Women		V.M.		Aboriginal		Disabled	
		#	%	#	%	#	%	#	%
Actual	520	209	40%	109	21%	2	0.3%	15	3%
Target		260	50%	156	30%	5	1%	52	10%

Source: SEDI

Gross revenues generated

\$5 736 000

(\$14,448 per 397 clients entering training in the first three groups)

Metro Toronto SEA results: third quarterly report- April 1995

Type of business

Type of Business	Cent.	CBC	JVS	TNBDC	YMCA	YBOC	Total
Resources	0	0	1	0	1	0	2
Manufacturing	12	5	9	13	5	5	49
Construction	10	2	10	2	5	5	34
Transportation, warehousing, communications, and utilities	0	0	0	0	0	0	0
Wholesaling	4	7	5	3	2	3	24
Retailing	15	7	7	15	4	8	56
Financial and Business Services	24	18	18	34	30	40	164
Educational Health and Social Services	1	7	3	5	5	9	30
Accommodation, Food and Beverage, Amusement and Recreational	1	3	6	5	4	3	22
Personal and Household Services	2	2	8	8	12	1	33
Other Services	25	9	13	13	16	25	101
Total of Business	94	60	80	98	84	99	515

Source: SEDI

* Statistics are based on the first four intakes of 1994/'95.

Projected financial sources*

Projected Financial Sources	Cent.	CBC	JVS	TNBDC	YMCA	YBOC	Total
Formal Lending Institutions	22	13	8	25	3	13	84
Community Loan Funds	0	0	0	3	0	6	9
Equity	22	2	1	28	1	22	76
Savings	52	38	59	54	49	39	291
Family/Friends	1	5	5	6	7	1	25
Other Sources	2	1	0	5	0	0	8

Source: SEDI

* Statistics are based on the first three intakes of 1994/'95.

FRANCE: PROGRAMME ACCRE
By Marie Magdeleine Hilaire-Dughera, France

Introduction

Involving the unemployed in creating their own enterprise has been the aim of a range of programmes introduced over the last 15 years by various member States of the OECD. An earlier OECD report, published in 1989¹¹, summarised the various schemes for helping the unemployed to create their own employment. Six years later, in the light of two demonstration projects conducted in the States of Washington and Massachusetts, the Federal government of the United States adopted a law authorising the States to set up assistance schemes for unemployed persons wanting to create their own employment. These schemes are built around the existing unemployment insurance (UI) systems.

It is now time to analyse and assess the recent changes in French policy on the promotion of self-employment for the unemployed. In six years the programme has developed in quantitative terms, since the number of beneficiaries has grown from 55 868 in 1989 to 80 031 in 1994, although the increase has not been linear. With a national total of 294 000 new enterprises in 1994, an increase of 7.6 per cent as compared with 1993, enterprise creation returned to the 1990 level. The distribution of instances of enterprise creation between legal and natural persons points to a reversal of the previous trend: in 1994 the proportion of individual enterprises, which had been falling steadily since 1988 (from 65 per cent in 1988 to 56 per cent in 1993), rose to 58 per cent of the number of enterprises created.

The beneficiaries of the assistance scheme for the unemployed who create or take over enterprises (*Chomeurs Créateurs ou Repreneurs d'Entreprises* or *ACCRE*) represent 26.8 per cent of the total number of those creating new enterprises. This paper will describe the technical aspects of the ACCRE scheme, examine the administrative framework of the measure, and as much as possible, will evaluate its impact on the labour market.

Description of the technical aspects of ACCRE

Background

Assistance for the unemployed in creating their own employment was introduced by the social partners in the context of the unemployment compensation system. Experiments, mainly conducted with selected groups between 1977 and 1980, led to the Act of 22 December 1980. The basic principles of this assistance were as follows:

- exemption from social security contributions for six months from the creation or take-over of the enterprise, and

¹¹OECD Report: ILE Notebook No. 10 (1989): "Self employment schemes for the unemployed" by Paul S. Barker.

- financial assistance equivalent to the payment in advance of 180 days of benefits by the unemployment benefits office.

In France, the unemployment benefit system is managed by the social partners, i.e. representatives of the employers and unions, and it was within that framework that the scheme was administered between 1980 and 1984 when it was open only to those eligible for unemployment benefit.

The Ordinance of 21 March 1984 brought the scheme under State management (Ministry of Labour). Access to the scheme was made general and the grants were standardised and reduced, thereafter ranging from FF 10 750 (\$2 150) to FF 43 000 (\$8 600) depending on work experience, the duration of the period of unemployment and the type of benefit. They continued to relate to the creation and take-over of enterprises. There was a financial incentive to hire an employee of 21 000 francs (\$4 200) if recruitment took place within the first six months.

Description of the scheme in 1995

Today, the scheme in force is that introduced in 1994 by the Five-Year Employment Act:

- Potential beneficiaries: job-seekers receiving unemployment benefit, persons who have been given their notice or are on leave for training for alternative employment and are eligible for unemployment benefit, social minimum income (RMI) beneficiaries or their spouse, persons not belonging to the above categories registered with the employment office (ANPE) as a job-seeker for more than six months. Assistance provided includes the following:
 - exemption from social security charges for the first year of activity;
 - FF 32 000 (\$6 400) in financial assistance;
 - systematised access to the counselling voucher scheme (Chèque Conseil);
 - suspension of unemployment benefits due at the time of creation of the enterprise. If the enterprise fails and the beneficiary becomes unemployed again within twelve months of the enterprise being created, he recovers the entitlements due at the time of being granted the assistance.

This latter provision is an innovation of the 1994 Act and, in the event of failure within twelve months of the enterprise being created, should enable the entrepreneur to recover the unemployment insurance benefits to which he was still entitled at the time of creation of the enterprise. It should be noted that the period of twelve months from the creation of the enterprise is very short and that an enterprise created or taken over is more likely to fail during the second or third year. This measure should have no more than a marginal impact on unemployment insurance.

As noted in the previous OECD study made in 1989, assistance with enterprise creation may be based either on the capitalisation of the unemployment benefits available to the person who creates his own employment or on funds invested by the authorities. In 15 years, for the purpose of creating employment France has switched from an unemployment benefit capitalisation system to a State grant accompanied by one year's suspension of unemployment compensation. Thus, the mode of financing has undergone a complete reversal.

The enterprise must not have been created **before** the assistance was granted and must be created within a period of three months **following** the decision. The number of entrepreneurs using ACCRE increased by 49 per cent between 1993 and 1994 since 52 857 people took advantage of the measure in 1993 and 80 031 in 1994.

Selection of participants

Any creator of an enterprise may take advantage of the scheme, whether it is a question of a one-man business or the takeover of a larger enterprise. The enterprise created may take any legal form recognised by the Act. Associations and economic interest groupings lie outside the scope of the Act.

The economic viability of the enterprise is assessed by examining the application document which must be lodged with the Departmental Labour Directorate. This document, a dozen or so pages in length, is organised under four headings: setting up in business, production sales, and management. The replies given must be economically consistent, especially as regards the investment requirements and the resources which the applicant intends to put in himself. The nature of the economic activity is optional, however, the law forbids activities in divination, clairvoyance, and parapsychology, divination being illegal under the penal code; sexually oriented teletext services, pornographic video clubs, etc. since they involve the risk of infringement of the law on the protection of minors or soliciting; and activities that might involve the illegal practice of medicine.

Finally, the commission makes sure that the enterprise is not disguised wage employment. This is difficult to assess and a jurisprudence based on administrative appeals is accumulating, but if the application mentions a sole customer who is also the former employer of the person setting up in business, it may be assumed that the procedure is being misused.

The application document must be lodged with the Departmental Labour and Employment Directorate. This body, which represents the Ministry of Labour at departmental level, has one month in which to reply. If this period expires without a reply having been received, the application is assumed to have been accepted.

For France, this is quite an exceptional procedure where the granting of State financial assistance is concerned, but it enables the services to speed up their work by making it clear to them that it is not a question of their ruling on the *a priori* validity of the enterprise, a rather delicate and uncertain task, but simply of discarding applications which deviate too far from a number of simple criteria, such as those mentioned above.

The applications are examined by a departmental committee which assesses the projects and accepts or rejects them. Rejection is an administrative decision and, as such, may be appealed against by the applicant before the administrative courts where a jurisprudence which includes the four main criteria defined above is gradually being built up. Any more detailed assessment of an application would depend too much on the personal judgement of the examiner and would therefore be rejected by the administrative court.

The need to prepare an application and reply to all the questions raised leads some applicants to seek assistance or advice on the creation of an enterprise. There is no legal obligation but the fact that the application document is designed as a simple teaching tool prompts those wishing to create their own enterprise but lacking a proper grasp of the accounting and commercial aspects of their project to obtain

such advice. Selection is essentially self-selection in the face of a project which involves both financial and personal investment and can never be equated to a simple "measure" for dealing with unemployment.

Analysis of the profile of the beneficiaries, target groups

The following data is taken from a survey completed in 1993 and published in July 1994.¹² The decision to create an enterprise is being taken at the end of an increasingly long period of unemployment. The proportion of enterprises created in the first six months of unemployment fell below 50 per cent. The raising of the minimum grant in 1991 led to more long-term unemployed (jobless for more than twelve months) joining the scheme. In 1993, they represented 28 per cent of the job creators.

Persons with employment problems and RMI recipients represented 5 to 6 per cent of the total in 1993; though still a minority, more of them are making use of the scheme than in the past. The proportion of young people is falling, whereas the proportion of women is slowly increasing from year to year: 26 per cent of the beneficiaries are women. Between 1985 and 1993 their share grew by 5 points at a steady rate. Two thirds of the enterprises they have created are in the commercial and personal services sectors. Four participants out of ten are aged between 30 and 39, while 35 per cent are over 40.

Skilled workers (30 per cent) and technicians, managers and engineers (38 per cent) create enterprises more readily than clerical workers. The proportion of technicians, engineers and managers remained at the high level of 1992, a reflection of the increased unemployment amongst graduates in the early nineties. Clerical workers were still proportionally underrepresented in enterprise creation, following redundancies: 55 per cent.

Previous employment

Unskilled worker	2.9
Skilled worker	29.9
Clerical worker	27.8
Technician	16
Manager	22
Other	1.4

Source: French Ministry of Labour

Effects

The purpose of the new provisions introduced in 1994 was to simplify the entire enterprise creation scheme by merging the FDIJ measure, aimed more especially at young people and groups in

¹²Premières Synthèses, No. 59, 18 July 1994: Les aides à la création d'entreprise en 1993, Ministry of Labour, Employment and Vocational Training - DARES.

difficulty, with ACCRE. Systematisation of recourse to the counselling voucher scheme for ACCRE beneficiaries.

The introduction of a lump-sum grant of FF 32 000 (\$6 400) changed the nature of the scheme. There is no longer any special incentive for the short-term unemployed to create employment but rather a reorientation towards opening up the scheme to all unemployed. These changes are intended to counter the increasing difficulties of resuming work after a period of unemployment.

Out of 294 000 enterprises created in 1994, 78 871 or 26.8 per cent benefited from ACCRE. More than two thirds of the ACCRE beneficiaries become sole traders, 23 per cent of enterprises are set up in the form of a private limited company (SARL), 4 per cent in the form of a one-man limited enterprise (EURL) and less than 2 per cent in the form of a public limited company (S.A.).

The geographical distribution of the enterprises receiving assistance remains very uneven, more than half being created in Ile de France, Rhône Alpes, Provence Côte d'Azur, Aquitaine and Languedoc Roussillon. The scheme is used more widely by job-seekers in the south of France where the number of unemployed creating an enterprise with the assistance of ACCRE is twice as great as in the north.

Evaluation of the programme

The future of the employment thus created

A survey made by the Ministry of Labour¹³ concerning the future of the enterprises created with ACCRE assistance is highly significant in this respect. It involved investigating, in 1991, what had become of the enterprises created by ACCRE beneficiaries in 1986, on the basis of a comparison with enterprises set up without ACCRE assistance (there is no more recent survey available).

Thus, 81 per cent of the enterprises created with ACCRE assistance are one-man firms (67 per cent for enterprise creation as a whole). It is difficult to obtain precise information about the survival of the enterprises; in particular, the surveys based on the ACCRE files are made by circulating a questionnaire and the number of failures to respond is particularly high because the enterprise may no longer exist and it may not even be possible to deliver the questionnaire. The response rates vary from 20 to 40 per cent according to the region for ACCRE (32 per cent on average) and from 20 to 35 per cent for non-ACCRE entrepreneurs (23.5 per cent on average).

After various corrections for the differences in the response rates of the surviving and non-surviving enterprises, the average survival rates five years on, as calculated by INSEE, were 53 per cent for the enterprises created in 1982/83 and 51 per cent for those created in 1985.

This is based on the whole of enterprise creation. It would seem that the ACCRE-assisted enterprises are slightly more fragile than the general average and have a slightly lower survival rate. However, these data relate to the years 1982/83 and 1985 when the regions undergoing industrial restructuring were hit by large-scale redundancies and part of the ACCRE assistance was being used by workers made redundant by large companies and in possession of a small amount of capital. The opening of small businesses or the creation of self-employment in areas in deep crisis where consumption was falling and the economy was in serious recession goes a long way towards explaining the discrepancy.

¹³From unemployment to enterprise creation - ACCRE Survey Report - Anne Lise AUCOUTURIER et Catherine DANIEL.

It is very difficult to say how things stand today when the enterprises assisted by ACCRE are for the most part located elsewhere than in the industrial restructuring zones. Only specific studies of well-defined employment areas would provide reliable data. The size of the enterprise is a good indicator of the economic health of the project, but by definition the enterprises analysed in this study are very small employing only their creator, i.e. with no other paid employee, though in some cases there may be one or two employees who may be necessary from the outset or demonstrate the soundness of the enterprise two years on.

Size of enterprises when created:

	Number of employees			
	0	1	2 to 5	6 or more
ACCRE	70.8	15.8	11.2	2.2
Non-ACCRE	63.6	18.3	14.4	3.7

Source: French Ministry of Labour

Size of surviving enterprises 5 years later:

	Number of employees			
	0	1	2 to 5	6 or more
ACCRE	57.9	17.3	18.5	6.3
Non-ACCRE	49.9	20.3	22.4	7.4

Source: French Ministry of Labour

Five years after being created, only 57.9 per cent of the surviving ACCRE enterprises have no employee (as against 70.8 per cent at the time of creation for the same group). On average, the surviving enterprises have added one employee (the number of staff increasing from 1 to 1.9). These increases in staff primarily affect those enterprises with more than two employees at the outset. All together, 64 per cent of the enterprises created have a stable staff, mainly those which have no employees. If we consider the enterprise population which has not benefited from the ACCRE scheme, the figures are as follows: 63.6 per cent of enterprises set up without employees, and 49.9 per cent without employees surviving five years later. Overall, it seems that the enterprises created with ACCRE survive slightly less well, which is confirmed by the fact that among the other enterprises those created by unemployed people have the lowest rate of survival.

Another important variable is the initial capital. The surviving ACCRE enterprises had, on average, an initial capital of FF 220 000 (\$44 000), while those which went under had a capital of FF 132 000 (\$26 400). In particular, the capital of the failed enterprises consisted to a greater extent of contributions in kind and relied less upon bank loans. Private limited companies and take-overs have a higher survival rate than sole traders.

With respect to sole traders and craft enterprises with fewer than two employees, two typical profiles emerge:

- Enterprises showing signs of difficulty after five years are characterised by the low level of education (primary) and the relatively advanced age of the entrepreneur, often a former skilled worker. The loss of employment was the result of redundancy and creating an enterprise seemed the only way out. The people concerned do not know any businessmen and are less well endowed socially and culturally than the others; on the other hand, they have often had business training.
- Stable or developing enterprises set up by younger men (25-29 years old) who, after holding a succession of insecure little jobs, decided that creating their own business was the only solution. They are often skilled workers, with better qualifications than those mentioned above and in command of greater social and cultural resources.

It is very difficult to quantify the impact of the scheme as regards the self-employment which would in any case have been created since the scheme has been operating for 15 years.

Training and support for participants

In contrast to certain schemes introduced by other countries, in particular the United States, there is no obligation connected with the implementation of ACCRE as regards training or support. As we have already seen, the very form of the application document is calculated to produce requests for support, requests which are all the more easily satisfied in as much as counselling vouchers can now be issued before assistance is granted under ACCRE and can be used in part for preparing the application.

Fifty-seven per cent of ACCRE participants have received business training, which is not all that much higher than the figure for other entrepreneurs (45 per cent). Thus, business training is not systematic even for the unemployed entrepreneur; in theory, it is compulsory for tradesmen who enrol in the trades register (42 per cent of ACCRE enterprises and 32 per cent of the others). Accordingly, business training does not seem to be very common, except where this obligation exists. Tradesmen receive their training by attending a 40-hour course organised by their guilds.

The Act of 1994 introduces the possibility of training for entrepreneurs, but for the time being it is not accompanied by implementing legislation nor by a budget allocated by the State. There are also local initiatives, organised by the regional councils or the general councils within the context of the RMI, entirely at the discretion of these levels of authority. As we shall see, support is mainly provided by para-public or associative organisations.

Overlap with other public policies

The counselling voucher system

The introduction, in 1989, of a "counselling voucher" scheme to help entrepreneurs to obtain economic, legal, tax and financial advice, made it possible for each entrepreneur to benefit from a voucher worth 15 hours of services. The total hourly cost is estimated at FF 400 (US\$ 80), of which FF 300 (US\$ 60) is covered by the voucher, the remaining FF 100 (US\$ 20) being contributed by the user. The voucher must be used within 18 months of the allocation of assistance under the ACCRE scheme.

A reform of the conditions of use of the counselling voucher in 1994 led to its being proposed to the enterprise-creating unemployed in the following form: the opportunity to obtain three books of six 300-franc vouchers, i.e. a total of 18 vouchers and to use them **before** the creation of the enterprise or during the twelve months following its creation, the user himself to contribute 100 francs (US\$ 20) per voucher.

Finally, RMI beneficiaries and unemployed recipients of a special solidarity allowance receive the first book of vouchers prior to enterprise creation entirely free of charge since in this case the vouchers are worth 400 francs. Thus, it is a question of developing this measure which is still not well known to the potential beneficiaries. In fact, in 1993, 7 652 books of vouchers were issued, equivalent to only 13 per cent of entrepreneurs, assuming one book per entrepreneur.

The skilled form the group which, proportionally, makes the most use of vouchers:

Previous employment of entrepreneurs in 1993

	ACCRE beneficiaries	Voucher recipients
Worker	32.8	26.4
Clerical worker	27.8	16.0
Technician	16.0	14.4
Manager, engineer	22.0	27.6
Other	1.4	15.6
Total	100	100

Source: Ministry of Labour, France

The authorities want to expand the measure and encourage the groups with least training to make more use of advice. The aim of the new provisions introduced in 1994 is to simplify the enterprise creation scheme as a whole and to co-ordinate ACCRE and the counselling voucher system more closely. In 1994, 11 102 books of vouchers were issued.

Assistance with support

Experience has shown that such assistance is the more necessary the more modest the enterprise or employment creation project. For the creation of self-employment it appears to be one of the major preconditions of success. The various forms of assistance do not distinguish between self-employment and the creation of a small enterprise; nevertheless, they are aimed mainly at the unemployed and are used by those who create their own employment or very small enterprises (fewer than 5 employees).

Over the last 20 years, various local initiatives, often in association form, have been set up, with the encouragement of the employment promotion service of the Ministry of Labour and Employment. The *Agence Nationale pour la création et le développement des nouvelles entreprises* or ANCE (National Agency for the Creation and Development of New Enterprises) was established to improve co-ordination between local initiatives in support of those wanting to create or take over enterprises.

Administrative framework

The respective roles of state and local authorities

ACCRE and the counselling voucher system were set up on the basis of State credits by the Departmental Directorates of Labour and Employment representing the Ministry of Labour. The local and regional authorities have well-defined powers which may or may not lead them to take an interest in enterprise creation.

The regions are responsible for vocational training and economic development. To be sure, here and there, the regional councils have financed certain training courses in enterprise creation but they have not really set up any systematic programmes. Similarly, the regions encourage economic activity through systems of grants or incentives for enterprise creation but they are more concerned with larger enterprises and their efforts are not specially focused on self-employment.

The Departments have (in the context of support for RMI beneficiaries) in certain cases set up training and support systems for the creation of microenterprises. These initiatives depend on the discretion of the Conseils Généraux (General Councils) and there is nothing systematic about them; nevertheless, they are numerous enough for the Ministry of Social Action to have provided special aid to make possible the employment of development officers responsible for assisting RMI beneficiaries to launch a business project. This aid amounts to FF 65 000 (\$13 000) per year (for a maximum of three years) and is topped up by the departmental authority.

Finally, the communal and cantonal local authorities have organised operations to assist and support the creation of very small enterprises in the local development context, often on the basis of various contractual procedures.

These procedures are financed under State/Region plan contracts and by the Ministry for Trades and Crafts, sometimes with European Union funds, when the region lies in a priority zone, whether because of rural exodus, industrial restructuring or the development of rundown urban areas.

- Urban commerce and small business development operations (Opérations urbaines de développement du commerce et de l'artisanat, OUDCA)
- Consensual small-business development plan (Plan de développement concerté de l'artisanat)
- Small-business and commerce restructuring operation, (Opération de restructuration de l'artisanat et du commerce)
- Enterprise detection and support operations (ODACE: Opérations de détection et d'accompagnement d'entreprises)
- Local take-over contract
- Contractual agreements between localities and supra-local units of government
- Regional tourism development contracts
- City contracts for the encouragement of commerce and small businesses in problem areas, etc.

The regional and local diversity of these procedures, all of which are aimed at creating a network of skilled tradesmen and small businesses to contribute to local development deserves closer study. All these schemes are concerned with special assistance and advice for entrepreneurs and possibly facilitated access to premises or the provision of collective services, for example, secretarial and accountancy services.

The National Agency for the Creation and Development of New Enterprises (ANCE) and the "one-stop shops" (Points Chances) scheme

ANCE is a public agency with the task of encouraging the creation and take-over of enterprises by providing information for those undertaking such projects. It does not have the specific objective of creating self-employment but since those who create their own jobs are relatively numerous, ANCE is obviously interested in that aspect of enterprise creation. ANCE does not negotiate directly with the entrepreneurs but makes its technical skills and know-how available to the local bodies who are in contact with them. It also plays the part of a monitoring centre for enterprise creation.

ANCE is responsible for approving a local support network of "one-stop shops" (*Points Chances*). 205 500 entrepreneurs have approached one or other of these shops. Obviously, not all those who have received initial advice have gone on to create their own enterprise, and other entrepreneurs have not made use of the services of ANCE or *Points Chances*. ANCE estimates that, on average, 34.1 per cent of projects, i.e. one in three, are actually carried out. It would appear that 53 500 enterprises have been created within the *Points Chances* network. This is an extrapolation, but seems quite credible. It would represent one fifth of enterprise creation in France.

Through *Points Chance*, the ANCE is mainly targeting those who establish small enterprises. The level of assistance and advice provided is not appropriate for large, heavily capitalised projects. It is estimated that within the small enterprises thus created two thirds of the entrepreneurs create their jobs for themselves.

In the first half of 1994, 75 per cent of the people interviewed were unemployed and wanted to receive assistance under ACCRE. The *Points Chances* scheme was launched in 1986. For ANCE, it is a matter of placing its seal of approval on an existing local structure and providing it with assistance and support so as to improve its ability to advise and guide entrepreneurs.

In 1994, 601 structures received the *Points Chances* seal of approval, including:

- 248 "Chambres consulaires", or 31.8 per cent¹⁴;
- 184 local authorities and associated bodies, or 30.6 per cent;
- 167 third-sector structures, or 29.4 per cent;

¹⁴The "Chambres consulaires" are made up of the "Chambres de Métiers" (guilds) for tradesmen and craftsmen, the "Chambres de Commerce et d'Industrie" (chambers of commerce and industry) for traders and manufacturers and the "Chambres d'Agriculture" for farmers.

They are financed and managed by their members; they receive State aid and have the status of a semipublic body. Entrepreneurs are obliged to join these bodies which supervise enrolment in the register of trades and commerce, a formal requirement for enterprise creation.

- 38 professionals, consultancies, banks;
- 18 training bodies.

It should be noted that 50 per cent of those concerned are juridical persons under public law and 50 per cent juridical or natural persons under private law. Among the latter 39 per cent are non-profit associations. Thus, 89 per cent of the approved bodies are public entities or non-profit associations. Voluntary organisations also play an important part in the provision of advice and support for enterprise creation. Out of 2 981 people offering guidance for entrepreneurs, 71 per cent are paid and 28 per cent voluntary workers.

Several associations of young retired people are active in providing assistance and support for enterprise creation, in particular EGEE and PIVOD, while other retired people lend a hand on an individual basis. The volunteers are former managers and former officials eager to place their knowledge at the disposal of entrepreneurs. In general, they are highly qualified and know the local networks and how they operate. Apart from advice and know-how, they may also be able to arrange for sponsorship or an introduction to working managers.

The distribution of the 601 "one-stop shops" and their 64 listening posts (see Annex 2) is such as to provide fairly dense coverage of the country and hence a neighbourhood service for the entrepreneur. This is especially important from the standpoint of follow-up and support (see Annexes 3 and 4). Details of the services provided by *Points Chances* are provided.

As regards the financing of this service, 54 per cent of "one-stop shops" receive no special public subsidy (48 per cent of them are institutions dependent on the Chambers of Commerce and Industry). The structural expenses of these institutions are met by a tax paid by all the businessmen in a particular zone. They operate on a semipublic basis since they benefit from a tax levied on all. Thus, 46 per cent of the advice centres are subsidised, mainly by the State, through its employment promotion grants, and by the departments, the communes, the regions and, finally, Europe (see Annex 5).

ANCE's annual survey is incomplete, particularly as regards the Chambers of Commerce and Industry, institutions which do not identify a specific budget. Only 59 per cent of the bodies involved identify a precisely allocated budget. Among the latter, 25 per cent spend more than FF 100 000 (\$20 000) per year for this purpose, 25 per cent less than FF 50 000 (\$10 000) and 10 per cent between FF 50 and 100 000 (\$10 and \$20 000). These figures are difficult to interpret since, as we have seen, there is an important voluntary contribution while another component is poorly identified within the structural costs of larger bodies.

By starting from a local network composed of a variety of bodies working in the field of advice for entrepreneurs, by approving and assisting these existing structures and by providing them with technical support and financing, even though modest, it is possible to develop and organise aid for enterprise creation.

This latter conclusion brings us to a discussion of the nature of ANCE's contribution to these approved local structures:

- A channel of communication enabling entrepreneurs to identify these structures: description, data bank containing addresses accessible on minitel, communications hub for "Points Chances".
- Training courses for those responsible for giving initial advice.

- Documentation for their use: 174 sheets of notes on the legal, fiscal, social and financial aspects of enterprise creation, 100 occupational fact sheets describing a trade or profession, a market and the specific legal environment of the trade or profession, a monthly magazine: "Objectif - PME" (Objective - Small Business).
- Advice leaflets for the use of entrepreneurs.
- A team of enterprise creation specialists at the disposal of the *Points Chances* network.
- Finally, the recent systematic introduction of regional ANCE representation should stimulate the local organisational activities of the network while strengthening the professionalism of those involved.

Involvement of the third and private sectors in the provision of training, advice, and financial assistance

As described above, the entrepreneurs receive guidance and support mainly from the private and third sectors. A deliberate decision has been made to describe in more detail two cases indicative of their approach.

Association pour le droit à l'initiative économique et le prêt (ADIE) (Association for the Right to Economic Initiative) and the loan

The aim of this association is to enable people to create their own employment even if the opportunity they seek to exploit is a very marginal one and their investment requirements are very small. In fact, it has been found that the banks are loathe to lend small sums of money, for example to RMI (welfare) beneficiaries, since they consider that such people cannot offer adequate security for amounts of FF 10-20 000 (\$2 000 - \$4 000).

Clearly, these small entrepreneurs need follow-up and support. This is the service which ADIE tries to provide, together with a loan service. In some places ADIE will also conclude agreements with existing associations, such as the small business promotion agencies (*Boutiques de Gestion*).

- The entrepreneurs receive support consisting of the following phases: initial advice, assistance with the business plan, presentation to the loans committee, follow-up.
- They have access to loans worth a maximum of FF 30 000 (\$6 000), with interest (9.5 per cent in 1994), repayable in monthly instalments (over a maximum of 24 months).
- After starting up, they can take part in "entrepreneurship circles" to exchange experience and receive support and additional training.

ADIE in figures

Established in 1990, modelled on the Grameen Bank in Bangladesh.

1994: 30 volunteers from the world of economics and finance, 15 core workers at several locations in France.

34 loans granted in 1990, 90 in 1991, 169 in 1992, 280 in 1993 and about 500 in 1994; the thousandth loan was granted in February 1995.

45 per cent of those who created their own employment were RMI beneficiaries, 23 per cent were long-term unemployed, 22 per cent were out of work, and 10 per cent were in other situations.

The levels of education are low or very low: 35 per cent have no diploma, including 4 per cent of illiterates.

Enterprises have been created in the following sectors: commerce 45 per cent, services 34 per cent, trades and crafts 14 per cent, building 5 per cent, other 3 per cent.

The enterprises thus assisted are viable and are economically justified, since they exploit sound micro-opportunities, and often socially justified as well, being located in rural areas which are losing their population or in urban problem areas.

Source: ADIE

ADIE considers that in its first five years of operation it has succeeded in reaching its target group, since 60 per cent of the entrepreneurs previously lived below the poverty line

(FF 90 , \$18 per day), 30 per cent are women (the relative number of women is tending to increase) and, finally, 30 per cent are of foreign origin.

The survival rates for the enterprises thus created are 77 per cent after one year and 70 per cent after 18 months, which is close to the national average for enterprise creation. It should be noted that a number of failures have had a positive outcome for the persons concerned since, through the contacts they developed in the course of setting up their business, they later found paid employment with one of their customers or suppliers.

ADIE estimates the cost of self-employment creation in follow-up and support at FF 10 000 (\$2 000) per project financed. For each project implemented it has been necessary: to provide initial advice for 10 people, to deal in more detail with 3 loan applications, and, finally, to grant a loan. To the aid provided by a body such as ADIE it is necessary to add the assistance from ACCRE, the unpaid social security contributions and the counselling vouchers, or FF 67 400 (\$13 480). Thus, the public contribution is FF 77 400 (\$15 480). The average cost of the loan is FF 20 000 (\$4 000) plus FF 6 000 (\$1 200) of reserves for risk. As the loan is repaid, only the reserve for risk should be added. The total will then be FF 83 400 (\$16 680).

In relation to the annual cost of an unemployed person FF 120 000 (\$24 000), the intervention of an assistance and support body is all the more justified in that it improves the chances of success and thus ensures a better allocation of State aid.

ADIE's work is particularly original and, where very small projects are concerned, it supplements the investment made by the banks. In fact, the banks make few investment loans for amounts of less than FF 50,000. Bank staff are not trained to analyse "micro-loan" applications. Moreover, the managers are fearful of high failure rates and do not encourage their staff to examine this type of application.

ADIE, relying on its know-how, has entered into an original partnership with a bank. The association will continue to examine the applications and provide follow-up after the enterprise has been created, while the bank will participate in the loan decision and make available the sums agreed.

A large enterprise: Renault

The Renault group employs 120 000 persons in France; since the eighties numerous restructuring plans accompanied by layoffs have been put into effect. In 1984/85, Renault decided to set up an enterprise assistance scheme for the benefit of its employees.

Unlike other big companies which have adopted restructuring plans and encouraged some of their managerial staff to create relatively large-scale enterprises, from the outset Renault backed enterprise creation by its ordinary workers. SEITA and EDF also encourage their employees to create their own employment and other companies have provided assistance with hiving-off, but the emphasis has been on helping managers to create fairly large-scale enterprises.

In this way, over a period of 10 years, 1800 people have created or taken over an enterprise, and each such operation has generated 2.6 jobs. The Renault scheme "CAP Entreprendre" does not provide finance for the project but a system of assistance and advice.

It is based on two main principles:

- total confidentiality of the discussions until they come to a conclusion. It is therefore possible to explore a project without involving the management. If nothing comes of the discussions, they will remain completely confidential.
- initial advice and support for projects, but the person who gives the advice does not propose a project or do the canvassing or research on behalf of the entrepreneur.

This system leads to three types of severance from the company:

- resignation (increasingly rare)
- the use of a measure of ordinary law, the one-year renewable "congé de création" (leave for employees intending to set up their own business), introduced in 1994. This provides for suspension of the employment contract for a maximum of two years. At the end of that period, if the enterprise creation has failed, the employer must take back the employee.

- finally, in the context of a labour reallocation plan: in the eighties several labour reallocation plans were implemented and during those years most of the beneficiaries of "CAP Entreprendre" were involved in such a plan.

Under a labour reallocation plan the employees all collect their statutory severance pay, a retraining grant of FF 50 000 (\$10 000) and a bank loan subsidy worth FF 12 000 (\$2 400).

Still with reference to labour reallocation plans, Renault has made provision for an exceptional supplementary grant of FF 30 000 for those who create enterprises, on top of the assistance provided under the ACCRE scheme. This bonus is of recent origin and, for the moment, of only marginal importance as compared with the total number of enterprises created.

Why do the entrepreneurs want to set themselves up in business, mostly self-employment?

- to achieve greater independence by being their own boss;
- to resume their original trade;
- to return to their region or country of origin, for example, the Massif Central, an overseas department or the Maghreb (5 per cent of enterprises are set up outside metropolitan France);
- to start up a business for or with children who are unemployed. This is a relatively new motive but one that has cropped up with increasing frequency during the last three years.

The entrepreneurs are mostly between 35 and 45 years of age and in terms of qualifications and pay fall into the specialised worker and technician categories. Over 80 per cent of them are people who earned less than FF 8 000 (\$1 600) per month at Renault.

The failure rates are low: 20 per cent after 5 years, including 13 per cent by the end of the first year. The assistance provided also leads to the establishment of contacts with enterprises in the same sector and to a search for "sponsors", where both desirable and possible.

This work on assistance for enterprise creation has been approved by the unions and constitutes article 12 of the labour agreement. The organisation of the enterprise assistance scheme is now leading to the development of advice and support centres in the various units making up the group. One of the personnel managers trains the advisers and oversees their work, while passing on a proven methodology and documentation.

It is believed that out of 120 000 employees 1 to 2 per cent are potential entrepreneurs and that this is one aspect of a global human resources management policy at company level.

Targeting of specific groups

"Défi Jeunes" (Youth Challenge) grants

In 1985, the Fonds départemental à l'initiative des jeunes (Departmental Youth Initiative Fund) (FDIJ) was set up at the instigation of the local agencies which had found that young people less than 25 years old rarely had unemployment status and therefore were not entitled to ACCRE. It became a question of covering a broader range than enterprise creation in the strict sense of the term, i.e. to develop

the initiative of the young. In addition to enterprise creation and the creation of self-employment, innovative technical and cultural projects could also be subsidised.

The progressive decoupling of ACCRE from the unemployment benefit systems and its opening up, in 1991, to RMI (welfare) recipients led by the end of 1993 to the abolition of FDIJ which in that year had involved 5 125 people. Since 1994 young people have been included in the ACCRE statistics.

The "Défi Jeunes" grant scheme, administered by the departmental directorates of youth and sports, has been retargeted on young people's projects outside the scope of enterprise creation.

Women

The various measures intended to provide assistance more specifically for women are mostly of third-sector origin. The associations may be supported by the authorities, in particular the regional women's rights commissions.

There is a *Fonds de garantie à l'initiative des femmes* (Women's Initiative Guarantee Fund) (FGIF), administered by the *Institut pour le Développement de l'Economie Sociale* (Third-Sector Development Institute) (IDES), whose activities are of marginal importance (250 to 300 applications per year). In fact, the bankers are not sufficiently aware of this loan guarantee opportunity. Moreover, the guarantee is for only 60 per cent of the loan which leaves the banks with a residual risk they still consider to be too great.

Assessment of the impact on the labour market

Impact on the operation of the labour market

If the number of enterprises created in 1994 with the help of ACCRE (80 031) is compared with the number of unemployed (3.5 million) plus those receiving RMI and others lastingly detached from the labour market (or about 5 million people), it becomes obvious that neither enterprise creation nor, still less, ACCRE is going to have a statistically significant effect. Nevertheless, the scheme offers 1.5 per cent of the 5 million people concerned a chance of escaping unemployment, which, when all is said and done, cannot be considered negligible.

Cost of scheme, cost per job created

In 1994, ACCRE cost the French Government FF 2.5 billion. Although it may seem large, this figure should be compared with the total amount spent on employment during the same period.

The maximum cost per job created can be calculated as follows:

We know that two thirds of ACCRE financing concerns self-employment, i.e. the creation of one-man enterprises with no paid employees, the remaining third creating one or two additional jobs. These will be disregarded in assessing the cost in terms of the employment created and it will be assumed that each disbursement under the ACCRE scheme generates one job:

- Amount of assistance FF 32 000 (\$6 400);

- Exemption from contributions: about FF 30 000 (\$6 000);
- Maximum use of counselling vouchers: 18 vouchers at FF 300 (\$ 60) each or FF 5 400 (\$1 800);
- Total: FF 67 400 (\$13 480).

ADIE's estimates suggest a figure of FF 10 000 (\$2 000) for the additional cost of initial advice and support (10 applicants receiving initial advice and 3 further support per successful application). Adding this amount to the total gives: FF 77 400 (\$15 480). It is estimated that, in France, each unemployed person costs the Government FF 120 000 (\$24 000) per year (Planning Commission estimates). Thus self-employment assistance is saving the Government money.

Conclusion

From this quick survey of the development of self-employment in France and the assistance provided by the French Government one important finding emerges. Like the banks, the State and public entities have no means of analysing and monitoring microprojects. There is a need for intermediaries to introduce the entrepreneur to someone capable of assisting him with the legal and financial sides of setting up in business as well as the more commercial aspects of the project.

In France, the network of Chambers of Commerce and Industry and the network of enterprise assistance associations, associations which may or may not rely on the local authorities, form a structure with a decisive influence on the creation of self-employment.

All the examples show that even modest assistance - FF 30 000 (\$6 000) on average since the start of the scheme - can have a gearing effect provided that it is accompanied by advice and support for those embarking on the adventure of self-employment.

Over and above direct assistance for the project, the authorities must consider how they are to aid, train, support and approve the network of local associations or public bodies responsible for supporting the entrepreneurs. Bearing in mind that the projects are very small, the network must be directly designed as a neighbourhood network. This closeness and the fragility of the projects nevertheless require a high degree of professionalism and skill on the part of those who operate the network.

There are thus two potentially conflicting requirements, namely high-quality operators and a high-density network. Although this policy of assisting the creation of small businesses may not have a massive effect on unemployment, it nevertheless seems to provide an interesting opportunity for tens of thousands of people who by creating jobs for themselves find a solution to their unemployment problem, create wealth through their work and sometimes also create jobs for other unemployed people.

The economic vitality of a country depends on its broad trade balances and large-scale economic projects but also on the density of the small business network. This scheme is helping to develop the enterprise culture and invigorate the small business sector.

Finally, the enterprises created mainly occupy small market segments and afford a means of exploring and developing new opportunities, in particular in the personal service sector. The services sector constitutes a reservoir of potential employment not easily influenced by public policies. There can be no doubt but that these small-scale, highly localised initiatives are one means of exploring and building up this sector and thus strengthening the social and economic cohesion of the country.

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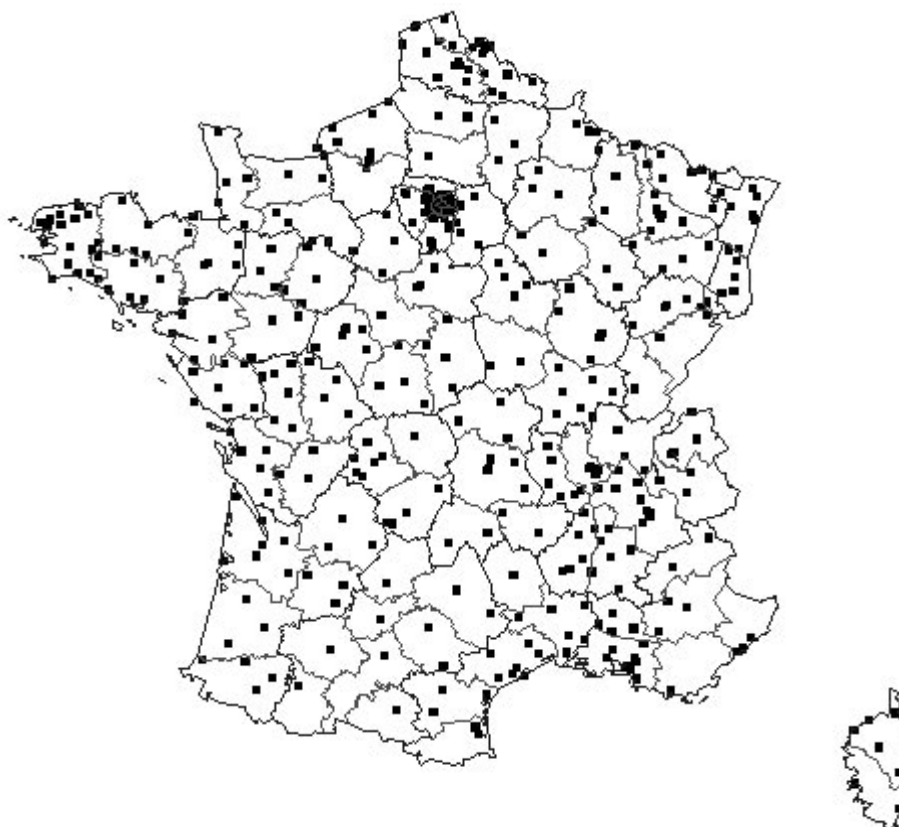
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ANNEX 1

Persons consulted:

- Délégation à l'Emploi - Mission Promotion de l'Emploi, deputy head Mr SMOLLARD, official in charge of administering and monitoring the ACCRE and counselling voucher schemes
- ANCE
Mr Didier GUALENI, official with national responsibility for the "Points Chances" network
- ADIE
Mr Christophe PAQUETTE, national delegate of the association
- RENAULT
Mr Mohamed BOUDAD, officer in charge of hiving-off and assistance for enterprise creation in the Personnel and Social Affairs Directorate
- PARENE
Mrs Muriel NASLIN-HAGEN, special adviser

ANNEX 2



Source: ANCE

DOM-TOM : 20 Points CHANCES. (9 en 1993)

Geographical Distribution of One-stop Shops

The network of One-stop Shops (Points Chances) in the following four cities with more than 50 000 inhabitants: Asnières (92), Montreuil (93), Les Abymes (971) and Saint-Paul (974).

One-stop Shops exist in 428 cities. They are lacking in 24 cities and five districts in Paris with more than 50 000 inhabitants.

ANNEX 3

General counselling

These results reflect the area of general information and orientation of the "One-stop shops". Over 60 per cent engage in group counselling.

CAPABILITIES	FREE OF CHARGE	FOR A FEE	MIXTURE	NOT OFFERED	NO ANSWER
Initial Contact	94.3%	0.2%	0.3%	2.9%	2.3%
Individual Counselling	96.3%	1.4%	1.6%	.5%	0.2%
Group Counselling	58.8%	3.6%	2.1%	35.3%	0.2%
Documentation Services	69.7%	5.3%	10.1%	14.4%	0.5%
Distribution of Documents	70.3%	6.8%	11.9%	8.7%	2.3%
General Project Set-up	66%	17.7%	8.9%	7.2%	0.2%
Takeovers	62.4%	13.5%	5%	18.9%	0.2%

Source: ANCE

ANNEX 4

Very specialised counselling

These results show that organisations called "Points Chances" have multiple capabilities.

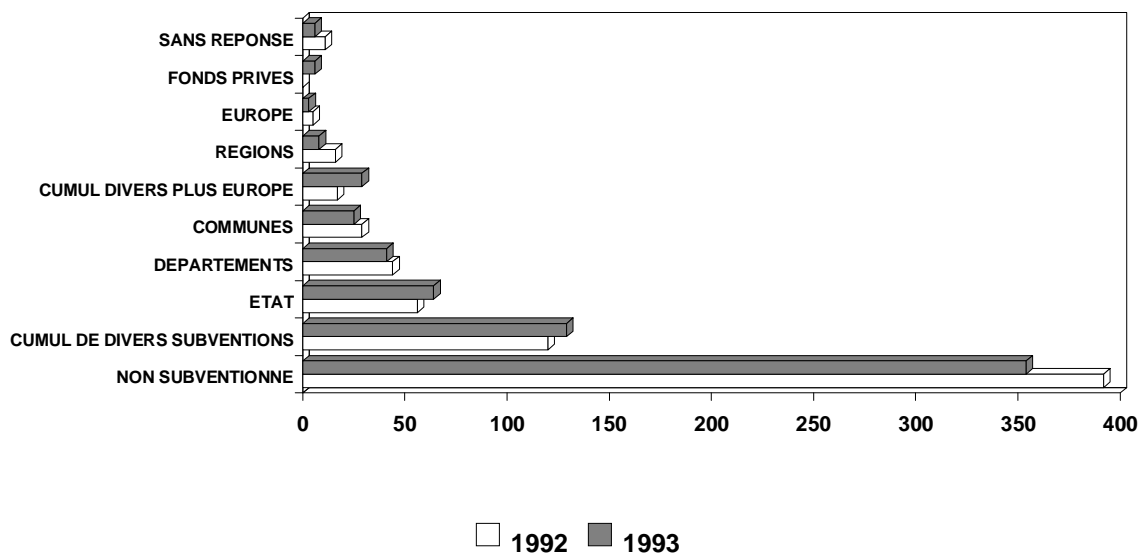
Percentage of One-stop Shops with Specialised Capabilities

CAPABILITIES	FREE OF CHARGE	FOR A FEE	MIXTURE	NOT OFFERED	NO ANSWER
Market Studies	20.5	29.9	6.2	43.2	0.2
Trade, Sales	32.6	17.8	4.8	44.5	0.3
Marketing, Advertising	29.6	19.4	4.8	46	0.2
Finance of Enterprises	55.8	16.1	7.4	20.5	0.2
Accounting, Management	40	25	6.8	28	0.2
Human Resources	32.8	11.6	3.1	52.2	0.2
Tax and Legal	53.8	16.2	7.8	22	0.2
Training	30.8	27.4	10.5	31	0.3
International Trade	23.8	10.4	6.3	59.2	0.3
High Technology & Innovation	24.4	8.4	2.9	64	0.3
Premises	31.7	26.6	6.5	36.2	0.5
Follow-up and Audit of Enterprises	30.2	26.6	6.5	36.2	0.5
Takeovers	40.2	20	7.1	32.5	0.2

Source: ANCE

ANNEX 5

Financing of one-stop shops



Source: ANCE

Fifty-four per cent of the One-Stop Shops do not receive any subsidy (of which 48 per cent are Chambers of Commerce, Industry, or Agriculture) for their activities of assisting entrepreneurs (57 per cent last year); in contrast, close to 20 per cent of them receive several subsidies from various organisations.

The number of One-stop Shops receiving national and European subsidies is on the rise, as well as the sources of financing from the private sector, while assistance from the regions and the communes experiencing a decrease throughout the network.

FRANCE: E.S.P.A.C.E. - A NETWORK OF BUSINESS SUPPORT
By Henri Le Marois, E.S.P.A.C.E., France

Context

A region in the process of industrial restructuring

The Nord-Pas-de-Calais is a region with 4 million inhabitants situated in the north of France.

Up until the end of the 1960's, this region's economy was based largely on the coal, steel and textile industries and naval construction - four dominant sectors that together employed nearly half a million workers. Today, coal and naval construction have disappeared. As far as steel and textiles are concerned, their numbers have dropped sharply.

While the manufacturing industry was in decline, the service sector, for its part, was growing rapidly. Nonetheless, this increase did not compensate entirely for the jobs lost in the other sectors. The result: unemployment increased, reaching 16 per cent at the beginning of 1995, with 270 000 individuals seeking employment.

But the reconversion process is not complete: the region has many advantages - including those linked to a favourable geographic location and an exceptional infrastructure - that give hope for new growth.

The unemployed should simply set-up their own businesses

It is in this context of crisis and reconversion that E.S.P.A.C.E., during the last 15 years, has been consulting and training the unemployed on how to start their own business.

E.S.P.A.C.E. is a non-profit organisation founded at the end of 1979 to respond to the challenge issued by the Prime Minister at the time, Raymond Barre: "*the unemployed should simply set-up their own businesses*". The result of this imperative was the creation of a mechanism for distributing financial assistance to the unemployed who set-up or take over a business.

My personal experience as an entrepreneur has taught me first-hand how difficult it is to start a business. Simply distributing a subsidy does not necessarily lead to a situation where you have a greater number of qualified unemployed individuals, able to see projects through to the end and run their business with the kind of know-how that permits them to avoid costly mistakes. The ability to study the market, find a "niche", develop relevant strategies, identify the necessary resources and be able to bring them together, set-up a company, then manage it... all of this cannot be improvised. Techniques and methods are needed.

However, these techniques and methods are taught only to the small minority of people who attend business schools or equivalent programmes at universities. In addition, these institutions do not necessarily address the specific problems of new small-businesses, and nor do they address the needs and abilities of most entrepreneurs.

To widen access to the above-mentioned techniques and methods in an attempt to "democratise entrepreneurial opportunities" and to contribute to real "equal opportunity" among entrepreneurs were the initial goals of E.S.P.A.C.E.

E.S.P.A.C.E.'s activities

To attain its goals, E.S.P.A.C.E. developed a wide array of programmes that deal with all aspects of setting-up a business.

Initiatives at the beginning of the process

The goal is to stimulate the entrepreneurial spirit of the population and to locate its potential entrepreneurs.

With these objectives in mind, E.S.P.A.C.E.:

- Distributes 7 000 copies, three times a year, of a magazine intended specifically for economic and political leaders, as well as for those civil servants who would be interested in these matters. Each issue deals with a particular subject. For example, in 1994:
 - - No. 23 - *Hier chômeur, aujourd'hui créateur* (Yesterday unemployed, today entrepreneur)
 - No. 24 - *Créer oui, mais garder le cap* (Create businesses, yes, but hold the course)
 - No. 25 - *L'Espace européen* (The European Space)
- Organises evening receptions to increase awareness about setting-up new businesses in the cities of the region. These receptions are open to a large audience, invited by the Mayor. In 1994, 27 such evenings allowed E.S.P.A.C.E. to meet nearly 800 people. The details regarding the organisation and activities of these evenings can be found in Annex 1.
- Meets with people in danger of losing their jobs in regional businesses to help them plan the creation of their own job or business.
- Participates in regular meetings with civil servants in the *Services de l'Emploi (Direction du Travail, Agence National Pour l'Emploi)* [Employment Services (Employment Department, National Employment Agency) in order to keep them up to date on E.S.P.A.C.E.'s educational programmes and other activities; this is done so that the unemployed who are potential entrepreneurs that visit these civil servants see can be kept informed about the programmes.
- Holds conferences in high schools and universities.

Another experience that E.S.P.A.C.E. has had in the domain of "increasing awareness about setting-up a business" that is of interest regards an initiative undertaken 3 years ago in partnership with the largest daily newspaper in the region. Once a week for 16 weeks, the newspaper published the better part of the "Guide to Starting a Business", presented in a colourful manner and accompanied by a contest.

Initial contact with the potential entrepreneur

The potential entrepreneurs who wish to benefit from a free one- to two-hour meeting can do so in one of the 14 E.S.P.A.C.E. offices dispersed throughout the region. They are arranged geographically so that no one living in the region is more than 40 kilometres from any of these offices.

The meeting allows for:

- a) a first evaluation of the abilities and handicaps of the applicant vis-a-vis his project;
- b) responding to questions in a timely manner;
- c) orienting the person toward one of two possible types of assistance:
 - counselling with individual follow-up sessions;
 - training, complemented by individual follow-up sessions.

Initiatives prior to set-up

In the case of the individual programme, the counselling and information are given during the process of setting-up the business only as they become needed and over the course of successive meetings with an E.S.P.A.C.E. counsellor.

The training programme was conceived in such a way as to offer a range of levels that are matched to the particular situation of the potential entrepreneur and to the level of his project.

Budgetary restrictions have unfortunately led to the elimination of the "Development of Applicant's Skills" and "Thematic Courses" sections.

The objectives of these training sessions are to allow an entrepreneur to:

- a) make a diagnosis of his project and of its advantages/disadvantages;
- b) learn the techniques of managing a project and a small-business;
- c) deepen their knowledge in these areas and to undertake a feasibility study of their project (only in the 250-hour programme).

A very active learning environment:

It includes:

- lecture courses (finance - marketing - law - taxation - etc...) taught using simple language, making it easy for everyone to understand;
- conferences given by professionals (bankers, tax inspectors, etc...);

case studies;

1994

Characteristics	39 hours	250 hours	SCE: 20 hours or 14 hours
Aimed at:	Unemployed individuals with an idea for setting-up a business	Unemployed individuals with a project for setting-up a business	Unemployed individuals with a project for setting-up a business
Objectives	Evaluation of aptitudes for starting a business	Acquisition of knowledge necessary for running a small business	Information on the process of starting a small business
Number of sessions in 1994	50	26	38
Number of individuals in programme	750	421	540
Rate of attendance	100 %	108 %	118 %
Financing	State/Region	State/Region	A.N.P.E.

Source: E.S.P.A.C.E.

- games designed specifically for entrepreneurs lacking a strong theoretical background;
- individual work with the goal of working out a business plan;
- evaluation of the project by a "jury".

The contents of the courses and a description of the games and case studies are available (in French).

Initiatives after set-up:

Assistance after the business is set-up has increased every year since the *chèque conseil* (the advice-cheque) was established in 1990, but took on a new life in 1994 thanks to financing from three additional sources.

The goal of these initiatives is to keep the new businesses healthy by assisting them during the first years which are the most difficult and, in certain cases, to assist them in their continued development.

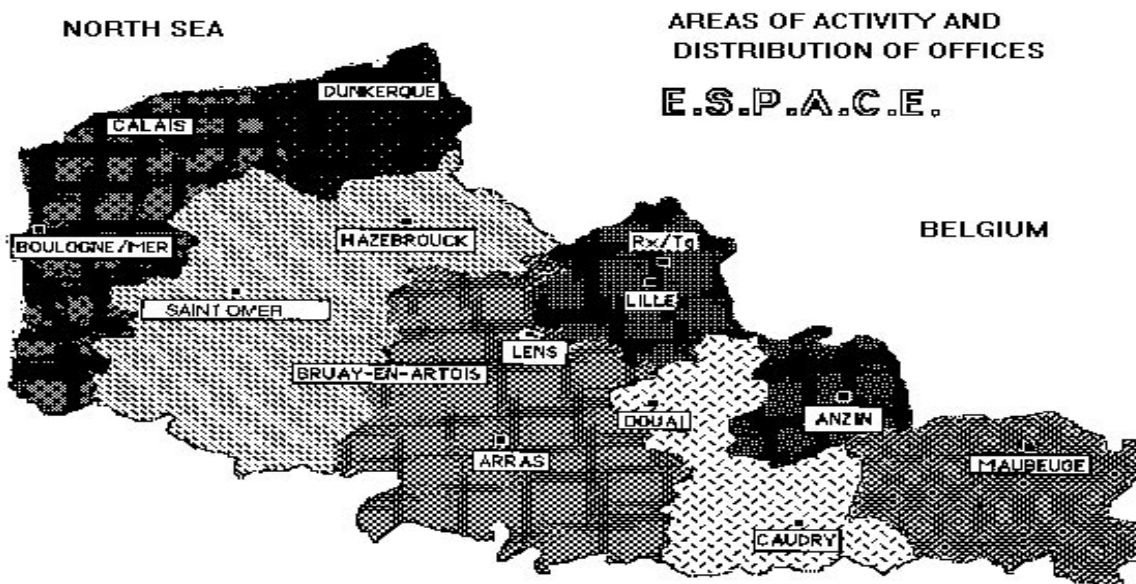
Two possibilities are offered to the entrepreneurs:

- individual follow-up sessions;
- group follow-up sessions, following the model of "business associations".
- The type of initiatives proposed by E.S.P.A.C.E. in the case of individual follow-up sessions is presented in Annex 2.

Organisation

Geographical distribution

The E.S.P.A.C.E. teams manage a total of 14 permanent offices in the cities of the region, as indicated on the map below.



Human resources

E.S.P.A.C.E. has 42 salaried employees, 26 of whom are counsellors/trainers.

They are divided amongst 8 independent associations, all with the E.S.P.A.C.E. name, each linked to a specific geographical area. Each association has a president and some volunteer administrators.

The coherence of the whole is insured, in a federal framework, by a secretariat that co-ordinates the work of the teams, organises the "research and development" functions and is responsible for maintaining the relations with the principal financing partners (State - Regional Council - General Councils).

Financing

The annual budget is 15 million francs. Public funds constitute 85 per cent of the total budget and are received in the following proportions: State (27 per cent), Regional Council (32 per cent), General and Communal Councils (13 per cent), EEC (13 per cent).

Results

1994

4 063 people went through the programme in 1994. The principal characteristics of this group are as follows:

- Men: 72 per cent - Women: 28 per cent
- Under 26 years old: 22 per cent - 26 to 45 years old: 65 per cent
- Those seeking employment: 77 per cent
- Level of education *Bac* + 2 or better: 18 per cent

506 businesses were created in this same year with the assistance of E.S.P.A.C.E. They can be classified according to sector as follows:

- Agriculture, fishing (12) 2 per cent
- Manufacturing (90) 18 per cent
- Retail businesses (224) 44 per cent
- Services (180) 36 per cent

86 per cent of the businesses were started by individuals who were previously unemployed.

1989 - 1994

The rate of failure for the businesses is accurately measured every year for all businesses set-up in the last five years. The following chart shows the evolution of these figures year to year, in comparison to the rate of failure of businesses that do not benefit from E.S.P.A.C.E. assistance (as measured by INSEE):

Year of inception	1989	1990	1991	1992	1993
Rate of Failure as of 30/6/94					
E.S.P.A.C.E. rate	33	27	19	11	5
Rate for non-E.S.P.A.C.E. businesses (INSEE)	52	46	39	29	17

Source: E.S.P.A.C.E.

The figures are enhanced by certain factors (notably, professional experience).

The contribution to employment in 1994 of the businesses created during this period from 89 to 93 is summarised in the table below:

Number of Employees	Number of Businesses	%	Number of Employees	%
1	1,028	66	1,028	27
2 to 5	458	29	1,546	40
6 to 9	29	2	261	7
More than 10	45	2	980	26
TOTAL	1,150	100	3,825	100

Source: E.S.P.A.C.E.

2 per cent of the businesses that received assistance during this period were responsible for creating 26 per cent of the jobs.

Other training programmes for the unemployed

E.S.P.A.C.E. has developed several training programmes. This has allowed unemployed individuals to participate in the setting-up or expansion of businesses, and, in so doing, to help some of them find work.

Here are two examples:

Partners in small and medium-sized businesses

Unemployed women are trained to become the number-two person in small businesses.

The great majority of them find work.

“Dormant projects”

The programme baptised "Dormant Projects" has two objectives:

- a) to develop small and medium-sized businesses;
- b) allow unemployed managers to find work.

The method consists of, on the one hand, finding projects for the expansion of small and medium-sized businesses that have remained unrealised because of a lack of time and, on the other hand, recruiting management-level individuals who are unemployed. The latter receive 3 months of training in project management, and then work for on one of the specified expansion projects. During these nine months, they receive compensation from the State that co-finances their training.

In the last 4 years, 60 or so managers have benefited from these programmes. 75 per cent have found work. 57 per cent of the projects have been completed and have contributed to the creation of approximately 150 additional jobs.

Conclusion

Several useful lessons can be drawn from E.S.P.A.C.E.'s experience:

- Counselling and training the unemployed prior to their setting-up a business and following their progress thereafter strongly reduces the rate of failure.
- Only a minority of those who set-up a business employ anyone other than themselves.
- If the particular characteristics of this minority can be identified, they deserve particularly close scrutiny but not to the exclusion of the training of others in the programme.
- For management techniques to be sufficiently mastered by the unemployed who set-up a business, they have to be taught using simple language, according to methods that give an important place to experimentation (games and case-studies), and by personalising the transfer of knowledge by relating it to the future entrepreneur's project. To summarise, the pedagogical methods have to take the background of the applicant and his motivations (which are very utilitarian) into account.
- A rigorous evaluation of the counselling/training programmes and their effects is necessary to be able to measure their impact and justify their cost.
- The quality of the counsellors/trainers is a determining factor. They themselves have to be effective entrepreneurs and rigorous and engaging teachers.
- So that the unemployed who set-up a business have access to counselling and training, it is necessary to have a network of credible "traffic directors" that orient them toward the appropriate programme.

ANNEX 1

Evening receptions to raise awareness about setting-up a business

The annual subsidy from the *Conseil Régional Action Economique* (The Regional Council for Economic Action) was given this year with the stipulation that more work be done in the towns. This allowed for an increase in the number of receptions. Indeed, even though these initiatives were only undertaken starting at the end of September 1994, we have already had 27 of these evenings that have brought together 761 people.

Organisation of the receptions and those who attend

E.S.P.A.C.E. contacts the Mayor to explain the project and to help him identify the type of people to invite. The Mayor's office takes care of sending out the invitations, contacting journalists, reserving a conference room and organising a cocktail party for the evening.

E.S.P.A.C.E. puts together the texts necessary for the press releases, invitations and posters and is responsible for conducting the evening's events.

The guests are generally composed of the following people or organisations:

- the Mayor of the town and several assistants interested in E.S.P.A.C.E.'s programmes;
- in big cities, the economic development services;
- people who work for the town;
- unemployed individuals;
- project managers;
- bankers, certified public accountants, notaries;
- representatives from the local *A.N.P.E.*;
- representatives from trade organisations;
- headmasters of schools;
- leaders of local associations;
- presidents of companies.

The evenings' events vary from one *Boutique de Gestion* (Management Workshop) to the next and also according to the wishes of the Mayor who is hosting the event, but they are typically arranged as follows:

- welcoming speech by the Mayor, general welcome;
- presentation of the evening's events by E.S.P.A.C.E. and of the Regional Council's objectives in participating in the programme;
- regional economic context;
- the businesses of France and the region;
- who sets-up a business?;
- profile of businesses that succeed;
- principal reasons for failure;
- setting-up a business:
 - researching the idea;
 - studying the environment;
 - assessing the advantages and disadvantages;
 - identifying goals;
 - strategies;
 - identifying the means to achieving the goals;
 - legal statutes and the organisation of the firm.
- types of assistance:
 - financial;
 - general counselling;
 - advice regarding real estate.

After these topics are covered, a debate is organised in question-and-answer format with responses given by E.S.P.A.C.E. and its partners.

The evening is brought to a close with a speech by the Mayor.

Observations

The interest shown by the Mayor and his office can vary quite a bit from town to town and has a great influence on the number of participants. For example, in one town of the Pas-de-Calais region, only three people participated in the evening's event, even though two events were planned in succession, while in Halluin 78 people showed up...

On the other hand, E.S.P.A.C.E. Sambre-Avesnois made effective use of the Mayor's office to reach their target audience: social workers; secretaries in the Mayor's office whose work concerns a particular part of a town; and teachers.

The work described above helps inform the largest number possible of unemployed individuals about the possibility of creating their own job, as long as certain precautions are taken. In addition, it familiarises professionals, politicians, social workers, experts in other fields and news outlets with the initiatives being undertaken in their area.

ANNEX 2

Content of E.S.P.A.C.E.'s individual follow-up sessions after set-up

a) The needs of the business and the business plan

Discovering the needs of the business (this includes time spent at work in addition to the work done in the Management Workshops on the creation of a business plan).

b) The "administrative" organisation of the business

- Establishment of administrative documents
- Explanation of or training regarding the *VAT* declaration
- Explanation of or training regarding the required keeping of books (auxiliary journals)
- Hiring formalities, work contracts
- Help with creating a system of pay slips
- Help with creating the required social and fiscal declarations
- Expense ledgers
- Verification of the business's progress on a quarterly basis
- Initial training in information management

c) Business strategy

- Focusing on the firm's strategy
- Quantitative control of business activity
- The elements and support services of the firm's communication network
- Revamping of the sales strategy

d) Setting-up a management strategy

- Development of management tools
 - report on the firm's progress
 - cash flow plan
 - financing plan
- Analysis of the distance between goals/results
- Analysis of the efficiency of the firm (profit margin, cost price, profitability threshold...)

e) Advice on urgent matters

- Tracking down needed documents
- Information regarding access to assistance, subsidies and financing
- Fiscal, social and commercial advice

ANNEX 3

Cost Data

Training Session (250 hours):

Basis: 15 trainees -- \$6.40 per trainee per hour

Per trainee per session -- \$1 000

Per session of 15 trainees -- \$24 000

Financed: 33 per cent by the Regional Council, 66 per cent by the State

Training Session (39 hours):

Basis: 15 trainees -- \$6.40 per trainee per hour

Per trainee per session -- \$249.60

Per session of 15 trainees -- \$3 744.00

Financed: 33 per cent by the Regional Council, 66 per cent by the State

State “voucher” for individual counselling

- Value of the “voucher”: \$80 for one hour of individual counselling. The State finances 75 per cent of this amount (i.e. \$60).
- Each self-employed individual can receive 15 cheques -- equivalent to a State allowance of \$60 x 15 = \$900.

Nord Pas-de-Calais Regional Council “voucher” for individual counselling

- Value of the “voucher”: \$90 for one hour of individual counselling. The Council finances 100 per cent.

- N.B.
- Training allowances are not submitted to the value added tax.
 - Counselling allowances are submitted to the value added tax (18.6 per cent)

ANNEX 4

Annual report 1994 --- Summary -

In the fourteen years since its foundation in 1980, E.S.P.A.C.E. has contributed to the creation of 4,239 new businesses of which 3 286 are still active and, which at the end of 1994, employed about 8 300 people.

It is important here to underline that E.S.P.A.C.E. does not confine itself solely to the field of creation of new businesses, but is also active before and after their set-up :

- before : in particular to stimulate the business spirit among the population of the Nord - Pas-de-Calais ;
- after : to strengthen and support the development of new small firms.

Moreover, E.S.P.A.C.E. uses its know-how in the field of project administration to manage regional development initiatives as well as for special training courses.

A detailed assessment of E.S.P.A.C.E. activities in 1994 is set out in a comprehensive report, from which the principal points are given in this summary.

Setting-up of a new business

Attracting new applicants : a total of 4 063 potential entrepreneurs were welcomed in 1994 for a preliminary interview at the 14 offices of E.S.P.A.C.E. i.e. an increase of 11 per cent compared to 1993. The breakdown of these figures is as follows : women represent 28 per cent of the applicants, 65 per cent of all applicants are in the 26-45 age group, 77 per cent looking for work. With regard to the level of education of applicants : 18 per cent are of 'A' Level standard with two years at university or hold a Bachelor or Masters degree ; the majority, however, 61 per cent are below CEP (Certificat d'Etudes Professionnelles) and BEP (Brevet d'Etudes Professionnelles) standard. (Vocational training college qualifications).

Supporting and training applicants : After the first interview, potential applicants can be assisted in the management of their feasibility study and the implementation of their project. This support can be given :

- either **in the scope of individual follow-up** : advice and information are given during a sequence of meetings with a supervisor as the start-up of the venture progresses ;
- **or during training courses of variable duration** : the support process is not solely limited to the training period. In 1994, E.S.P.A.C.E. carried out 114 training courses for 1 711 trainees.

Setting-up of new businesses : E.S.P.A.C.E. assisted in the creation of 506 new businesses during the year 1994. This figure represents an increase of 6.5 per cent on the previous year. Their founders benefited from individual support in the management of their projects, supplemented by selective training courses organised by E.S.P.A.C.E.

Evaluation : A survey carried out between August and October 1994 enabled us to analyse the progress of the new businesses which had been set up. The survey covered 1 973 new businesses which had received assistance from E.S.P.A.C.E. between 1989 and 1993. Of these, 1 560 are still operating (i.e. 82 per cent of the total).

This "success rate" can be seen as follows :

3 years after set-up	81 %
5 years after set-up	67 %

The figures are enhanced by certain factors :

- the level of initial training (+ 5 points difference between the highest and lowest levels) ;
- professional experience (+ 4 points between those with less than one year and those with more than 10) ;
- operational fields (industry and services 5 points ahead of commerce) ;
- sex (+ 2 points for women).

The generation of jobs for these businesses is as follows :

No. of jobs	% of businesses	% of jobs
1	66	27
2 - 9	31	47
> 10	3	26

Initiatives prior to set-up

In order to stimulate entrepreneurship in the Region, E.S.P.A.C.E. runs courses intended for different levels of public interest :

- Young **people** - with courses in numerous secondary and high schools, universities and at local centres. 21 initiatives of this type have been conducted.

- **Adults** - through adult training centres, in training executives of large firms for project management, or women from rural areas.
- **General public** - through the E.S.P.A.C.E. publication, 'CONTACTS', of which 7 000 copies are distributed, by means of more than 80 articles in newspapers and with 7 radio or TV appearances.
- **In towns** : E.S.P.A.C.E. has conducted 27 job creation conferences bringing together 761 people, thanks to financial backing from the regional council.

Initiatives after set-up

The follow-up of new businesses has developed a little more each year since the introduction of the advice-cheque in 1990, but this activity received a fresh boost in 1994 thanks to three financial backers.

The objective is to establish the new businesses firmly, to support them during the first, most difficult years, and possibly to follow up on their development.

The means used to achieve this objective are as follows :

- the advice-cheque system set up by the State in 1990 ;
- a supplementary lump-sum from the "Conseil General (General Council) du Nord ;
- an agreement specifically for self-employed handicapped people ;
- an experimental plan of action started up in November 1994, piloted by the ARD and covering 100 businesses which were set up less than 1 year before.

During 1993, these means made possible 904 hours of individual counselling for 108 businesses.

Project management

E.S.P.A.C.E.'s skills in project management and local employment initiatives have enabled the organisation to carry out many different initiatives this year, the goal of which remain in line with its objective. They can be listed under 4 headings.

Study initiatives

'E.S.P.A.C.E. Flandre' in partnership with the Lille-Fives C.A.F. (Social Security Office) has led an initiative aimed at the reactivation of the Fives area.

'E.S.P.A.C.E. Rural Initiatives' has followed a network of female activity organisers in the field of tourism in the 7 valleys, and is continuing to invest in the management of innovative agricultural projects.

With C.E.L.A.V.A.R., 'E.S.P.A.C.E. Rural Initiatives' has conducted a study into the specifics of rural employment.

'E.S.P.A.C.E. Dunkerque' has been asked by the C.U.D. and the councillors of Grand Fort Philippe to set up a specific follow-up programme for the creation of technologically innovative companies.

Economic Integration

'E.S.P.A.C.E. Region' has thanks to help from the D.R.F.P. and the financial backing of the European Social fund, set up an experimental project called FIER designed for the unemployed under 26 and the long-term unemployed. This project's goal is to develop economic initiative in the heart of disadvantaged populations through a "rupture" training method.

'E.S.P.A.C.E. Flandre' at the request of the 'France Active' foundation has organised a follow-up training plan and a monitoring system for integration companies.

In the last quarter of 1994 and in partnership with the 'Plan Roubaisien d'Ingres" (Roubaix Integration Plan). 'E.S.P.A.C.E. Flandre' started up a training plan on the creation of micro-activities by disadvantaged communities.

Finally, the measures introduced by the 'Conseil General (General Council) du Pas de Calais' directed at people on income support (R.M.I.) with business projects have continued in the five employment regions where E.S.P.A.C.E. is located.

Training programmes in project management

'E.S.P.A.C.E Initiatives Rurales' with the support of F.A.F.E.A. leads a network of enterprising farmers in the 'Nord-Pas de Calais' region

Five training days have taken place in the course of the year, mainly focusing on the management of collective projects.

The 'Boutique de Gestion' (management agency) has in conjunction with the ADRIANOR laboratory, experimented with a training plan for those with mini-projects concerning farm produce.

'E.S.P.A.C.E. Flandre' conducted the third training initiative entitled "detection and implementation of dormant projects". 6 months after the training course, 75 per cent of the people had a job. The fourth initiative started in the middle of November 1994. The 15 managers have been unemployed for 15 months and are 47 years old.

'E.S.P.A.C.E. Flandre' in partnership with 'Retravailler' (association for re-employment) conducted a training course called "wives of independent workers a new start" for the wives of 15 artisans, shopkeepers, farmers and people in liberal professions. 3 months after the course 50 per cent had found a job.

International initiatives

'E.S.P.A.C.E. Dunkerque' as part of an INTERREG programme, in collaboration with Vizo (Flemish Institute) brought out a guide on how to set up a business in France.

The closure of the FAIR programme, run for several years by 'E.S.P.A.C.E. Initiatives Rurales' and the summary of the work done in the NOW programme in rural areas meant a 2 days symposium at Arras. Collaborators from Portugal and England took part in the work.

Similarly, 'E.S.P.A.C.E. Littoral' closed its initiative as part of the FACE programme with a Forum at Boulogne entitled 'Women face to face with their jobs'.

At 'E.S.P.A.C.E. Hainaut', as part of an Interreg Programme a study on the introduction of a business counter conducted in conjunction with the MIREC de Charleroi was completed this year.

Furthermore, the Euroform programme, begun in 1993 finished this year. The first, carried out with English, Spanish and German partners allowed us to update and refine the teaching methods of the business creation training courses. The second programme, conducted with English, Spanish and Greek partners produced an evaluation tool to be used to assess small new businesses.

Infrastructure

As of the end of 1994, the E.S.P.A.C.E. associations employ 42.5 persons, of which 26 are representatives. The business teams manage 14 permanent offices : Nord (8), Pas-de-Calais (6).

They make up a **Federation** managed by a supervisory board and a general secretary who ensure consistency whilst maintaining the autonomy of each branch.

Estimated accounts for 1994 give a total of products actually exploited of FF 15,260 made up in percentage terms as follows according to sponsor and field of activity :

Sponsors		Field of activity	
Users and firms	15%	Market awareness	6%
Local authorities	13%	Reception of applicants	13%
Regional Council	32%	Individual advice given	13%
State	27%	Training programmes	57%
EEC	13%	Business counselling	5%
		Services	6%

The Regional Council funds the reception and training of entrepreneurs. The State finances training. The local authorities contribute mainly to financing advice for entrepreneurs. The firms finance their own advice and training programmes.

ITALY: YOUTH ENTREPRENEURSHIP -- ITALIAN LAW NO. 44
By Carlo Borgomeo, Italian Agency for Youth Entrepreneurship, Italy

A special measure for enterprise creation

The Italian Law No. 44 of 26 February 1986 is a Small and Medium Size Enterprise (SME) creation support programme for young entrepreneurs. It applies to the undeveloped areas of the country, mainly in Southern Italy.

Law No. 44 envisages two types of assistance:

- financial incentives;
- real incentives.

This law addresses young people between the ages of 18 and 35 willing to produce entrepreneurial ideas, to transform them into business plans and, finally, for those projects that are approved, to run an enterprise which benefits from special forms of technical assistance to start up.

The same Law also established the constitution of a State Agency for its implementation: the Comitato per lo sviluppo di nuova imprenditorialità giovanile (Agency for the development of new youth entrepreneurship) -- recently transformed into a joint-stock Company -- which covers all the phases connected with the process of enterprise creation: from promoting entrepreneurial culture among young people, to assisting them in the process of developing a “business idea” into a project; from project selection -- which is based on the project’s economic profitability -- to administering the financial incentives from providing training and technical assistance to full project monitoring.

The work of this Agency is supported by a Technical Secretariat comprised of 110 people.

By this measure a new instrument of industrial policy has been experimented in Italy, by which the State, besides the role of administrator of financial and real incentives, takes up the role of “development agent”.

“Targeted” real services to accompany SMEs

Whilst financial support is certainly a crucial element, a careful administration of targeted real services represents a guarantee factor as far as the success of the newly-created SMEs is involved.

Law No. 44 expressly rules and regulates the administration of training and technical assistance services to accompany the creation and growth of enterprises. These services are rendered after projects have received formal approval, thus qualifying to benefit from the opportunities offered by the Law.

Training, administered by qualified institutions, includes management, as well as professional and vocational training.

Technical assistance (or tutoring) is an accompanying service which is provided to young entrepreneurs upon evaluation of the “critical” aspects which their new enterprise exhibits.

A “tutor” (i.e. an established firm, or business consultant, specially selected by the Agency) will provide technical support and/or training “on line” to each new enterprise during investment set-up phase through production start-up.

The philosophy of Law No. 44 is in fact that entrepreneurship abilities, practical and everyday abilities, are not a subject that can easily be acquired in schools, and that one best learns to operate as an entrepreneur from someone who is **already** an entrepreneur. Tutoring is thus intended to be a significant effort for the transmission of entrepreneurial experience.

The tutors that the Agency entrusts with the task of providing start-up assistance to the new enterprises are generally selected from:

- consulting firms;
- state-owned firms;
- medium and large-sized firms;
- others (universities, research centres, associations, co-operatives).

Tutoring includes, among other things, orienting towards markets selection, assistance for financial services, for maintenance planning, quality control, information technology systems, etc.

The tutoring “contents” are in fact not easily definable, as they also touch upon company organisation problems, compages, interrelationships.

They also involve, for instance, training the new entrepreneurs to self-evaluate their businesses through their balance-sheets; training in proper bookkeeping; tutoring means, in short, transmitting an experience, an organisational culture by which the firm is steered through the ordinary deeds, as well as through coping with unexpected situations and laying the grounds for future development.

Small/large firms partnerships

The relationship between the Agency for the implementation of the Law No. 44 and the tutoring bodies is regulated by a contractual agreement whereby the executing agent enjoys ample discretionality as far as the planning and implementation of tutoring activities are concerned, while the Agency retains overall controlling powers for the objective of results optimisation.

The Agency makes an effort to find the best tutors for the enterprises that are created, according to their needs. Among them, by way of example, are: Isvor-Fiat, Elea-Olivetti, Eni Group companies, the Bocconi University in Milan; among consultants: KPMG Peat Marwick, etc.

Not always the best adapted tutors are large entities: often small, specialised firms or consultants also operate very well.

Through the tutoring mechanism a form of partnership between small and larger firms is thus created, as well as a form of integration between the north and the south.

This “partnership”, which at the beginning is somehow “imposed” to the newly-created SMEs, gradually becomes more spontaneous. The new SMEs learn how to make the most out of the tutorial services which are offered to them, and to open up to the outer world. They bear in fact a genetic code of openness, by which they are at a relative advantage as far as communication, innovation, access to financial services, etc. are concerned.

The results attained

Many young people have become businessmen as a consequence of Law No. 44. Up to 15 March 1995, 4 193 projects have been presented and 3 873 have been evaluated. 898 projects have been approved: 25 per cent in agriculture, 53 per cent in manufacturing and 22 per cent in the service sector. There are 67 projects that could be accepted with further documentation, while 2 590 have been rejected and 318 did not obtain initial approval.

A total of 668 new enterprises have already been launched. 6 295 young partners are involved in business activities. The total number of staff is 18 008. A total of 2 614 billion lire has been invested.

A total of 60 decrees of approval have so far been called off following the strict monitoring activity of the Agency: 46 of these because of irregularities committed by the new enterprises in the implementation phase, and 14 because of time expiration.

Concerning the 668 new SMEs which have started operations (by differing degrees):

- 50 per cent of them, mainly in the manufacturing and agricultural sectors, export most of their production, not limited to E.C. countries;
- 40 per cent of them are established at a regional/southern level;
- 10 per cent of them are still confined to local and limited markets;
- the survival rate of the enterprises which have been financed is equal to 82,7 per cent.

This is due either to the type of their products (i.e. traditional services) or to insufficient strategic/operational capabilities.

In some instances the new SMEs are facing a serious crisis, in terms of finance and/or production. This is actually the case with 15-20 of the newly created enterprises

Internationalisation and the EC

SMEs are not only created: they face problems of consolidation, competitiveness, internationalisation.

It also helps the new enterprises to move more dynamically on markets, and to internationalise.

The Agency, with the help of EC co-funding (the southern regions of Italy qualify for the highest category of European Commission support, Objective 1), is proceeding further to providing the newly-created SMEs with real services meant to better integrate them to meet the growing market challenges. Whereas to this day most tutors have (with a few exceptions) been “domestic” tutors, consultants are presently being selected by the Agency through Community tendering for the purpose of tutoring the new SMEs into competitiveness by means of interfirm co-operation: whether through clustering, networking, creating consortia, joint-ventures, partnerships, etc. best adapted to them.

This competitiveness is needed for SMEs to develop beyond the local or regional horizon to a national, and where applicable, Community and international scale.

Do corporate firms benefit from tutoring?

As it has emerged over time, tutoring is important not only for the newly created enterprises, but also for the tutors themselves. Not only for the small consulting firm, but also for corporate firms. Through tutoring these have in fact come to realise the huge potential they have in terms of technologies, human resources, market knowledge, and interrelationships to determine the creation of a new enterprise.

We are in fact used to considering large corporations as being able to create new businesses through production induced in related sectors, though subcontracting, decentralising. But this logic is only partially indicative of the large corporations’ potential for enterprise creation: think of the huge technologies that are not utilised, for either being no longer totally in line with the corporation’s core business, or for being outdated; think of the often under-utilised commercial channels; of market knowledge, and of niche markets which are not always compatible with corporate size; or think of the huge know-how, accumulation of experience, and human resources that may even be in excess in a corporate firm, and be instead crucial to the birth and development of a new business. Some of the most heedful corporate firms that have worked with our comitato and have given attention to this issue are now in some cases in the process of going deeper into these evaluations with us.

And in fact, from this point of view the theme of enterprise creation by means of enterprises should receive further attention.

Evaluation

Law No. 44 purports to make it possible to those who have a good “business idea” but have not got sufficient financial resources of their own, to set up their own enterprise. For sure quite a number, but certainly not the majority of the 898 projects approved were submitted by individuals who could rely on their own resources. But for many of the other individuals it can well be maintained that without Law No. 44 they would not have had a chance to become entrepreneurs. The question is: do we deem it is useful or not that there be an effort to increase the number of potential entrepreneurs? Our answer is yes, especially at a time of crises of traditional employment policies. But then the problem of administering considerable financial support to newly-created SMEs needs to be tackled: it should no doubt be a selective support, very strictly administered, capable of hitting hard any speculator and incentive “hunter”, but certainly it ought to be substantial, although in line with EC regulations.

Also, the relationship between the new enterprises and the credit institutions continues to be a difficult one: in spite of some improvement over the years, we are left with the impression of being confronted with two irreconcilable logicalities. On the one hand here we have projects which have been

evaluated and selected on the basis of their economic profitability but which have been submitted by individuals with scarce -- or very scarce -- patrimonial backing; on the other hand a traditional culture which holds the new enterprises as not being sufficiently reliable and credit worthy: "not bankable", as we would say in jargon.

SPAIN
By Lorenzo Cachón, Complutense University, Madrid

Introduction

In Spain the possibility of receiving unemployment insurance benefits in a lump sum payment in order to start a business has existed since 1985. Prior to 1992, the programme was open to "self-employment" projects (single-person business, or micro-enterprise), "co-operatives" or to "limited company of workers". Since 1992, the self-employment assistance (SEA) programme has been limited only to those starting co-operatives, in either of the two variants. This report analyses and evaluates the Spanish self-employment programme for the unemployed for the decade from 1985 to 1994.

The legal basis for setting up a self-employment programme for the unemployed was established by the Law for the Protection of Unemployment, of August 2 1984¹⁵, which points out that when it is so established by a programme for the promotion of employment, it will be possible for the administrative entity (that is, the National Institute of Employment, INEM) to make a single payment for the current value of the amount due for the tax benefits corresponding to the period the worker is entitled to in virtue of the contributions he has made." (article 23.3). The Royal Decree 1044/1985, of June 19¹⁶, develops the Law for the Protection of Unemployment and regulates the payment of unemployment benefits in a lump sum, as a measure for the promotion of employment. The objective is, as stated by the Royal Decree, "to favour unemployed workers' self-employment initiatives, facilitating the realisation of self-employed activities or the possibility of joining co-operatives or limited companies for those persons who have lost their previous job." This measure introduced an important innovation to the Spanish system of unemployment insurance: it created the possibility for the unemployed worker to overcome the passive attitude implicit in the expectation of finding a wage earning job - despite job search activities - and to adopt the active entrepreneurial attitude necessary for setting up a business, be it on his own as a self-employed worker, or in association with other workers in the social economy, in co-operatives or limited companies of workers (LCW)¹⁷ ("sociedades anónimas laborales": "SAL"). In this way, a significant portion of the budget for unemployment insurance is diverted from private consumption to productive

¹⁵Law 31/1984, of August 2, for unemployment benefits (which modifies title II of Law 51/1980, of October 8, basic for employment) (BOE, August 4 1984). This Law, reformed by several subsequent stipulations (particularly by Law 22/1992), establishes the Spanish system of protection for unemployment .

¹⁶Royal Decree 1044/1985, of June 19, which regulates the payment of unemployment benefits in the mode of a single payment for the current value of its total amount, as a measure for the promotion of employment (BOE, July 2, 1985). This regulation has been developed by Circulars of the General Directorate of the INEM of July 19 1985 and September 10 1990.

¹⁷The "limited company of workers" ("Sociedades anónimas laborales") are companies whose shares -in at least a 51%- have been bought by its workers, usually in a moment of crisis.

investment in small businesses, co-operatives or LCWs, allowing the unemployed worker to make direct use of his professional and business skills (Cachón and Prieto, 1986).

In 1992, a body of measures aimed at reducing the unemployment insurance (UI) costs of the state (Cachón and Prieto, 1994), Law 22/1992, of July 30¹⁸, cancelled the possibility of receiving UI in a lump sum to start a single-person business or micro-enterprise, and limited the option to those starting co-operatives or social businesses. None of the remaining regulations and administrative procedures have been modified. In this report, a distinction should thus be made between the period prior 1992 and after, since those unemployed wishing to start a single-person business or micro-enterprise were no longer eligible to participate in the SEA programme. The reasons for the government having essentially cancelled, or limited, the programme were essentially based on the political decision to reduce public expenditures, and specifically in the area of spending on unemployment insurance benefits. There has not yet been a technical study to evaluate the suitability of this decision, but administrators responsible for the programme have certain doubts about the efficiency of self-employment programmes for the unemployed in Spain. These doubts would most likely not be contradicted in an evaluation study.

It is useful to set this programme within the broader context of the situation and transformations of the labour market in Spain, as well as within the framework of the Spanish system for unemployment insurance. The economic and political crises of the mid-seventies created tensions in the Spanish labour market and there was a simultaneous apparition of problems which had until then been latent - partly because they had been hidden by the phenomenon of emigration (Cachón, 1993). The result was a destruction process of employment unequalled in any other OECD country: the employed population decreased by almost 20 per cent between 1975 and 1985 (OECD, 1986). Although there was a moderate increase in the working population during this period, unemployment rates shot up to 25 per cent. From 1985-1990 there was a reversal of this process: almost two million jobs, which had been destroyed in the previous decade, were created. In spite of this, unemployment decreased only moderately due to an extraordinary increase in the working population, mainly due to the entry of women into the work force. These extreme characteristics in the Spanish labour market are quite unusual in the context of OECD economies¹⁹.

At the same time certain deep structural changes took place similar to those observable in other countries, but which in Spain had particularly severe consequences: a constant decrease of the agricultural population, which fell from 22 per cent in 1976 to 9 per cent in 1994, and the increase of the tertiarization of economy, both in sectorial terms (the services sector grew from 41 per cent to 60 per cent in the same period) and in occupational terms. A further significant feature was the emergence of the so-called "atypical employment": temporary jobs, part-time employment, etc. If one considers that every country has its own unique model of atypical employment, the distinguishing characteristic of the Spanish model has been the development of "temporary employment": in 1994, one third of wage earning workers had temporary work contracts, including indefinite work contracts.

¹⁸Law 22/1992, of July 30, of Urgent Measures for the Promotion of Employment and the Protection for Unemployment (BOE, August 4 1994). The second additional Regulation suppresses the references to "self-employed workers" and to "the promotion of self-employed workers" of articles 1 and 6, respectively, of the Royal Decree 1044/1985, of June 19.

¹⁹At present (fourth term of 1994) Spain counts with a working population of 15.468.500 people (gross activity rate: 48,8%); an employed population of 11.770.000 workers and a volume of 3.698.400 unemployed (unemployment rate: 23,9%). Data from the "Labour Force Survey" (Encuesta de Población Activa) carried out termly by the National Institute of Statistics.

Unemployment has been the greatest problem in Spanish society since the mid-seventies, and it still is at present with a population of three and a half million unemployed (24 per cent of the working population). The Spanish unemployment rate, which shows a remarkable persistence, has doubled that of the European Union. The reason why the unemployment rate has not brought about significant social conflicts is that different aspects of the Welfare State have been developed, such as the universalization of and free access to education and the health system or the extension of the system of protection for unemployment, aspects which have improved considerably in the last decade. In addition to the effects of these policies, which enable, for example, almost 60 per cent unemployed to receive unemployment benefits at present, there are other social factors, such as "family solidarity", and economical factors, such as the black economy, which contribute to the softening of the social effects of unemployment in Spain.

The Spanish system of protection for unemployment²⁰ is organised at two levels: unemployment insurance and unemployment assistance. The objective of unemployment insurance is to provide a substitute income corresponding to the income received previous to the loss of employment. These benefits have a duration that is proportional to the worker's contributions to the employment fund during the six years previous to the loss of employment, which ranges from 4 months' benefits for a one year tax paying period, to 24 months for periods over six years. The amount of unemployment insurance is 70 per cent of the taxable income - which corresponds approximately to the basic wage - for the first six months and 60 per cent from the seventh month on, with maximums and minimums established according to the particular circumstances of the worker. Unemployment assistance is granted to unemployed workers who are no longer eligible for unemployment insurance for periods of up to 18 months, depending on their personal and family situations; the amount is 75 per cent of the minimum wage.

Characteristics of the self-employment programme in Spain

The self-employment programme for the unemployed has the objective of offering a worker who is entitled to unemployment insurance and who plans to join a co-operative or a LCW (until 1992 it also included single-person businesses) the possibility of receiving **in a single payment the total amount due for unemployment insurance**²¹. Additionally, the INEM (the National Institute of Employment) pays the worker 50 per cent of the Social Security tax quota due as self-employed worker calculated in terms of the minimum contribution rate, or alternatively 100 per cent of the worker's contributions to the Social Security for members of co-operatives or LCWs for the period the worker would have received unemployment insurance if he had not chosen the lump sum payment. The requirements for a worker to apply for the self-employment programme are the following:

- must be entitled to unemployment benefits as a tax payer, when the worker is no longer engaged in his previous employment;
- not to have made use of the self-employment programme in the four immediately preceding years;

²⁰For a comparative study of the Spanish system at an international level see OECD, 1989, OECD, 1992 and OECD 1993.

²¹In order to calculate the current value of the unemployment benefits total amount, there will be a deduction from the corresponding monthly benefits of the basic interest rates of the Bank of Spain (Banco de España) at the capitalization initial date.

- must be entitled to receive unemployment insurance corresponding to a period of at least three months.

The worker is required to go through the following steps: he/she will have to hand in at the INEM Employment Office he is assigned to depending on his place of residence the following documents:

- a self-employment programme application form;
- a report on the investment project and professional activity to be carried out, including the information shown in the table 1;
- in the case of co-operatives or LCWs, a certificate of the application to become a member of the co-operative or LCW, or of the statutes project for the co-operative or LCW if they are to be created.

Outline of the report on the investment and professional activity project

<p>1. Personal information</p> <p>1.1. Surname and name 1.2. Address 1.3. Telephone number 1.4. Town 1.5. Province 1.6. Post code 1.7. Identity card number 1.8. Professional group</p> <p>2. Project</p> <p>2.1. Activity to be carried out 2.2. Services to be rendered or goods to be produced 2.3. Legal characteristics 2.4. Planned starting date 2.5. Total necessary capital: - Own - Other - Capitalisation 2.6. Expected capital distribution</p> <p>Loans</p> <p>2.7. Total amount 2.8. Interest rates 2.9. Recovery period 2.10. Recovery cost</p>	<p>Premises</p> <p>2.11. Does the applicant need offices 2.12. Does the applicant already count with offices 2.13. Address 2.14. Purchase cost 2.15. Monthly expenses: rent (if applicable) and other expenses 2.16. Dimensions</p> <p>Necessary equipment</p> <p>2.17. Total cost 2.18. Form of payment 2.19. Monthly cost of payment</p> <p>3. Forecasts</p> <p>3.1. Production 3.2. Income and costs 3.3. Expected monthly benefits 3.4. Hiring of staff: - at the beginning of the activity - In the first six months</p>
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Source: INEM

The Employment Office registers the application form and sends the documents to the Capitalisation Unit of the INEM Provincial Directorat. This unit requests a report from the Benefits

Section and analyses the project's viability, with the possibility of requesting a more detailed account of the information presented in the report. Once this preliminary screening of the application has been carried out, the Capitalisation Unit proposes a pertinent Resolution to the INEM's Provincial Director. This Resolution should be made within the period of up to 30 days immediately following the day of the presentation of the application and it should be communicated to the applicant. The Resolution can be appealed by application to the INEM's General Director.

The payment of unemployment benefits in a lump sum is made with the same administrative act used for the payment corresponding to the last month's not capitalised unemployment insurance. The payment on the part of INEM of the worker's contributions to Social Security is made on a trimestrial basis of the contributions made and once the worker has handed in the contribution form at the Employment Office.

The worker should start the business activity²² within a month of receiving the capitalised benefits in such a way that this quantity is made use of for this activity. Also, the following documents should be handed in at the Unemployment Office:

- proof of registration with the Social Security or certification of the Professional Association for activities that do not require contributions to the Social Security;
- certification of the co-operative or LCW in the case of the activity having started, or otherwise other documents that prove that the worker has started it as self-employed, such as receipts of payments for expenses, etc.

If the activity has not started, documents will be provided in order to justify the delay and the activities carried out during that month. If there are justified reasons for the delay the INEM can grant a month's extension. If the worker does not hand in the required documents within the established period, or does not provide adequate reasons for not fulfilling this requirement, and also if it is the case that the lump sum received is not used for the realisation of the business activities in question, the INEM's Capitalisation Unit will request the total amount to be returned as if the worker had not been entitled to the benefits²³.

The analysis of this measure for the promotion of self-employment is particularly important from three different points of view: from a quantitative perspective, because of the number of workers who have taken this option throughout the decade when the programme has been in effect and because of the volume of public resources that have been invested in it; from a qualitative point of view, because of its significance in the promotion of self-employment, the creation of new jobs and the possible evolution of the unemployed to a more entrepreneurial mentality; finally, also because of its repercussions on the benefits coverage rates, since unemployed workers who participate in SEA disappear from unemployment figures, as well as from those of workers entitled to unemployment benefits.

²²Even if in principle the business activity which the capitalized benefits should be destined to is the one described in the report, the INEM allows the lump sum to be used for a different business activity as long as a new report is handed in.

²³As established by the Royal Decree 625/85, of April 2, which develops Law 31/1984, of August 2, for the Protection of Unemployment (BOE, May 7, 1985).

Counselling and business advisory services

When the unemployed person requests to receive SEA, her request is examined by the "Capitalisation Team", located within the Department for Unemployment Insurance within each provincial unit of the INEM. The unit checks the formal arrangements defined by the law. Usual practice is that through various personal interviews, the technical team of the unit provides guidance on training questions (both technical and management) to the participants and technical advice on various aspects of the business plan. However, most advice concerns formal and legal arrangements because in most cases, members of the team are not experts in enterprise creation issues. All of these services are provided free of charge by the INEM.

However, in a few provincial branches of INEM, professional units for start-ups are set up. For example in Barcelona Provincial Office "Services for start-ups" (SACE) have been created in the local labour offices with the aim to help all viable self-employment and enterprise creation initiatives. These Services, consist of specialist technicians who offer free information, legal, financial commercial advice, as well as on project design; at the same time they assess the training needs of the participants, both technical and managerial, and they undertake a feasibility study of the project. From this experiment in the Barcelona based INEM branch, a contract has been signed between the Ministry of Labour and the employment institute in May 1995, which led to the creation of "Support Services to Re-employment" (SIAC) in all of the Provincial branches of INEM. During the next months this new service will perform the same function previously undertaken by the support service for start-ups (SACE).

In addition to the support provided by INEM, the unemployed people (existing businessmen as well) can request services from specialised public agencies in enterprise development linked to local and regional government. Of course only a small minority of local and regional governments have created these agencies. A good example, one of the first, is of the city of Vittoria-Gasteiz where a dynamic "Agency for Economic Development" has been established; among Autonomous Communities who have established a network of economic development agencies are the Madrid and the Basque country and the Valancia and Andaluzia Communities. All of these agencies provide information and consultancy which assist each stage of the development of the business plan. These local and regional agencies, which provide free services, do not have any formal link to INEM, nor with the management of the self-employment programme, although they are informed about it.

All of the start-ups can approach private consulting and management companies, in order to get advice on the preparation of the business plan, and technical assistance. Most of these firms charge a market price for services, whilst others are voluntary, and their cost is below the market price as far as they receive some subsidies from various public administrations.

Results of the self-employment programme

Almost ten years have passed since this programme was started in September 1985. The available information allows us to analyse the results obtained till December 1994 and its evolution both at a national level (Tables 1a and 1b and Figure 1) and at a regional level (Table 2). Throughout the decade from September 1985 to December 1994 **567 107 application forms** for the SEA programme were handed in by unemployed workers in Spain. Of these application forms 91 per cent were granted and 9 per cent were rejected, while the rest were still being processed at the end of 1994. Of the **521 510 workers who have opted for the self-employment option**, 437 254 (84 per cent) have used heir lump sum to start a micro-enterprise, while the remaining 16 per cent have set up or joined LCWs or Co-operatives (50.557 and 33.708 respectively). The net amount of resources channelled into lump sum payments from the date

this measure took effect is **612 136 million pesetas** (in the peseta's current value for every year)²⁴. The **average lump sum per worker has been 1 173 800 pesetas**.

The number of workers participating in the SEA programme increased from 1985 to 1989, since it surpassed the figure of 82 000 per year, it started to decrease in the following years and, after the 1992 reform, it was finally reduced to a number of slightly over 10 000 per year in 1993 and 1994. In addition to this volume growth, there was an even higher increase in the proportion of number SEA participants and the total average monthly volume of workers entitled to unemployment insurance, which increased continuously between 1986 (when it stood at .84 per cent) and 1989 (when it reached 1,63 per cent of the average volume of workers entitled to benefits per month), then decreased in the two following years (Tables 1a and 1b). A positive correlation becomes apparent, then, between capitalisation and the upward phase of the economic cycle. When the expansive period began to show signs of exhaustion, participation decreased considerably both in volume and in relation to the number of workers receiving unemployment insurance. This behaviour corresponds to the expansive period of the economic cycle.

Of the total number of applications processed during the decade, 91 per cent were accepted and 9 per cent rejected (1 per cent are still being processed). The proportion of rejected applications ranges between 5-8 per cent per year till 1992. After the reform introduced then, the annual proportion of rejections is much higher (between 10 and 17 per cent) probably due to the fact that there are still many applications for starting a single-person business and this possibility is no longer envisaged by the legislation.

With regard to the use of the lump-sum payments, up to the 1992 reform, between 80 and 90 per cent of the participants decided to start a single-person business, while only 10-20 per cent preferred to become integrated in the social economy. From 1993 on, apart from a small remaining number of lump sum payments designated for single-person businesses (1 per cent in 1994), the projects chosen by applicants can be assigned in equal parts to work in co-operatives and in LCWs. Both modes have increased significantly since the possibility of starting single-person enterprises was eliminated in 1992. It seems this legal limitation has directed applicants' interests towards the two social economy modes (Fig.1)

The **average amount of lump sum received per worker** depends on several factors, such as the duration and amount of the contributions paid, the number of capitalised days and the specific moment within the tax year in which the payment is made. If the total accumulated amount destined to this programme during the decade amounted to 612 136 million pesetas, the average amount received per worker is of 1 173 800 pesetas. This amount has progressively increased every year from hardly a million pesetas in 1986 to 1 731 200 pesetas in 1994 (in the peseta current value for every year). This quantity is compatible with financial aid of other business creation programmes.

At a **regional level** we should point out that the SEA programme has had a greater effect in the more developed Autonomous Communities (Comunidades Autónomas), both in absolute and relative terms: Catalonia (with a concentration of 23 per cent of the number of workers participating in the SEA programme in Spain, but with only 17 per cent of the total national employment rate), Madrid (14 per cent of SEA recipients compared to 13 per cent of national employment), Valencia (11 and 10 per cent respectively), the Basque Country (8 and 6 per cent), the Balearic Islands (3 and 2 per cent) and Navarra (2 and 1 per cent) are the regions where the SEA programme has had a greater effect during the decade. In all of them the ratio of SEA recipients to employed population is higher than the average (see Table 2.1a.).

²⁴This amount does not include the payments made by the INEM of the contributions to the Social Security for these workers.

In these six Autonomous Communities we find a concentration of 62 per cent of the workers who have received their UI in a lump sum payment, while less than 50 per cent of the employed population resides in these areas.

There are considerable differences between the types of businesses created due to SEA in the Autonomous Communities. The importance of co-operatives is higher than the average in six regions: two of them are to be found among the most developed and industrialised Communities in Spain and also those with a great tradition in co-operatives (the Basque Country and Catalonia). The other four, however, are among the less developed regions in Spain and have the greatest agricultural weight in the country as well (Andalusia, Murcia, Extremadura and Castilla-La Mancha). Although there is no information to confirm the fact, there are probably two very different types of co-operatives corresponding to each case. On the other hand, the two Autonomous Communities with a higher number of LCWs (The Basque Country, with 24 per cent and Navarra, with 16 per cent) are regions that have suffered important processes of restructuring and rationalisation of industry (Table 2.1b.).

The average size of lump sum per worker is considerably higher than the average in four Autonomous Communities, which are among the most developed in Spain: the Basque Country, Navarra, Madrid and Catalonia. This can be explained, on the one hand, due to higher wages and, on the other, because of the greater magnitude of UI benefits based on longer contribution periods (Table 2.2.).

Characteristics of entrepreneurs and of the new businesses

Several surveys carried out to assess the SEA programme provide information on the characteristics of the workers who have received SEA and of the businesses that they have created. At national level only one survey has been carried by the INEM in 1988²⁵. In the province of Barcelona the INEM carried out three surveys in 1986, 1989 and 1990²⁶. The information this section is based on the general 1988 INEM survey. Some references, appropriately indicated, will be made to the surveys in the Barcelona province.

Social and demographic characteristics of the workers

The SEA programme is used mainly by young-adult males: 86 per cent of men and only 14 per cent are women. With regard to age, those between the ages of 25 and 44 constitute 73 per cent of the total number of SEA recipients, while the those over the age of 45 represent only 23 per cent. Those

²⁵ The INEM carried out in March 1988 a survey of the beneficiaries of the unemployment benefits capitalization programme. The sample was constituted by the beneficiaries of the programme from September 1985, date of its start, until February 1987. The number of workers in the sample was of 1 152 distributed proportionally throughout the Spanish territory (see INEM 1988). All the information used in this chapter, except where otherwise indicated, comes from this survey. There are several information gaps in the data published by this survey and consequently it is often not possible to explore some relevant explanatory aspects.

²⁶ The first one (1986) on 108 cases, the second one (1989) on 307 and the third one (1990) on 853. In the three surveys telephone interviews were carried out (see INEM Barcelona, 1986; Blanch y otros, 1989 y Blanch y Botella, 1992). As is the case with general INEM survey, these surveys show considerable problems in the presentation of the published data. All references made of them will be specified for each case. We do not make use of the data on survival of companies in these surveys because the time of gap between the beginning of activity and the date when the surveys were carried out is not always indicated (which, however, seems to be quite short and therefore irrelevant for the purpose of assessing the company's implementation).

under 25 constitute the remaining 4 per cent. In Barcelona women SEA recipients constitute 20 per cent of the total and workers under 40 stand for 70 per cent (Blanch et al. 1989).

The level of qualifications of SEA recipients are low: only 9 per cent hold university degrees and only 19 per cent have completed secondary education or vocational training courses. Most workers only have completed their primary education (72 per cent). In Barcelona the workers' level of qualifications seems to be slightly higher: workers with only primary education constitute 50 per cent of the total. Most workers lack experience in business (79 per cent in Barcelona in 1986) (INEM, Barcelona, 1986).

With regard to the workers' family responsibilities, 12 per cent do not have to support families while 62 per cent have between 1 and 3 persons and 20 per cent more than 4 persons to support.

The reasons for the workers' unemployment situations in 1988 were the following: 44 per cent because of collective redundancies due to bankruptcy, closure, cutback in the staff; 38 per cent because of dismissal; 13 per cent because of contract expiry; and the rest for different reasons. This pattern is very clearly conditioned by the economic situation and by the evolution of the labour market structure. After 1988, date when the survey was carried out, as a consequence of the increase in temporary contracts there was also an increase in the number of unemployment cases due to "contract expiry".

The situation of workers who closed their business was the following: 23 per cent men and 60 per cent women were unemployed in 1988; 50 per cent men and 25 per cent women were self-employed and 18 per cent men and 9 per cent women had opened a new business.

Characteristics of the firms

The **sectors** of business activities started through the SEA programme in 1988 concentrated mainly in "commerce, restaurants, catering and repair shops" (48 per cent of total cases), followed by "other manufacturing industries" with 11 per cent, "other land transport" with 9 per cent, "construction" with 8 per cent, "services to companies" with 7 per cent, "metal transformation industries" with 6 per cent and "other services" with 6 per cent of the total cases. The workers who opt for this programme in order to start a single-person business are concentrated mainly in the services sectors (commerce and others); on the other hand, those that join companies within the social economy are found mainly in the industrial sectors, even if commerce is also relevant. Some 61 per cent of the SEA recipients have established their business in activities related to those practiced in the company they worked for previous to becoming unemployed. This continuity in type of activity is more significant in social economy companies than in single-person businesses.

The **survival of companies** that have been created is an important question: in 1988, 85 per cent of the businesses created on average two years before were still operative, while the remaining 15 per cent had ended the business activities. According to activity sectors the survival rate of businesses is considerably lower in "commerce...", a sector where the integration in the social economy is lower and where there is a higher female presence. "It could be hypothesised that the fact that commerce and catering are the sectors which experience the greatest change in terms of activity with regard to the previous company, conditions their lower survival capability" (INEM 1988). Of the companies that are still active 13 per cent have been active for less than a year, 47 per cent between 1 and 2 years and 40 per cent over two years.

Among the workers whose business was still active in 1988, 14 per cent considered their business situation to be bad, 42 per cent normal and 44 per cent good. With regard to salaries, 43 per cent

of these workers declared they earned more than in their previous companies as employees, 30 per cent earned the same amount, and 27 per cent earned less. The company's likelihood of survival is higher if there is some continuity with the activity carried out previously. Some 74 per cent of the cases declared their businesses to be more suitable to their professional expectations, while 50 per cent considered that they had experienced a rise in status. The atmosphere at work was more pleasant in 85 per cent of the cases and it produced satisfaction resulting from the acquired independence in 91 per cent of workers who had started their own business. In Barcelona, on an average of six months after starting the business 20 per cent in 1989 and 14 per cent in 1990 had experienced an increase in the number of staff, 2 per cent in 1989 and 4 per cent in 1990 had experienced a decrease and the rest remained unchanged. Half the companies in 1989 and one fourth in 1990 expected increases in the number of staff.

Among the main reasons for the closure of companies pointed out by the 176 workers (15 per cent) who are no longer in the business, we can underline economic sales problems (27 per cent of all cases) and financial problems (17 per cent). Another frequent reason involves workers who move back to salaried employment (18 per cent) or workers who start a new business (6 per cent). Of participants whose businesses had failed before the survey in 1988, 47 per cent had returned to salaried employment and 24 per cent were unemployed without financial assistance from the state. The latter declared that they would be willing to try a new self-employment experience in 72 per cent of the cases. Female participants in the SEA programme have a slightly higher failure rate than male participants.

Processing aspects and assessment of the workers-businessmen

Some 55 per cent of SEA recipients applied simultaneously for regular unemployment insurance payments and for a lump sum payment. Some 21 per cent applied for the single payment mode later because their decision was made once they had started receiving the benefits and 15 per cent because they did not know of the existence of this programme when they started receiving their UI benefits. The business project is started exclusively with the lump sum resources in one third of the cases. The remaining cases count additionally on other resources of their own (50 per cent of all cases) or on financial aid from relatives or friends (19 per cent), bank loans (17 per cent) and other public subsidies (2 per cent) (INEM, Barcelona 1986).

In the drawing of the business plan required by the single payment application form, 44 per cent received professional advice, 14 per cent advice from the INEM and 24 per cent did not receive external assistance. With regard to the necessary steps to start the business activity 56 per cent received professional advice, 44 per cent did not receive aid and 8 per cent were helped by INEM staff. The assessment made by workers-businessmen of the business project they had started is rather positive, as the Table below shows.

The most frequent difficulties pointed out by SEA programme participants are the required formalities (mentioned in 26 per cent of the cases), excessive competitiveness (24 per cent), difficulties in obtaining the necessary amount of capital (22 per cent) and insolvency of customers (6 per cent). With regard to the priorities given within their needs for professional advice, workers in Barcelona in 1989 and 1990 establish the following hierarchy (graded from 10 to 0) (Blanch and Botella 1992,4): tax consultancy (5.8), financial (4.2), commercial (3.5), formative (3.2), technological (3.1), organisational (3.0) and managerial (2.8).

Thirteen per cent of beneficiaries declared that they were unaware of the right to receive payment by INEM for a part of their contributions to the Social Security while receiving unemployment benefits.

Assessment of the degree of success or failure of the company by the workers-businessmen in Barcelona 1989 and 1990

Assessment of failure (= 0) and success (= 10)	1989	1990
0 - 2	6,1	2,3
3 - 4	6,9	6,7
5 - 6	28,7	35,9
7 - 8	38,3	43,5
9 - 10	20,0	11,6

Source: Analysis based on Blanch and Botella 1992

Eighty per cent of participants declare they have not received any professional training in the setting up of their businesses. Among those who have received training, we should point out technical-professional training in 70 per cent of the cases, business management in 15 per cent of the cases and both types of training in another 15 per cent. However, half of the workers surveyed admitted that they would need training of a general type.

With regard to the workers' opinion on the INEM as managing entity of the SEA programme, the beneficiaries of this programme declare they are satisfied with the treatment received in 71 per cent of the cases, and that they have received information on the possible types of aid available for their business in 48 per cent of the cases. With reference to advice on the creation and development of the project, two thirds used the INEM's services of which only one third was satisfied.

Assessment and prospects of the programme

We can summarise seven main points to assess the Spanish self-employment programme for the unemployed after a decade of operation.

- The SEA programme has been designed and has been put into practice in general terms as a measure for the promotion of employment and of an extremely formalised approach to the creation of new businesses. As such, it is a measure more taken by the public employment service (INEM) for the purpose of promoting employment. The assessment of the business plan by the INEM is only a formality, since it does not take into account the business's real economic viability and since it is carried out by staff who are not specialised in creation of businesses.
- Its institutional context is not adequate: management and promotion are not carried out from areas of promotion of development and employment but from unemployment benefits management units. For this reason, this management is carried out independently from economic development policies which might be implemented at a local or regional level and without the institutional participation of public entities that deal with the promotion of creation of businesses, such as Municipal or Regional Offices for the promotion of employment, etc.

- The need for training is obvious for the workers who are starting businesses since they lack experience and they usually seek training. However, there are no provisions made for systematic training and counselling before and during the initial stages of the business activity.
- There are no follow-up or support mechanisms for these companies during their consolidation phase, whereas the workers-businessmen seek tax consultancy and financial, commercial and other types of advice.
- There is a need for a more selective analysis of the projects in sectors such as "commerce, restoration and catering" where the survival capacity of companies is considerably lower than that of the rest.
- Companies created thanks to the SEA programme are very sensitive to the economic cycle, both at creation phase and development and expectations.
- It is surprising that there is no regulated evaluation system of the businesses created through the SEA programme given the great volume of resources invested in this programme and its probable economic and social impact.

With regard to the programme's current prospects we can point out that as a consequence of a resolution of the INEM's Executive Board - which has the tripartite character of Administration, unions and employers' organisation - the authorities of the Ministry of Labour and Social Security and of the INEM are studying the need to revise the current regulations which govern this programme.

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Table 1a. **Evolution of the SEA programme from 1985-1990(1)**

	1 985		1 986		1 987		1 988		1 989		1 990	
			%		%		%		%		%	
Processing of applications												
Passed	16 848	80	59 240	87	64 192	85	74 827	86	82 097	85	76 118	84
Rejected	1 149	5	4 539	7	4 799	6	4 421	5	6 860	7	6 721	7
In process	3 030	14	4 152	6	6 963	9	8 130	9	7 746	8	7 531	8
Total applications	21 027	100	67 931	100	75 954	100	87 378	100	96 703	100	90 370	100
Purpose of capitalisation												
Self-employed	12 446	74	48 108	81	53 052	83	65 147	87	74 274	90	70 698	92
Members of cooperatives	1 398	8	3 933	7	2 998	5	2 948	4	2 773	3	2 287	3
Members of LCW	3 013	18	7 199	12	8 142	13	6 732	9	5 050	6	3 466	5
Total	16 848	100	59 240	100	64 192	100	74 827	100	82 097	100	76 451	100
Capitalised period												
Days (months)												
1-180 (0-6)	1 097	7	5 051	9	6 650	10	8 827	12	9 541	12	8 549	11
180-360 (6-12)	3 016	18	10 323	17	10 548	16	13 608	18	16 011	20	15 214	20
361-540 (12-18)	4 408	26	12 661	21	11 673	18	13 710	18	16 942	21	16 593	22
541-720 (18-24)	8 327	49	31 205	53	35 321	55	38 682	52	39 603	48	36 095	47
Total	16 848	100	59 240	100	64 192	100	74 827	100	82 097	100	76 451	100
Ratio (2)	0.84		0.92		1.06		1.52		1.63		1.28	
Amounts spent												
Average number capitalised days	498		508		511		501		497		488	
Net amount paid	15 336.3		56 401.8		66 292.4		79 658.4		91 971.6		92 756.0	
Net amount paid per worker	902.9		953.3		1 033.7		1 070.8		1 120.3		1 213.3	

Note:

1. Up to 1989 data refers to workers eligible for SEA, from 1990 to those receiving SEA.
2. Average monthly number of SEA participants to average monthly total of UI recipients.

Source: INEM and OECD Secretariat.

Table 1b. Evolution of the SEA programme from 1991-1994(1)

	1 991		1 992		1 993		1 994		1 985-94	
		%		%		%		%		%
Processing of applications										
Passed	80 716	82	43 258	80	10 240	78	10 496	84	518 032	91
Rejected	8 038	8	9 104	17	1 422	11	1 221	10	48 274	9
In process	10 125	10	1 713	3	1 531	12	801	6	801	0
Total applications	98 879	100	54 075	100	13 193	100	12 518	100	567 107	100
Purpose of capitalisation										
Self-employed	75 444	93	37 337	84	613	6	135	1	437 254	84
Members of cooperatives	2 485	3	3 956	9	5 298	49	5 632	52	33 708	6
Members of LCW	3 584	4	3 316	7	4 887	45	5 168	47	50 557	10
Total	81 513	100	44 609	100	10 798	100	10 935	100	521 510	100
Capitalised period										
Days (months)										
1-180 (0-6)	8 502	10	4 371	10	878	8	691	6	54 157	10
180-360 (6-12)	16 543	20	8 543	19	1 894	18	2 030	19	97 730	19
361-540 (12-18)	19 209	24	10 410	23	2 217	21	2 326	21	110 149	21
541-720 (18-24)	37 259	46	21 285	48	5 809	54	5 888	54	259 474	50
Total	81 513	100	44 609	100	10 798	100	10 935	100	521 510	100
Ratio (2)	1.11		0.51		0.11		0.12			
Amounts spent										
Average number capitalised days	486		493		508		510		500	
Net amount paid	108 500.2		64 404.8		17 882.8		18 931.3		612 135.6	
Net amount paid per worker	1 331.1		1 443.8		1 656.1		1 731.2		1 173.8	

Note:

1. Up to 1989 data refers to workers eligible for SEA, from 1990 to those receiving SEA.
2. Average monthly number of SEA participants to average monthly total of UI recipients..

Source: INEM and OECD Secretariat.

Table 2.1a. **Breakdown of professional options of workers receiving lump sum payments, by autonomous communities, in the decade 1985-1994**

CC.AA.	Distribution of professional options (% of national total)			Total
	Self-employed	Cooperatives	LCW	
Andalucía	10.7	15.7	9.0	10.9
Aragón	3.1	1.4	3.5	3.0
Asturias	2.3	1.3	1.8	2.2
Baleares	3.4	0.8	0.6	3.0
Canarias	2.9	1.7	0.9	2.6
Cantabria	1.1	0.5	1.0	1.0
C. La Mancha	3.5	4.2	5.0	3.7
C. León	4.8	2.8	4.2	4.6
Cataluña	23.2	28.4	20.2	23.3
C. Valenciana	11.3	11.2	11.0	11.3
Extremadura	1.8	2.3	1.2	1.8
Galicia	5.2	1.7	1.7	4.7
Madrid	15.4	5.4	10.7	14.3
Murcia	2.7	3.6	2.4	2.7
Navarra	1.8	1.3	3.6	1.9
La Rioja	0.8	0.2	0.4	0.7
P. Vasco	5.8	17.3	22.7	8.0
Ceuta y Melilla	0.2	0.3	0.1	0.2
Total	100.0	100.0	100.0	100.0

Source: INEM, INE and OECD Secretariat

Table 2.1b. Breakdown of professional options of workers receiving lump sum payments, by autonomous communities, in the decade 1985-1994

CC.AA	Distribution of professional options (% of autonomous community total)			Total	% of beneficiaries of total	
	Self-employed	Cooperatives	LCW		unemployment of economic benefits (Average 1990)(1)	% of total employment (Average 1990)(2)
Andalucía	83.5	9.6	7.0	100.0	72.6	3.0
Aragón	87.1	3.1	9.8	100.0	115.5	3.6
Asturias	89.2	3.9	6.9	100.0	91.3	3.1
Baleares	96.5	1.8	1.7	100.0	100.4	6.1
Canarias	92.8	4.4	2.8	100.0	50.0	3.2
Cantabria	88.7	3.4	7.9	100.0	84.3	3.0
C. La Mancha	81.1	7.5	11.4	100.0	86.5	3.8
C. León	88.3	4.1	7.7	100.0	102.8	2.7
Cataluña	84.6	8.1	7.3	100.0	121.0	5.5
C. Valenciana	85.2	6.6	8.2	100.0	107.5	4.5
Extremadura	85.4	8.7	5.9	100.0	92.8	3.1
Galicia	94.5	2.4	3.1	100.0	123.7	2.3
Madrid	91.2	2.5	6.3	100.0	86.1	4.3
Murcia	84.0	8.8	7.3	100.0	199.5	4.1
Navarra	79.7	4.4	15.9	100.0	126.8	5.0
La Rioja	92.5	2.3	5.2	100.0	106.6	3.6
P. Vasco	61.4	14.4	24.1	100.0	140.5	5.6
Ceuta y Melilla	85.2	9.2	5.6	100.0	73.5	2.8
Total	84.9	6.7	8.4	100.0	104.6	4.0

1. Ratio of number of SEA recipients (1985-1994) to total yearly average of UI recipients for 1990.

2. Ratio of total number of SEA recipients (1985-94) to total yearly average employed 1990.

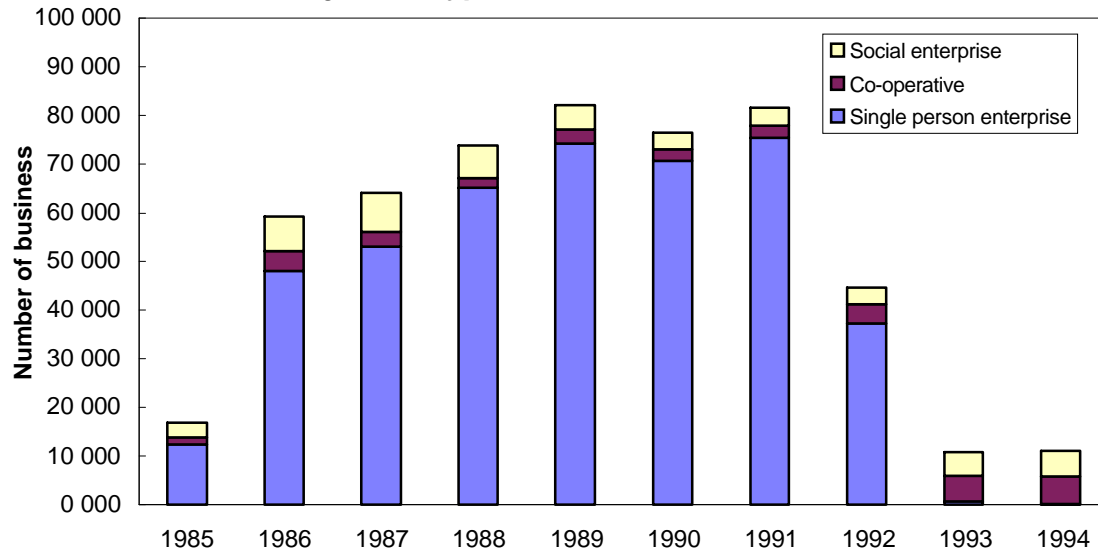
Source: INEM, INE and OECD Secretariat

Table 2.2. Capitalised period and distribution of amounts received by autonomous community in the decade, 1985-1994

CC-AA.	Average number of capitalised days (1990)	Net amount paid 1985-1994 (%)	Net amount paid per worker (Thousand of pts)	Employment (Average 1990) (%)
Andalucía	460	10.5	1 126.9	14.5
Aragón	491	3.0	1 174.3	3.4
Asturias	459	1.9	1 030.1	2.9
Baleares	484	2.8	1 088.6	2.0
Canarias	499	2.4	1 084.5	3.3
Cantabria	506	0.9	1 042.6	1.4
C. La Mancha	461	3.3	1 038.2	3.9
C. León	491	3.9	995.5	6.8
Cataluña	500	25.3	1 274.7	17.0
C. Valenciana	483	10.4	1 077.9	10.1
Extremadura	458	1.5	976.6	2.3
Galicia	478	4.0	995.9	8.1
Madrid	515	15.8	1 296.4	13.4
Murcia	461	2.3	998.3	2.7
Navarro	495	2.2	1 317.1	1.5
La Rioja	526	0.7	1 153.9	0.8
P. Vasco	491	9.0	1 322.2	5.7
Ceuta y Melilla	470	0.2	1 026.7	0.3
Total	488	100.0	1 112.3	100.0

Source: INEM, INE and OECD Secretariat

Figure 1. Type of businesses created



Source: OECD Secretariat.

UNITED KINGDOM: THE ENTERPRISE ALLOWANCE SCHEME
By Professor M.G. Scott, University of Stirling, Scotland

Background economic and political context

In order to appreciate the rationale for, and focus of, the Enterprise Allowance Scheme in the UK, it is necessary to understand both the economic and political contexts in which policy makers operated during the 1980s. In broad terms, the UK economy had seen in the 1950s and 1960s a period of increasing public ownership (e.g. through nationalisation) complemented by a process of concentration in private sector manufacturing. Large scale enterprises dominated the economy by the late 1960s, so much so that concern began to be expressed about the disappearing SME (Small and Medium Enterprise) sector in Britain, in comparison to European neighbours. A parliamentary committee of enquiry was set up to examine the state of small business, which reported in 1971, and which drew heavily on the experience of the US Small Business Administration. Recommendations included the establishment of a special purpose Department, and a network of readily accessible advice centres throughout Britain providing business counselling (based on the Senior Core of Retired Executives (SCORE) model). Most of the recommendations were put into effect throughout the 1970s, and a gentle process of support for the SME Sector (mainly through tax incentives and information and counselling provision) put in place.

However, much wider economic forces were at work throughout the 1970s or 1980s which were to transform the role of the small firms sector. These are well known, and include:- secular decline of smoke stack industries (coal, steel, shipbuilding, textiles, heavy engineering); technological change giving rise to new industries (e.g. electronics) and new production techniques (e.g. robotics and office computerisation); shift to the service sector in an era of "post necessity society"; downsizing of large units and the shedding of non-core activities; external foreign trade competition.

Because of the dominance of large scale and public sector organisations in Britain, the impact of these forces was particularly severe, and produced rises in unemployment not seen since the early 1930s (see figure 1).

Politically, the change of government at the end of the 1970s, and the new leadership of Margaret Thatcher, added new forces for change, particularly the drive for privatisation and de-regulation. "What to do about unemployment" became, and remains, an important political question. The influence of the Birch Report (1979), with its emphasis on the job creating role of the smaller business, should not be underestimated. It appeared to offer the SME sector as a panacea for unemployment, even though often misunderstood by politicians. But it is important to understand that Margaret Thatcher added an ideological dimension to the public perception of the small firms sector which went beyond mere job generation. Her philosophy emphasised the encouragement of the Victorian, entrepreneurial virtues of hard work, thrift, and especially independence. The stress on independence had several dimensions; an attack on dependency on the welfare state; an attack on the public sector; an attack on bureaucracy and regulation which 'hampered' enterprise. "Market forces" replaced "administered prices" wherever possible, and the role of the independent entrepreneur in making the market system work was strongly emphasised.

These are of course enormous generalisations, but they make the point that at the time of the introduction of the Enterprise Allowance Scheme, there were powerful forces at work which policy makers had to observe:-

- urgent need to "do something" about unemployment (and especially the visible, "registered" unemployed)
- strong political support for the small business owner and the need to create more small businesses
- recognition of the importance of the SME sector as lubricant in the change process.

However, the immediate trigger to the introduction of the EAS was the recognition of an anomaly in the taxation/benefits system, by which "an individual who was unemployed could not earn in excess of £0.75 per day from any activity without fully forfeiting unemployment pay for that day" (Storey 1994:277). EAS was devised as a way of rectifying this anomaly, whilst also responding to the political pressures set out above.

Overview of the Enterprise Allowance Scheme

Following an 18 month pilot in 1982-3, the EAS was launched nationally in August 1983, run directly by Department of Employment regional offices, and continued until its replacement in 1991 by the Business Start-up scheme operated by the Training and Enterprise Councils. During this period it is credited with the creation of 571,953 new jobs, with up to 76 per cent of businesses still trading 6 months after completing the scheme. At the peak of its popularity it was claimed in 1988 that "for each 100 businesses still trading at the 3 year stage, 114 additional jobs have been created". (Employment Gazette 1988:509). EAS expenditure and uptake is shown in Figure 2, with expenditure on Unemployment Benefit at Figure 3 for comparison. As a proportion of seasonally adjusted unemployment, EAS participants represented a minimum of 1 per cent (in 1984) and a maximum of 5.26 per cent (in 1989).

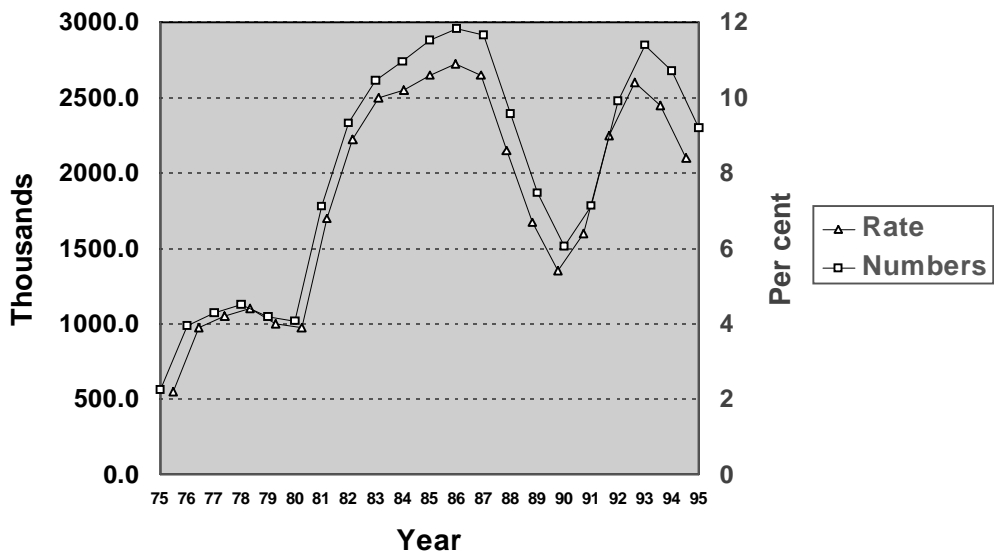
At the launch of the national scheme, the Department of Employment said:

"The objectives of the EAS are to encourage unemployed people to set up in business or self-employment in order to help achieve higher output and a more dynamic and viable small firms sector of the economy, as well as reduce the level of unemployment. Underlying the introduction of EAS was the belief that many unemployed people were deterred from setting up in business because they would immediately lose unemployment or supplementary benefit but would take time to generate a corresponding level of income. EAS, by payment of an allowance during the initial year, reduces this financial disincentive. To compensate for lack of business experience, likely in EAS participants, information and guidance on running a business is provided to all who join the Scheme by the Department of Trade and Industry's Small Firms Service and their counselling services are subsequently available."

The following criteria had to be met by the pilot scheme, and the same criteria applied to early EAS participants:-

- be in receipt of unemployment benefit or supplementary benefit (i.e. State support at the time of application)
- have been out of work (or under notice of redundancy) for at least 13 weeks prior to application
- have at least £1000 available (including bank loan) to invest in their business while in receipt of the allowance
- propose a business that is suitable for public support
- undertake that the business is to be their sole employment and that they will work full-time (at least 36 hours a week).

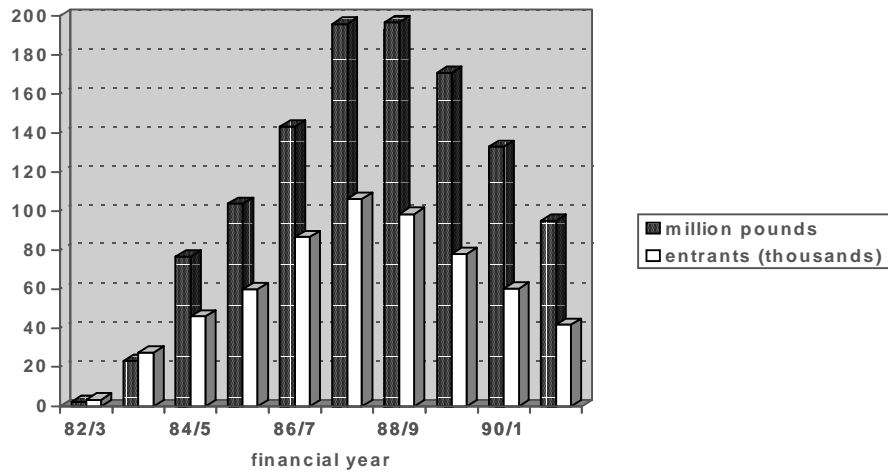
Fig 1 Seasonally adjusted unemployment in UK
1975-95



Source NOMIS

Fig 2 EAS expenditure and uptake UK

1982-1992



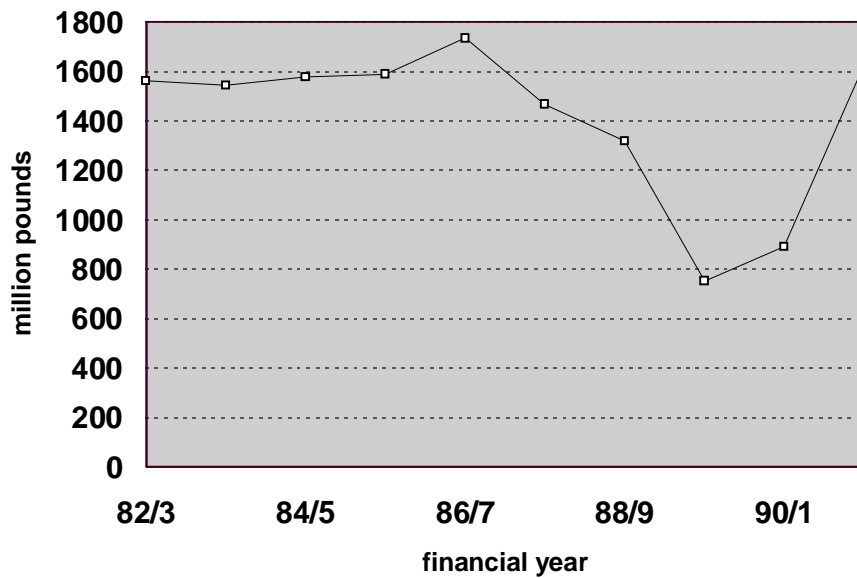
million pounds	2.4	23.2	76.7	103.9	143.4	195.9	196.7	170.9	132.9	95.1
entrants (thousands)	3.3	27.6	46	60	86.8	106.3	98.5	77.9	60.3	41.8

91/2 excludes Scotland and Wales

source NOMIS

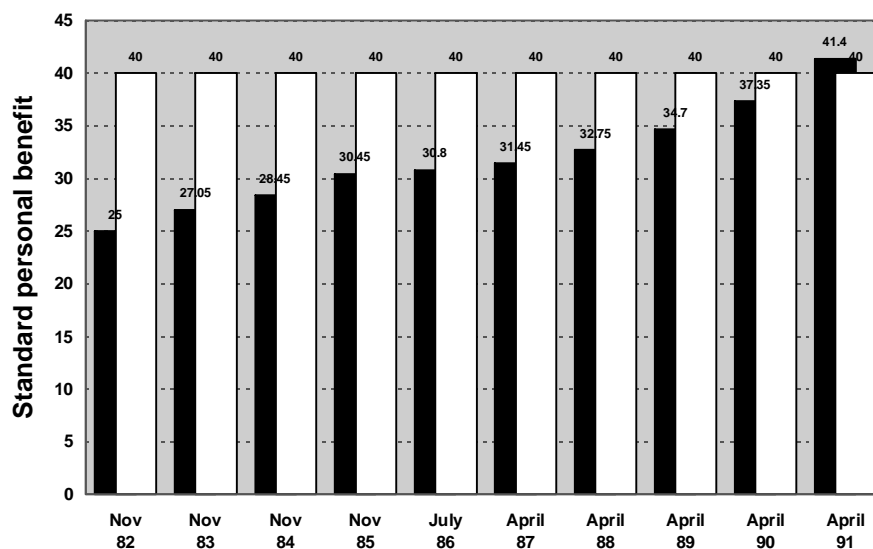
Fig 3 Unemployment Benefit expenditure UK

1982-1992



Source Annual Abstract of Statistics 1994

Fig 4 Weekly Unemployment rates 1982-91 UK
 compared to EAS
 (excludes dependants' allowances)



Source Annual Abstract of Statistics 1994

Storey (1994:277) suggests that "the allowance was set to correspond broadly to a married person's supplementary benefit (£37-50 at that time, plus National Insurance contributions at £3-40). The EAS rate was £40 per week, paid fortnightly, for the first full year of business. This rate was marginally higher than a single person's unemployment benefit. There were no variations in the amount or periodicity of this payment throughout the scheme. Figure 4 shows the diminishing premium EAS had over a single person's unemployment benefit.

However, there were 2 major changes in other conditions of eligibility. Firstly, the period of prior unemployment was reduced in April 1986 to 8 weeks from 13 weeks. This led to a rapid increase in both entrants and expenditure, and may be seen as a reflection of the perceived success of the allowance. Secondly, the amount and type of "business training" increased from a half day "awareness" programme at the beginning, through extra free counselling sessions provided by the Small Firms (Advisory) Service, to a more structured Awareness Day plus counselling by 1986.

Critics of the scheme pointed to its emphasis on removing claimants from the unemployment count (a charge levelled by the Opposition against numerous modifications to the way unemployment was measured throughout the 1980s). The lack of any evaluation of the business itself and the relative paucity of support training were also criticised.

With the creation of the Training and Enterprise Councils (TECs) in England and Wales (and Local Enterprise Companies (LECS) in Scotland), responsibility for EAS passed to them.

The TECs were modelled on the US Private Industry Councils, and were an attempt (according to the public pronouncements at their launch) to involve local business leaders in the provision of training and economic development in their own local labour markets. To achieve this, they were given (as quasi-governmental organisations) powers to modify national programmes to suit local needs, and EAS was accordingly subject to considerable redesign at the local level from 1991, as the Business Start-up Scheme, itself replaced from April 1995. Examples of the modifications at a local level are given as case studies in the Appendix.

Technical aspects of EAS

Screening

The EAS was administered by Department of Employment local staff in Job Centres, Area or Regional offices. These staff were not trained in business techniques, although inevitably some had prior business experience, nor were they given any training in evaluating business plans. It is clear that the early policy makers were concerned with people receiving unemployment benefit who were dealt with through the Job Centres (where job vacancies were advertised and unemployment benefit paid), and EAS was designed to fit this administrative framework. Business plan evaluation was not considered important, and monitoring (or 'policing' as one official described it) consisted of regular checks that the stated criteria were being met. All criteria were given the same weighting in this judgement.

However, at the local level, there is no doubt that the Awareness Days and the free counselling sessions did act as a filter, with counsellors able to engineer modifications to the business idea. Conversely, one official indicated that in seeking to meet departmental targets for the month, claimants could be "persuaded" to attend Awareness Days, or start their business earlier. None of this informal filtering is, of course, documented.

Application

Participants were encouraged by officials, and by leaflet and poster, to consider EAS, and the application process was made easy, with few forms or checks required. The Job Centre where the claimant received his/her benefit was the point at which application was made, and arrangements for the Awareness Day issued.

Benefits

A flat rate of £40 per week was made, payable 2-weekly in arrears, for 52 weeks maximum. Failure to comply with the criteria of eligibility led to a cessation of the allowance, but participants could return to unemployment benefit.

Routine monitoring

Dept of Employment officials made site visits to businesses to check the eligibility criteria. Since they had to do 12-15 visits a day, officials have made it clear they had no time to offer business advice.

Links to other programmes

EAS was the 'core' payment for business start-up for nearly a decade, and therefore became a component in other enterprise support measures. These were wide ranging, covering training, information and counselling for pre-start, start-up, and early growth. They were provided by the education sector, by private training and consultancy companies, by local Enterprise Agencies, and by the Depts of Trade and Industry, and Employment. All these providers were familiar with EAS, and would ensure that their clients also knew of it. Because it had so few 'strings' attached, it was not something which trainers or advisors had to worry about. Further, officials from Job Centres would make themselves available at appropriate times, e.g. the first day of start-up training courses, to ensure satisfactory payment arrangements, which were independent of the particular training programme. The funding for EAS and for the training programmes came through different administrative routes: in the case of EAS through the Employment Service of the Dept. of Employment which had responsibility for payment of unemployment benefits; in the case of training provision and training allowances through the Manpower Services Commission (and its various synonyms at different dates) which held training responsibility. Job Centre staff and training providers had therefore no contractual links, but training allowances took account of the existence of EAS. In terms of other links, latterly there was also some involvement by trainers, Enterprise Agencies and private consultants in the delivery of Awareness Days and counselling sessions.

Profile of participants

A number of questionnaire surveys were carried out on samples of both pilot and main scheme participants, from which some general findings can be reported. For example, the Three Year National Survey completed in May 1988 (Employment Gazette 1988:509) reported:

- participants were more likely to be male (though the percentage of women more than doubled in the first 2 years), which of course reflects the fact that males were more likely to be registered unemployed. Males had a better survival record (70 per cent against 55 per cent for women);
- about one quarter had previous self-employment experience of some kind;
- survivors were more likely to be married, with a spouse who was employed (especially if part-time - which may imply unpaid assistance to the business);
- survivors had experienced shorter periods of unemployment, and were less likely to have had long-term health problems or disabilities;
- the average age of survivors was 41 (non-survivors averaged 38). Only 30 per cent of the under-34 age group were survivors;
- survivors were more likely both to have invested more money in the business, and to have said they would have started even without EAS;
- two thirds of participants ran their business from home, with the majority sole traders in competition with other local businesses.

Profile of businesses

The two single largest industrial categories in which participants created businesses were consistently repairs (and this related largely to motor and simple domestic repairs) and retail distribution (mainly retail shops). In all surveys these represented over 50 per cent of participants, whilst the service sector as a whole generally accounted for over 60 per cent. The early surveys (Employment Gazette 1985:315) indicated around 13 per cent of businesses were in manufacturing, and this was in line with the proportion of all business set up at the time. However, by 1988 this had fallen to 9 per cent.

It would appear that low entry costs, coupled with the educational and skills background of participants, were responsible for this profile of types of businesses created. The profile was not commented upon in any negative way in the evaluation reports and may be regarded as within policy makers' expectations.

The 1988 survey reported that 64 per cent of closures happened in the year after participants stopped receiving the allowance, and immediately after the closures, 61 per cent of non-survivors were unemployed and 30 per cent in paid work. The main reasons for closure reported in this survey, and typical of others, were lack of demand, too much competition, and lack of capital.

Evaluation strategy

From the scheme's inception, regular evaluation surveys were carried out by the Dept. of Employment, mainly on an in-house basis.. These were based on self-report data, typically collected by questionnaires mailed to participants. Initial entrants completed a personal profile, which included answers to questions about whether they would have started a business in the absence of EAS. Follow-up questionnaires were regularly issued to randomly chosen samples. Response rates were relatively high (ranging from 81 per cent in 1984 to 56 per cent in 1988) presumably because of the 'official' nature of the enquiry, (and because regular monitoring was in-built), and the main problem was in tracing participants after completion of the scheme. No attempt seems to have been made to triangulate the self-report data.

At different times during the operation of the scheme these were at: 6 months after start (pilot programme); 15 months; 18 months; 2 years; 3 years.

Changes Post 1991.

The transfer of responsibility for running the scheme took place between April 1990 and October 1991. Rule changes on 1 April 1991 allowed greater flexibility regarding who was accepted onto the programme and how they were paid.

The main changes were:

- applicants no longer needed to be in receipt of benefit;
- applicants no longer needed to have £1000 to invest in the business;
- TECs could alter the level and duration of payment from £20-£90 per week for a minimum of 26 weeks and a maximum of 66 weeks and could target their assistance selectively, eg take account of business type and viability (in the light of local conditions);
- TECs could impose their own entry criteria, and in particular, insist on applicants producing a business plan.

Administratively, the funding rules changed significantly. For the TEC, whilst a target budget was annually provided, actual reimbursements were made on a payment-by-results basis, with staged refunds to the TEC on evidence of business survival rates. For the participant, what was on offer varied from TEC to TEC subject to perceived local needs. (For some participants this led to substantial increases in payment, well above the unemployment benefit rate). It will be appreciated that the Business Start-up programme represented a potential sea-change from the EAS, with a reduction in emphasis on removing people from the unemployed count, towards generating businesses which can survive in local market conditions. A key element in this change has been the emphasis on the production of a viable business plan, which has in turn led to the development of much increased guidance, counselling, and especially training. A review of the Business Start-up schemes in November 1992 (IFF Research) suggested a 4-fold categorisation of responses to the new regulations. Two "indicative" cases are given in the Appendix.

More recent changes.

From April 1995, further changes have been introduced arising from the end of funding from the Enterprise arm of the Dept of Employment. TECs had to bid for new funding, and not all were successful, as significant innovations were sought on the Business Start-up scheme. The second case study provides details of this very new programme.

- Type 1. "Old School" (9 TECs) who have made little change to the EAS because it worked well in their area.
- Type 2. In transition. (8 TECs) using the EAS systems but planning a move to type 3 generally.
- Type 3. Maximum Survival/Minimum Payment. (43 TECs) Broadly speaking these are based in the principles of:
 - payments need to be kept low and short so as not to create dependence;
 - the commitment shown by participants needs to be high;
 - the quality of support needs to be high;
 - the tendency is to operate front-loaded or single payment systems, with little differentiation between types of clients. These TECs tend to be in high wage/service areas.
- Type 4. Client centred. (20 TECs) These offer higher payments (for at least some), having set objectives about what types of business they want to encourage. The approach is to mix both payment and support, even where results take longer. These TECs tend to be in old manufacturing areas.

Operational framework

It will be clear from the above that EAS was a wholly publicly funded programme, administered and run from within the Dept. of Employment. The only other government department involved was the Small Firms Service, an advising and counselling provider, which itself transferred from the Dept. of Trade and Industry to become part of the Dept. of Employment in the mid-1980s.

Similarly, private sector involvement was minimal, except in the last 5 years when local Enterprise Agencies (which had both private and public funding) and some private training companies were sub-contracted to provide the Awareness Days, and counselling.

Subject to the meeting of the selection criteria, EAS was available to all who were on the unemployed count and who remained within the criteria. No attempt was made to target special groups, and the only reference to such groups appears in one evaluation study which comments on the increasing numbers of female participants. Whilst some influence on who was accepted onto the scheme may have been exerted at a local level by officials, these instances are undocumented and not intended by policy makers.

Storey (1994:284) summarises: "EAS was never a "targeted" initiative. This was partly because of the technical problems of targeting - the difficulty of painting an identikit picture of a successful entrepreneur before the business begins - but it may also be because EAS was deemed to have a social and political role. If the purpose of the Enterprise Allowance Scheme was to act as a conduit enabling people to move from employment in large (often highly unionised) enterprises towards being

self-employed, then it was entirely appropriate not to restrict access to the initiative. Again, there are strong political grounds for having, as an objective of policy, a strategy to maximise the number of individuals who were subsidised to make this transition. Even if it were possible to make the initiative more cost-effective in terms, for example, of cost per job, through eliminating certain groups, this might have been deemed unattractive for 'political' reasons."

Evaluation of impact on Labour Market

EAS was designed to replace benefit for those unemployed persons who wished to attempt self-employment, thereby reducing the unemployment count, and encouraging "enterprise" in the economy by creating new businesses and new jobs. It was a visible attempt to "do something about unemployment" whilst tapping into the much publicised "enterprise culture" which the Thatcher government sought to encourage. Simple to administer, with no targeting of clients, and allowing self-screening of the business aspects, EAS became the most important single measure to assist the unemployed into business. The evaluation question concerns whether it did any more than what the critics alleged, that is, a massaging of the unemployment figures. (It certainly had an impact on the unemployment count - at its peak in 1987-8, some 94 308 persons were in receipt of EAS.) In answering this question there are two sources of data: that produced internally by government, and that produced by external, academic researchers.

Internal evaluations

The early evaluation studies (1984, 1985 and 1986) were concerned to give some indication of the economic benefits of EAS and discussed the difficulties of measurement in some detail. To the extent that EAS stops people from drawing benefit and enables them to pay tax and national insurance (and even employ other people under similar circumstances), there is economic gain, and certainly a benefit to the Exchequer. But this is subject to two important caveats: people who would have started a business anyway ("dead-weight") and those whose subsidised business impacts negatively on other similar businesses in their locality ("displacement"), represent less of a saving to the Exchequer and less of an economic benefit. Both of these factors are difficult to measure, and especially so given the evaluation strategy chosen, relying as it does simply on self-report questionnaire data. The 1986 study said "It is difficult to get reliable estimates of dead-weight but some information is obtained from questioning of entrants once they have been accepted to the scheme, asking what they thought they would have done in the absence of EAS. The latest information suggests that, after allowing for the partial benefits from those who said they started earlier because of EAS, dead-weight in the first year is equal to 45 per cent of entrants to the scheme. Evidence from EAS surveys and from the evaluation of two schemes which provide training to encourage redundant people to set up businesses, suggests that displacement may be around 50 per cent during the first year after start-up. The large degree of uncertainty surrounding this estimate needs to be recognised."

Some attempts were made to assess the real reduction in unemployment by looking at survival rates and the number of additional jobs created in the surviving businesses, taking account of the above dead-weight and displacement estimates. The 1986 evaluation study indicated that "for every 100 people joining the scheme unemployment falls by 35 during the period for which the allowance is paid". A further short-term cost effectiveness measure is net cost per person off the unemployment register (i.e. allowances plus administration less savings to the Exchequer). The savings result from lower social security costs and higher tax income, but only from businesses not in the dead-weight or displacement categories. The estimate for 1985-86 was calculated at £1 800, using the 50 per cent displacement figure.

This statistic is not available for later surveys when it may initially have been lower since additional job creation increased (e.g. the 1988 survey showed that every 100 surviving business created 114 additional jobs, compared to 99 jobs in 1986). However, later unpublished figures showed a drop in job creation (64 per 100 survivors in 1989, and 83 per 100 in 1991). These figures reflect the impact of recession, and may also explain the run down in both funding for the scheme, and the number of participants.

What is not available is any longer term net cost calculation, i.e. after the first year of trading, when Exchequer costs are zero, but tax income increases. The difficulties of measuring increased displacement were however recognised.

The final evaluation study in 1991 added a new dimension to the survival statistics, having discovered that the previously used "narrow" definition ("still trading in the business for which EAS was paid") was flawed. As is well known from other longitudinal studies of new firm development, the original business may be substantially modified, or even be substituted by a different business. A new "broad" definition was therefore introduced ("have been continually self-employed but not necessarily in the business for which they had received the allowance").

Finally, a survey to follow up Business Start-up participants in 1993 adds an interesting postscript to the question of dead-weight, by suggesting that there is a third category - apart from those who would have started anyway, and those who started earlier - i.e. those who started later, because they were waiting for the payment of their allowance. (This affected 13 per cent of participants, so was not insignificant.) Informal discussions with trainers and officials suggest that this element of dead-weight also applied to EAS, though not commented on in the surveys.

External evaluation

The most coherent evaluation of EAS has been attempted by Storey (1994: 277-284), drawing on the work of the National Audit Office (1988), Corry (1987), Gray (1990), Gray and Stanworth (1989), Elias and Whitworth (1987). His table 8.5 is here reproduced, with key assumptions, which lead to an estimate of a true cost of £60 000 per 100 firms which start in the scheme. Dividing this by the number of individuals removed from the register (estimated at 31) suggests that "at about £2 000 each, despite its imperfections, the scheme does seem to be cost effective" .(Storey 1994:282)

Two further areas have been explored by external research. Firstly, the impact of training and counselling was studied by Corry(1987) who discovered that the use of the Small Firms Service was associated with non-survival, attributed to the fact that the least successful firms would be more likely to seek help. A similar result emerged from the Tremlett(1993) study of the Business Start Up scheme, where there were marginally higher failure rates for those who had been on a training course.

Secondly, the inability of EAS- created businesses to grow significantly has been documented by the National Audit Office (1988) which reported: "About two-thirds of EAS businesses do not employ anyone and less than 4 per cent of them are responsible for more than 60 per cent of all jobs created." Corry (1987) similarly had identified two categories of survivor - those barely hanging on, but doing so because of the absence of alternative employment, and those who were performing well, and who had higher levels of motivation and personal financial investment. Grays (1990) study implies that the dead-weight cases were more likely to be in this latter category.

Table 8.5 Economic impact of Enterprise Allowance Scheme

	End	End	End	End	End	End	End
	Year 1	Year 1.5	Year 2	Year 3	Year 4	Year 5	
1 Number of firms	87+	71	59+++	50++	44++++	40++++	
2 Employment owner * workers ** total	82 20 102	67 25 92	56 30 86	47 35 82	42 36 78	39 35 74	
3 Deadweight rate ***	50%	52.5%	55%	60%	65%	70%	
Employment after deadweight	51	44	39	33	27	22	
4 Employment after displacement (50%) ****	25	22	19	17	14	11	
5 Impact on registered unemployed °	9	11	9	8	7	6	
6 Discounted (NPV) effect °°	9	10	8	6	5	3	
7 Cost £60,000 °°°							
Total fall in no. unemployed	31						

Key assumptions: + NAO (1988) says 13 fail to survive until the end of Year 1. ++ Maung and Erens (1991) say 58 per cent survivors after 2 years. +++ Estimated from Maung and Erens (1991) Table 106. ++++ Inferred from VAT-based death rates.

* Maung and Erens (1991) show, Table 314, that 10 per cent of owners are part-time. ** Maung and Erens (1991) Tables 319 and 321 find after three years, surviving firms have 58FT + 26PT per 100 firms. Assuming PT = 0.5FT then 71 FTE per 100. *** Deadweight rates inferred from Gray (1990). **** Displacement rates of 50 per cent reported by NAO (1988).

° It is assumed that only the full-time jobs created lead to a potential fall in registered unemployed. This is then converted at 0.5 to a fall in registered unemployed. °° Using an annual discount rate of 10 per cent. °°° Assuming 20 per cent of EAS starters would have gone back to work after three months and a further 10 per cent after six months. The additional benefit paid is £40,000. In addition the fixed costs of administering EAS (including training for all) are estimated and unmarried individuals obtain higher levels of benefits under EAS than from other forms of benefit. For all these reasons we estimate a £60,000 cost.

Source : Storey (1994:280)

Finally, EAS can be seen to have been beneficial if it contributed to the development of a healthy SME sector. As was indicated earlier, the consistent evidence from evaluation surveys was that 60 per cent of businesses were in small, relatively simple, low entry-cost service sectors, such as household repairs, retail shops and motor repairs. They were overwhelmingly run as sole trader businesses, mostly from home, and typically in competition with other local businesses. Further, real growth in additional jobs came from a tiny proportion of the businesses. The small business can be regarded as either seedcorn or chaff in the economy. Very few of the EAS businesses represent real entrepreneurial seedcorn, and EAS was evidently not intended to be the vehicle for such businesses (other programmes such as the New Enterprise Programme run by Business Schools had this objective for instance). Studies of the SME sector (e.g. from VAT data) also show a similar pattern, with probably less than 10 per cent of start-ups in any year being capable of growth into the next statistical size band. For the majority of EAS participants, therefore, self-employment represented an acceptable substitute to unemployment: chaff also has an economic function!

Postscript. The final demise of EAS?

Following the most recent changes to government funding, operative from 1st April 1995, several TECs were unsuccessful in their bids for funding, and therefore lack the resources to continue an EAS-equivalent programme. The impact of this at local level is now becoming clear, as the following open letter from an Enterprise Agency in Bristol, facing closure, indicates:

"All Avon Business Support Grant places (previously Enterprise Allowance) have now been used up. We are no longer receiving any funding for counselling and training from Avon TEC.....we are currently on a 3 day paid week. The lack of "Business Support Grant" is certainly putting a lot of people off entering self-employment. It was not a lot of money but it provided a short term raft whilst the business went through its initial growth period."

The context for the change in government funding is of course the reduction in the overall level of unemployment and the political need to cut public expenditure.

ANNEX

Case Studies: post EAS programmes

Case Study 1. Forth Valley Enterprise

Forth Valley Enterprise (FVE) is a Local Enterprise Company responsible for economic development and training provision in Central Scotland. It has an annual budget from Government of approximately £20m, and manages or co-ordinates a large portfolio of projects ranging from infrastructure (such as land reclamation and factory construction) to training for the unemployed (such as EAS, for which it assumed responsibility in 1991).

Effect of changes to EAS eligibility

The relaxation of the rule concerning the receipt of benefit had an immediate impact on the gender balance of applicants: "it opened the door for women returners". The new flexibilities also allowed officials (and the Board) to review what kind of businesses they wanted to encourage, and a decision was made to try to encourage "better" businesses. (EAS had some reputation as tending to encourage window cleaners and mobile hairdressers, for example.) FVE therefore sought to use the full variation permitted by the new rules on payment (£20 to £90 per week range), coupled with a system of staged bonuses as business turnover increased.

The funding which FVE received to operate the scheme was made retrospectively on evidence of certain stages having been reached. In the first year (91/2) this was on entry to the scheme, and then on survival to weeks 12, 26 and 52. This had changed by year 93/4 to minimal payment on entry, then payments on survival to 52 and 78 weeks. Clearly this put pressure on FVE to ensure it maximised business survival, and it did this by increasing its training and support, tightening its selection of participants, and instituting more monitoring of businesses. Finally, FVE increasingly subcontracted the work of running the scheme to 3 local Enterprise Agencies.

Current programme features

Entry to the scheme is now effectively a completed business plan: payment can only begin when the plan is acceptable. (At this stage participants are usually signed on for 52 weeks, after which they are reviewed for possible extension. In rare cases, because of the nature of the business and high start-up costs, participants can be "doubled up" for 26 weeks.)

The process for producing a business plan requires attendance at a briefing or counselling session in the Agency (half or whole day depending on location), followed by 5 days of training. This can either be 1 day a week over 5 weeks, or 2 days in each of the first 2 weeks and 1 day in week 3. This course is partly a test of commitment, aside from its content - which includes the basics of business start-up and control. Applicants can have as much extra free counselling as they require. Typically, this whole process

takes 6 weeks, after which they are accepted onto the scheme, at a level decided by the Agency on the basis of the following guidelines for payment. Most people qualify initially for £20 per week.

The following criteria should be applied when deciding on the level of support to be offered.

- I) Category 1 : £20 per week
Paid to all applicants who satisfy the eligibility conditions.

- ii) Category 2 : £40 per week
 - A. Paid to all applicants who employ 2 part-time or full-time person(s).
 - OR
 - B. Paid to all applicants where £20 000 of their annual turnover comes from trading outwith Forth Valley Enterprise area.
 - OR
 - C. Paid to all applicants where the Product or Service they are supplying is not currently available in the Forth Valley Enterprise area and where the value of the "imported" product or service exceeds £20 000. "Imported" refers to areas of the UK, other than the FVE area, or overseas.

- iii) Category 3 : £60 per week
 - A. Paid to all applicants who will employ 6 part-time or 3 full-time persons.
 - OR
 - B. Paid to all applicants where £40 000 of their annual turnover comes from trading outwith Forth Valley Enterprise area.
 - OR
 - C. Paid to all applicants where the Product or Service they are supplying is not currently available in the Forth Valley Enterprise area and where the value of the "imported" product or service exceeds £40 000. "Imported" refers to areas of the UK, other than the FVE area, or overseas.

- iv) Category 4 : £90 per week
 - A. Paid to all applicants who employ 12 part-time or 6 full-time persons or the full-time equivalent of 12 persons.
 - OR
 - B. Paid to all applicants where £60 000 of their annual turnover comes from trading outwith Forth Valley Enterprise area.
 - OR
 - C. Paid to all applicants where the Product or Service they are supplying is not currently available in the Forth Valley Enterprise area and where the value of the "imported" product or service exceeds £60 000. "Imported" refers to areas of the UK, other than the FVE area, or overseas.

- v) A minimum of £40 per week will be paid to all applicants who take on premises to run their business.

After start-up, the Enterprise Agency is expected to remain in regular contact with the business, with at least 4 counselling contacts (at least 2 face to face, preferably at the business premises).

Participants are also encouraged to attend local Business Skill Seminars (1 day training courses on specialist topics).

Monitoring and evaluation

FVE is responsible for overall operation of the scheme and carried out an extensive review in 1993, which addressed issues of training and counselling quality. The problem is how to ensure consistent quality by subcontractors, and an operations manual has been produced to ensure administrative consistency. Discussions continue on ways to improve counselling competencies.

Direct monitoring of participants takes place by the Agencies. Screening of business progress is left to the skill of the business counsellor, but typically includes a check of the accounts and bank records; a check of tax and National Insurance payments to ensure legality; evidence of marketing activities. Often these are "defensive" actions, designed to anticipate trouble and ensure survival, rather than seek growth. The budgets do not allow counsellors unlimited time with businesses - typically they would see 4 in a day on site. (The budget is, however, broadly open ended with respect to participants - if good business plans come forward, money will be found to ensure they join the scheme.)

There is little concern with dead-weight or displacement. In the latter case, they have success stories where the EAS business has been much better than the businesses displaced. Survival rates are currently at 80 per cent at 52 weeks, and 72 per cent at 18 months.

Overall numbers on the programme have remained constant around 300 starts per year. The main influence in this figure appears to be the state of the local labour market- higher unemployment produces more applicants.

Broadly, FVE staff feel comfortable with the programme as it currently operates, subject to ongoing concerns about subcontractor quality.

Case Study 2. Wearside TEC

Wearside Training and Enterprise Council is located in Sunderland, an old established manufacturing town (shipbuilding, heavy engineering, and now the site of a Nissan car plant). It is responsible for training and economic development activities in its catchment area, and has an annual budget of about £17m.

Effect of changes in eligibility

Following the transfer of responsibility for EAS to the TEC in 1991, substantial changes were made. The name was changed to "Business Boost" and much more effort was put into pre start-up preparation, with a business plan as the core entry requirement. The removal of the 'registered for benefit' requirement enabled more women to join the programme. The range of payments allowed was experimented with, and the capital requirement rules altered to match more closely the actual needs of the proposed business.

Operation of "Business Boost"

Applicants had firstly to attend a 2 day 'Business made Simple' course, a replacement for the EAS awareness day. (This was also regarded as a filter, with some people dropping out after this introduction.) The next stage involved an open-ended period of free counselling on a 1-to-1 basis, resulting in the production of a business plan. Typically 6 or 7 visits would be made to the counsellor over as many weeks. All training and counselling was done as an in-house operation by the TEC itself.

When the counsellor approved the completed plan, the applicant could formally apply for entry to Business Boost and at that stage he/she would be told what the 'capital available' requirement was to be. This was never less than £100, but could be as high as £90,000. A check was made to see that the money was in the bank account. Payment of the allowance began after final approval of the plan and the meeting of the other criteria. Initially the allowance was £60 per week for 6 months, followed by £40 for the remaining 6 months. From November 1993 this was altered to £60 for 4 months, £40 for 4 months, and £20 for 4 months. The basic idea was to help with start-up costs at the beginning and progressively reduce dependence by lower payments later.

Monitoring and evaluation

Business Boost was evaluated by an independent consultancy firm in '91/2 and '92/3, on the basis of customer satisfaction rather than business development. The system of output-related payment operated nationally by the Department of Employment ensured regular monitoring for survival at start-up, 52 and 78 weeks. At the monitoring point, a business counsellor undertook a site visit to check on accounts and general business progress. The allowance could be stopped if necessary. Additionally, participants could have free counselling at any time, for instance if monitoring showed problems.

The total number of places on the programme was around 200 and has been fairly constant over several years. The TEC feels comfortable with this figure. Survival rates are around 65-70 per cent at 52 weeks, 60-65 per cent at 78 weeks.

Questions were asked at start-up about "dead-weight" issues, and most applicants indicated they would not have started without the allowance. Displacement was not seen to be a problem. The reasons for this answer appears to be that, given the very depressed nature of the local economy, and especially some parts of the labour market, self-employment is a "last hope". There is a lot of 'churning' in the local economy, hence the apparent tolerance of displacement factors.

Recent changes

From April 1995, Business Boost has been replaced by a new programme - "Business Start-up Grant". This is available to anyone aged 18 to 65 who has a business idea, including those in employment, on sickness benefit, or disabled. Payment is £50 a week for 30 weeks, with no bonus or output related payments. Applicants must attend a course of in-house training and complete 5 modules from a menu of business topics, such as market research, advertising, costing and pricing, book-keeping. Each module is half a day. Applicants then have unlimited access to a business counsellor and must prepare a business plan. Other Enterprise Training courses are available through the TEC (or provided by subcontractors) should an applicant require it.

Business Start-up Grant represents a complete de-coupling of business start-up at the local level from unemployment per se, and is not therefore recognisable as an EAS successor.

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