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FROM UNEMPLOYMENT TO SELF-EMPLOYMENT: DEVELOPING AN EFFECTIVE STRUCTURE OF MICRO-FINANCE SUPPORT

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ABSTRACT

For the last two decades, the state has provided assistance to unemployed people wishing to enter self-employment. The emphasis of assistance has been on advice and training. Financial support has tended to be highly restricted. Yet research has indicated that low initial financing may contribute to business failure and that unemployed people face barriers to accessing commercial loans. The aim of this paper is to examine whether there is a case for government micro-finance assistance to enable unemployed people to enter self-employment and to identify the way in which support might be better structured and provided.

The paper draws on the findings of a large-scale international research project conducted for the ILO. In the UK this included surveys of micro-finance providers, micro-finance intermediaries and unemployed people and discussions with commercial lenders and senior policy makers.

Introduction[1]

For the last two decades, the state has provided assistance to unemployed people wishing to enter self-employment (Metcalf, 1998). The approach has varied over time and location, with, variously, advice, training, grants, loans and income support being available for unemployed people. At the same time, unemployed people have been able to access assistance through main-stream government business support agencies. Research has indicated that low initial financing may contribute to business failure and that unemployed people face barriers to accessing commercial loans (Storey *et al.*, 1989) and lack of access to bank finance may be a barrier to entry to self-employment (see, for example, Bevan *et al.*, 1989). Yet government financial assistance, other than in the form of financial advice to improve access to commercial loans, has been limited, with grants and loans restricted both in size and availability.

Little research had been conducted into micro-finance assistance (as opposed to general self-employment assistance) as a measure to tackle unemployment in developed countries. Consequently, the ILO funded a multinational study of micro-finance[2] in Europe and North America. In the UK, evaluations of individual self-employment programmes have been conducted and a small amount of research has been conducted into discrimination in access to bank loans (referenced below). The system of micro-finance support as a whole has not been examined: indeed, little was known even about the extent and pattern of provision. This paper draws on the UK ILO research to examine the micro-finance system. The paper considers whether there is a case for government micro-finance assistance for unemployed people wanting to enter self-employment and, if so, how the system of micro-finance might be improved.

The layout of the paper is as follows. First, the problems unemployed people face raising start-up finance (outside the subsidised sector) are described. Next, whether there is a case for government intervention and, if so, the form this should take is discussed. Drawing on new data, the current system of support is then described. Proposals to improve the system are then made.

Business start-up finance outside the subsidised sector

Compared with employed people, unemployed people suffer a double disadvantage in relation to business start-up finance: not only do they tend to have fewer savings with which to finance their business but they also tend to have

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1 We wish to thank the ILO for funding the research on which this paper is based.
2 By micro-finance we mean grants or loans of less than £10,000. However, many of the conclusions apply to larger sums and to other forms of assistance to enter self-employment.

greater difficulties in accessing commercial loans. For some sub-groups of the unemployed (for example, ethnic minorities, women and young people) both types of difficulties may be amplified.

There seems little need to discuss the lower savings of unemployed people: this stems from the concentration of unemployment amongst the lower skilled and hence lower paid, as well as the effects of unemployment itself on savings. Therefore this section concentrates on commercial lending and, as the main lenders for business start-up are banks, on bank lending. The evidence is primarily drawn from qualitative research conducted with banks, supplemented by qualitative research with unemployed (and formerly unemployed people) interested in self-employment and organisations providing micro-finance assistance. This showed that lending assessment approaches (based on credit rating, informal assessment of the individual's business competence, assessment of the business market and the bank's portfolio) and lending criteria were similar across banks. It also found that unemployed people suffered a double disadvantage in accessing loans from banks: unfamiliarity with banks and indirect disadvantage in the lending criteria.

The composition of unemployed people, in which the less educated and lower social classes are over-represented, reduced access to loans. Bankers described how their unemployed clients tended to be people who had had little contact with banks. They were more likely to see banks as alien institutions (due to lack of contact and banks' middle-class image), resulting in applicants feeling intimidated, nervous and lacking confidence. This reduced the likelihood of seeking bank loans and resulted in worse presentations to lending officers. Moreover, bankers suggested unemployed people less often had the appropriate skills and experience to develop or to present a business plan. These views were echoed in the qualitative research with organisations providing micro-finance assistance and with unemployed (and formerly unemployed people) interested in self-employment. The lack of appropriate skills hampered lending officers' assessment of plans and, as lending officers would not spend much time eliciting the required information, led to rejection. The lack of familiarity with banks is likely to be exacerbated, in the long term, by the closure of bank branches in depressed areas.

The poorer financial position of most unemployed people could also reduce access. Some lenders took into account the amount of the applicant's own money which would be put into the business, being taken as an indicator of commitment and faith in the business. This would be judged either in relation to the total assets of the borrower or in relation to the business capital (or loan) needs. The latter disadvantaged those with few assets, whilst the former did not.

Credit rating systems, based on personal characteristics and personal finance history, were biased against the poor and hence many unemployed. For example, the following credit-rating criteria were standard:

- Preference to existing customers, in part because this gives the lender fuller financial information on the borrower. This disadvantages the unemployed, as 10 per cent of households do not have a bank account (HM Treasury, 1999) and the incidence is lower amongst poorer people. Moreover, bank closures in deprived areas cannot but act as break on the expansion of poorer people having bank accounts and so contribute to poorer access to micro-finance.

- A record of successful repayment of loans from reputable sources. This disadvantages the unemployed, as they are less likely to have a mortgage (Hogarth and Elias, 1994) or other loans and are more likely to have had repayment problems.

- County Court Judgements. This disadvantages the unemployed, as they are more likely to have had a County Court Judgment for the non-payment of a debt.

- Having an employed spouse or partner. This was seen as improving the likelihood that repayments would be made even if the business encountered difficulties. This disadvantages unemployed applicants, a decreasing percentage of whom have an employed spouse or partner (Gregg and Wadsworth, 1994).

Some groups of the unemployed were also likely to experience greater difficulty because, in considering the viability of the business proposition, the applicant's employment experience was a criterion. Little or no employment experience tended to be detrimental, as did lack of management experience. This disadvantaged young applicants, in particular, and, possibly, women returners and the very long-term unemployed.

Some sub-groups of the unemployed are further disadvantaged. Several studies have indicated bank discrimination against ethnic minorities (Oc and Tiesdell, 1999; Metcalf and Forth, 2000) and against women (Read, 1998; Carter and Cannon, 1992; Koper, 1993; Kaur and Hayden, 1993; Goffee and Scase, 1985). Other factors disproportionately disadvantaging loan applicants from ethnic minorities include: concentration in inner cities with poor trading environments (Oc and Tiesdell, 1999); for Afro-Caribbeans, less competence in business planning (Curran and Blackburn, 1993); and, for Muslims who wish to borrow according to the Shariah, lack of lending institutions. Discussions with banks suggested ex-offenders would also tend to encounter greater difficulty securing loans. Ex-offenders (some of whom suffer very high rates of unemployment) were disadvantaged in respect of credit scoring, which places weight on reliability and ex-offenders were seen as less reliable.

These barriers did not appear to be compounded by lack of security, as banks rarely sought security for micro-finance because of the disproportionate legal costs involved in securing the loan and the costs of realising the security in the case of default.

For some unemployed people, these disadvantages can be somewhat mitigated through access to other non-governmental sources of finance, for example, South Asians tend to have greater access to informal equity finance (from family, friends and through business networks) (Ward and Jenkins, 1984) or non-commercial loan funds. However, non-commercial sources reach only a small percentage of unemployed people wishing to enter self-employment.

Is there a case for government intervention?

The consequences of the financial constraints faced by unemployed people wanting to enter self-employment are that fewer unemployed people enter self-employment and those that do are more likely to establish under-resourced businesses, with a greater likelihood of failure (Storey *et al.*, 1989; Bevan *et al.*, 1989), with certain sub-groups suffering particularly (Oc and Tiesdell, 1999; Bank of England, 1999; Rubery *et al.*, 1993; Brush, 1992; Stevenson, 1986). This raises the question whether the government should intervene (as it does) to increase unemployed people's access to micro-finance. The following examines the economic and social justice arguments for government intervention and then considers the form intervention should take.

Economic arguments for intervention

The economic arguments for Government support for micro-finance for unemployed people are based on the existence of market imperfections which lead to the sub-optimal distribution of finance and, hence, the economy operating below its optimum. These imperfections are of two types: inefficiencies in the financial market (so that potentially viable businesses are unable to raise the required finance) and externalities (the public return is greater than the private return).

National Economic Research Associates (1990) suggests that financial market imperfections may arise for two reasons: difficulties in devising financial instrument to share the rewards between investors and small firms in a mutually beneficial manner and from financial institutions not being subject to normal competitive forces. Certainly, there are difficulties with the assessment for loans for business start-up. As described above, assessments are based on the applicant's previous credit history, on an assessment of the market for the business and on an assessment of the individual's likely success in running the business, with security rarely sought. Thus the loan decision is taken under great uncertainty and risk. Moreover, lenders have different information from borrowers, a market imperfection which leads to credit rationing, wherein potential borrowers denied credit cannot borrow even though offering higher interest payments or greater collateral (Stiglitz and Weiss, 1981). The consequence is sub-optimal lending.

There is also evidence of market failure due to oligopoly in the banking market. Small firms face premia on loans and less favourable credit rating approaches not fully justified by higher levels of risk and cost (Wilson Committee, 1979; Cowling *et al*, 1991; CBI Small Firms Council, 1993). Most recently, Cruickshank (2000), found competition problems in banking for SMEs and for personal finance. However, he did not conclude that this caused problems in relation to debt financing for SMEs: "*there is little evidence that demand for appropriate debt finance is not being met. This does not mean that SMEs are being well served by banks, merely that it is unlikely there is a deficit in the quantum of debt finance available.*" The cautious language of this conclusion should not be overlooked: the conclusion was based on the rejection rate for debt finance experienced by SMEs (5 per cent) and the reasons for rejection, with rationality of rejection being the indicator of the market working properly. However, in 60 per cent of cases, the rationality of the reasons for rejection could not be judged, but it was assumed most were rational. These 60 per cent were cases where loans were rejected due to insufficient collateral or because they were new businesses, lacking a track record. This suggests that, even if the market is generally working well, the area of doubt is in provision most likely to affect unemployed people entering self-employment.

The second type of imperfection, externalities, is often implicit in the arguments for supporting business start-up and for the concentration of assistance in depressed areas: that assisting business start-up generates further jobs and growth, i.e. the public return is greater than the private return. Without subsidy, business start-up would operate at a level commensurate with the private return. We do not look here at the rates of return as such, but at the evidence on additional public return: the degree to which business start-up assistance contributes to employment growth and regeneration.

Direct employment growth of new businesses is small: a high percentage fail within five years (Letowski and Le Marois, 1994), the majority never grow to employ people (Bevan *et al*., 1989; Storey, 1993) and almost all that have employees have very few (Stanworth *et al*., 1992). However, some studies of self-employment programmes for unemployed people have found higher levels of job creation amongst those receiving assistance. For example, Wilson and Adams, 1994, in a study of self-employment programmes for unemployed people in OECD countries, estimated that one and a half jobs were created for every business established.

Although the evidence on the direct employment growth of new business suggests that business start-up cannot be expected to contribute substantially to local regeneration, in depressed areas any increase in employment might be deemed beneficial. However, doubt might be cast on the role that government assistance for micro-finance to unemployed people may play in regeneration, owing to the problem of displacement, i.e. assisting one business may lead to another business closing (see Metcalf, 1998, for an overview of evidence on this). Indeed, beneficial effects on the economy are more likely in areas of low unemployment, where support may have fewer displacement effects.

Social justice arguments for intervention

Alongside economic rationales for government micro-finance assistance lie social justice arguments relating to the reduction of unemployment, to the distribution of employment and to equality of opportunity.

One argument for government intervention is the same as the rationale for any active labour market policy. These may be broadly characterised as action to reduce unemployment and action to reduce unemployment for each individual. As discussed above, self-employment programmes can encounter problems of displacement and so may reduce unemployment only slightly. However, self-employment programmes indubitably enable some people to move from unemployment to employment, thus shortening their spell of unemployment (Bryson and White, 1996). Given that problems, including difficulty of re-employment, increase with length of unemployment, measures which shorten unemployment (even when increasing the number of people who experience unemployment) are beneficial. Micro-finance assistance is just another form of assistance, like training and job search assistance, which reduces unemployment duration.

On equal opportunity grounds, government intervention may also be justified. Firstly, intervention may counter the disadvantage and discrimination suffered by unemployed people compared with employed, in savings and in access to loans, with micro-finance programmes addressing an inequality in access to self-employment created by the interplay between unemployment and poverty. Secondly, intervention may be used to address inequality between sub-groups of the unemployed. These have both been discussed above.

Is there a case for government support?

Economic and social justice considerations provide a clear rationale for government action to increase micro-finance for business start-up by unemployed people. Market imperfections (due to problems of assessing risk and oligopoly) result in sub-optimal lending. Although these imperfections exist equally in relation to business start-up by the employed and the unemployed, they may impact more greatly on unemployed people due to lack of savings and due to credit rating criteria which are biased against those on low income. However, the argument for government action lies mainly with the social justice rationales as the benefits to addressing the market imperfections are modest. Social justice argues for assisting people out of unemployment. Moreover, the commercial loan system disadvantages and discriminates against a number of subgroups of the unemployed. Thus, not only is public intervention with respect to micro-finance justified, but there is justification for special intervention aimed at unemployed people.

Whilst there is a clear case for intervention, governmental action might be through regulation and exhortation or influence rather than support (i.e. through provision or subsidy). The choice should be largely determined by considerations of responsibility (who is responsible for the problem or for addressing it) and economic efficiency. This section briefly considers the approaches which should be taken and, particularly, whether there is the case for support.

Certainly, oligopoly in the banking sector resulting in micro-finance problems is a classic case for regulation. Banks reap excess profits from the oligopolistic market and an economically effective way to raise micro-finance to an optimum level is through regulation (see general industrial economics textbooks).

Countering discrimination in relation to gender, race and disability also calls for regulation (or better enforcement of existing legislation), as it is unlawful to discriminate on these grounds. Discrimination on other grounds (including on income and unemployment), might also be dealt with through regulation. Alternatively, as it is in banks' own interests not to discriminate, exhortation and publicity are also appropriate. Discussions with banks showed that some banks had been trying to tackle discrimination against low income people. Banks had been trying to develop credit rating approaches specifically for business start-up loans rather than using measures identical to those for personal credit, which could help unemployed people by switching the assessment away from their personal finances to business criteria. One bank was examining alternative criteria which would not discriminate against low income applicants (for example, to include regular payments, such as rent, rather than repayments of loans, such as mortgages, as evidence of reliability). Government might assist this by making it easier for banks to obtain evidence of regular payments. However, the efficacy of regulation, exhortation and publicity must be doubted and these approaches might leave substantial discrimination. In this case, circumventing discrimination altogether through providing government support for micro-finance might be more effective.

Addressing unemployed people's confidence in approaching banks calls for a range of responses. Much needs to be tackled by banks themselves (through information and through the way that services are delivered), to reduce the alienness of banks to unemployed people and government exhortation for change is appropriate. The issue of bank branch closure in poor neighbourhoods (resulting in people in these areas having less contact with banks affecting confidence in dealing with banks, and, in the long term, fewer people having a bank account) could be tackled by exhortation. However, this approach has already been being used and its effectiveness is unclear. Instead, regulation, perhaps similar to the US Community Reinvestment Act, might be more effective. The problem of lack of confidence and effectiveness is also due to lack of appropriate skills amongst unemployed people. Tackling this skills deficit falls within the sphere of government and support is required to provide information, advice and training.

There is a clear case for government support to counter imperfections arising in risk assessment. A major problem is the relatively high cost of the assessment, particularly in terms of bank time, which results in the rejection of applications which are difficult to assess. The government may reduce the banks' assessment costs by providing (or subsidising) training and advice for unemployed people to assist them in developing and presenting loan applications. The cost of the loan is increased further by the cost of dealing with (and pre-empting) default, including the time demands placed on banks to assist ailing borrowers. Without government support, banks either have to absorb these costs (and there is no reason for them to do so) or make prohibitively high loan charges. Such costs may be reduced by government action to reduce the likelihood of failure and to reduce the extent that new, ailing businesses seek general assistance from their lender, i.e. through start-up assistance and through continuing assistance.

Finally, dealing with externalities and addressing social justice concerns about unemployment are the responsibility of the government and should therefore be tackled through government subsidy or provision for micro-finance.

Thus each type of approach (regulation, exhortation, subsidy and provision) has its uses. Currently, all are used. There is legislation against race, gender and disability discrimination, exhortation is being used to reduce bank branch closures and micro-finance support is provided under government programmes and by non-commercial loan funds. Our concern in this paper is specifically with government support and, whilst regulation and exhortation might be improved, the remainder of the paper focuses on support.

The current structure of micro-finance support

Overview of support

Although sources overlap, micro-finance can be seen as being provided formally by three sectors: the commercial sector (discussed above), the not-for-profit financial sector and the public sector (covering government organisations and other organisations delivering micro-finance with public sector funding). These sectors are not discrete, with, for example, commercial/voluntary sector partnerships and public-funding for voluntary sector provision.

The not-for-profit financial sector comprises credit unions, reinvestment trusts and a few other organisations with micro-finance loan funds (Metcalf *et al.*, 2000). The sector is small in the UK. Credit unions have under ½ million members and assets of £445 million and their development has been slow (HM Treasury, 1999). Moreover, the majority of credit unions are designed for personal finance and few offer loans for self-employment. Very few other not-for-profit loan funds exist (Evers, 1997). These too are small, hampered by the difficulties of developing self-funding. The only large organisations are the Princes Trust Business and the Scottish Youth Princes Business Trust, which receive substantial government funding.

The third sector, the publicly-funded sector, is complex, comprising a number of programmes. Some self-employment assistance is aimed at the unemployed (e.g. the New Deal for Young People self-employment option), whilst most is not (e.g. Small Firms Loan Guarantee Scheme, the Business Links support structure). Some assistance is not aimed at self-employment, *per se*, but at assisting unemployed people generally or people on low incomes (e.g. unemployment benefits, family tax credit). Assistance varies by country within the UK and by locality. Government-funded and European Union-funded programmes are delivered at the local level by quangos, by the voluntary sector and by Local Authorities, with some of these organisations sub-contracting still further. Local Authorities themselves may finance and provide support. There is substantial interlinking amongst these different organisations.

Thus the micro-finance system in the UK comprises:

- the commercial loans and commercial sector assistance to the voluntary sector;

- government national employment and training programmes targeted at unemployed people (DfEE and ES funded);

- other government national programmes providing business start-up support (e.g. the Small Firms Loan Guarantee Scheme) (DTI funded);

- voluntary sector national projects (e.g. the Princes Trust Business and the Scottish Princes Youth Business Trust) (includes DfEE funding);

- networks of government-funded bodies established across the UK to assist small and medium-sized business or to promote economic development (e.g. Business Link, Business Connect, Scottish Business Shops, Northern Ireland Enterprise Trusts) (under the remit of the DTI);

- networks of other quangos whose remit allows business start-up support (e.g. TECs and LECs) (mainly funded by the DfEE and the Scottish Executive);

- *ad hoc* local projects receiving Government and European Commission funding from programmes such as the Single Regeneration Budget Challenge Fund (DETR) and the ESF;

- local projects funded and operated by Local Authorities and quangos;

- local voluntary sector support, including self-employment projects and specialist loan funds, Reinvestment Trusts and Credit Unions;

- in- and out-of-work benefits (DSS, Inland Revenue and Local Authorities/ DETR).

Listing the programmes and organisations which can provide micro-finance assistance does not identify the actual pattern of provision: what is important is what support is actually made available. Even the existence of a national programme with a remit for nationwide provision cannot be taken as a guarantee of the availability of assistance (see CRG, 1996, on the paucity of provision under the TfW self-employment option). No audit of provision had been made, nor could one be made using existing data, with data on self-employment assistance for unemployed people (let alone micro-finance assistance) only available at the programme level for some schemes. As most state self-employment and business support is overseen or delivered at a local level by a small range of organisations (TECs, LECs, Local Authorities, Business Link, Scottish Business Shops, Business Connect, Enterprise Trusts and the Employment Service) (henceforth referred to as micro-finance intermediaries), a survey was conducted of these organisations (excluding the ES)[3] to identify the nature, level and adequacy of micro-finance support available to unemployed people.[4] Further information was collected in qualitative interviews with micro-finance intermediaries and providers, government policy makers and unemployed people (and formerly unemployed people) who had been interested in self-employment.

3 We had wished to include the ES in the survey but were unable to secure the agreement of the ES nationally. As the nature of provision should be identical across the UK, this is not a serious omission. However, from the ES survey, we had hoped to collect data on participation in the self-employment option of Work-Based Learning for Adults, for which there are no national figures.

4 All these organisations were included in the survey and a response rate of 70 per cent was achieved.

Micro-finance provision

Discussions with government policy makers and micro-finance intermediaries and providers showed a lack of strategic direction and co-ordination of support which would assist unemployed people to enter self-employment, with no effective co-ordination across government departments. This is not surprising, given the variety of aims of the different programmes and the provision being spread across a number of departments. For example, there was an assumption that unemployed people would be given assistance to enter self-employment by the DfEE, whilst the DTI would assist business development (and that this did not include support for unemployed business start-up). The aims of programmes included increasing self-employment and business; regeneration; assisting unemployed people into employment; and assisting selected disadvantaged groups. Conflicts were identifiable in social security rules, which make gradual entry into self-employment difficult (for example, hours of work and earnings restrictions). The extent to which the recent introduction of the Small Business Service leads to the development of a strategic framework remains to be seen. However, the signs are not good, as the SBS's remit barely mentions assisting unemployed people enter self-employment.

Organisations involved

Seventy-one per cent of potential micro-finance intermediaries provided business start-up support, including over 90 per cent of non-Local Authority intermediaries and 92 per cent of Business Links, whose remit is to support small and medium-sized business, not business start-up (Table 1). In nearly all cases, support included financial support (including advice and training for securing loans). Half of Local Authorities provided financial support for business start-up.

The scale of operation varied greatly. A quarter (26 per cent) of micro-finance intermediaries operated support on a very small scale, assisting no more than 25 people in the previous year, whilst a quarter (27 per cent) assisted more than 250 people.[5] Those assisting very few were most commonly Local Authorities and Business Connect (41 per cent and 38 per cent, respectively, assisted fewer than 26 people).

Support was provided under a wide range of programmes, including those funded by the DfEE, the DTI, the DETR, the European Commission, Scottish Enterprise, Highlands and Islands Enterprise, the International Fund for Ireland, the Welsh Development Agency and charitable bodies. Consequently,

5 Figures exclude those who could not supply information on numbers supported, 17 per cent of micro-finance intermediaries who provided support.

Table 1. Provision of support for business start-up by micro-finance intermediary

column per cent, all micro-finance intermediaries

	Local authority	TEC	LEC	Business Link	Business Shop	Business Connect	Enterprise Trust	NI Enterprise Trust	**Total**
Provide financial support	51	89	100	92	89	93	100	92	**65**
Refer for financial support only	5	3	0	0	0	0	0	0	**4**
Provide non-financial support only	2	0	0	0	6	0	0	0	**2**
All providing business start-up support	**58**	**92**	**100**	**92**	**95**	**93**	**100**	**92**	**71**

Source: NIESR survey of micro-finance intermediaries, 1999.
Note: Total includes 10 responses from CCTE, CCTE/Business Link combined and TEC/Business Link combined.

Table 2. Programmes under which micro-finance is provided

column per cent, intermediaries providing micro-finance support

No. of programmes under which provide micro-finance support	Local authority	TEC	LEC	Business Link	Business Shop	Business Connect	Enterprise Trust	NI Enterprise Trust	**Total**
1–2	41	24	24	20	13	8	8	0	**28**
3–5	45	43	41	37	46	46	50	48	**45**
6 – 9	14	30	30	41	26	46	41	44	**24**
10 – 13	2	3	6	4	14	0	0	9	**3**
Total	100	100	100	100	100	100	100	100	**100**
n	163	30	17	52	15	13	12	23	**334**

Source: NIESR survey of micro-finance intermediaries, 1999.
Note: Total includes responses from 9 CCTE, CCTE/Business Link combined and TEC/Business Link combined.

many micro-finance intermediaries dealt with a number of micro-finance programmes (in addition to any other programmes). Almost three-quarters funded micro-finance support under three or more programmes, with 27 per cent funding support under six or more (Table 2). Whilst there was some tendency for the number of programmes to increase with the number of people supported, half of those who supported 25 or fewer people in the previous year operated three or more programmes and 23 per cent of those who supported 26–100 people operated six or more programmes.

The qualitative research identified problems stemming from this diversity. Differing programme aims (to assist unemployed people, to develop a thriving business sector, to regenerate an area, for example), not all of which were always shared by the micro-finance intermediaries and providers, led to less efficient delivery, whilst different reporting requirements led to unnecessary bureaucracy. Moreover, many of the programmes operated under a bidding system for annual contracts, resulting in substantial time being expended in bidding, in considerable uncertainty and lack of investment and planning.

Difficulties were also identified in relation to the number of organisations providing support. As we have seen, half of Local Authorities, and nearly all TECs/LECs and Business Link/Business Connect/Business Shops provided support. These are joined by Enterprise Trusts, voluntary organisations and the Employment Service. Thus in most areas, a minimum of three organisations were providing micro-finance support for business start-up, whilst in many there would have been four or five and in some, more. At the same time, many organisations provided support to a small number of people only. This potentially creates problems with how unemployed people can access the best support. Good signposting is essential and, as the common contact point for all claimants, should be provided by the Employment Service. However, in the qualitative interviews with unemployed (and formerly unemployed) people who had been interested in self-employment, many reported that self-employment had not been raised as an option with them by the ES and that when they themselves had raised it, the response was often neither encouraging nor helpful. Similar experiences were related by micro-finance providers and intermediaries. The difficulties with the Employment Service left a void in signposting self-employment assistance. In particular, people reported difficulties in knowing where to start and with finding their way through the maze of organisations. In addition, some doubt about the efficiency of support at a very low throughput must be raised.

Type of support

The most common form of micro-finance support (provided by 58 per cent of intermediaries) was advice, training and mentoring to assist people to access finance (Table 3). Grants were provided by just under half (45 per cent) and

Table 3. Type of micro-finance support

column per cent, all micro-finance intermediaries

	Local authority	TEC	LEC	Business Link	Business Shop	Business Connect	Enterprise Trust	NI Enterprise Trust	**Total**
Loans	19	17	53	31	44	33	67	88	**27**
Grants	37	37	94	56	72	47	75	72	**45**
Advice, training, mentoring	40	89	94	91	89	93	100	92	**58**

Source: NIESR survey of micro-finance intermediaries, 1999.
Total includes 10 responses from CCTE, CCTE/Business Link combined and TEC/Business Link combined.

loans by about one quarter (27 per cent). Whilst nearly 90 per cent or more of all micro-finance intermediaries (except Local Authorities) provided advice, training or mentoring, there was substantial variation in the provision of grants and loans. Organisations operating solely in Scotland (LECs, Business Shop and Enterprise Trusts) or solely in Northern Ireland (NI Enterprise Trusts) were much more likely to provide grants (72–94 per cent) and loans (44–88 per cent). Organisations operating in England and Local Authorities were least likely to.

Organisations providing loans tended to concentrate on the micro-finance market: 82 per cent of those providing loans had a minimum loan size of £3,000 or less (with 35 per cent of £500 or less) and very few had a minimum above £7,000, whilst 62 per cent had a maximum for loans of £10,000 or less. The maximum size was rarely less than £2,500 (13 per cent).Whilst loan sizes seemed to cater to those needing loans of all sizes, grants were far more restricted. Of those providing grants, the maximum was £1,000 in 30 per cent of organisations and £2,500 in 60 per cent.

Targeting and access by the unemployed

In most cases, the support appeared accessible to unemployed people. Most micro-finance intermediaries either targeted some (50 per cent) or all (16 per cent) of their micro-finance support at unemployed people or reported that unemployed people used their micro-finance services (19 per cent) (Table 4). Indeed, only Local Authorities (6 per cent), TECs (9 per cent) and Business Links (7 per cent) reported their micro-finance support was not used by unemployed people. However, 10 per cent of organisations (including 9 per cent of TECs) neither targeted unemployed people nor knew whether unemployed people used their service.

Table 4. Targeting the unemployed by micro-finance intermediary

column per cent, intermediaries providing micro-finance support

	Local authority	TEC	LEC	Business Link	Business Shop	Business Connect	Enterprise Trust	NI Enterprise Trust	**Total**
Target all provision	9	24	29	23	11	46	0	35	**16**
Target some provision	45	42	59	52	67	31	100	61	**50**
No targeting, but used by unemployed	29	15	6	13	6	8	0	4	**19**
Not used by unemployed	6	9	0	7	0	0	0	0	**5**
No targeting, no information on use	13	9	6	5	17	15	0	0	**10**

Source: NIESR survey of micro-finance intermediaries, 1999.
Total includes 10 responses from CCTE, CCTE/Business Link combined and TEC/Business Link combined.

There were substantial locational differences in targeting. Regionally, targeting was very high in Northern Ireland (where 94 per cent of micro-finance intermediaries targeted unemployed people) and high in Scotland and Wales (where 79 per cent and 71 per cent, respectively, targeted). Although in most other areas there was less targeting, services were generally reported as being used by the unemployed. The main exceptions to this were the South East and South West, where 13 per cent and 16 per cent of micro-finance intermediaries, respectively, reported that their micro-finance support was not used by unemployed people, with a further 13 per cent and 23 per cent, respectively, not knowing if it were. This suggests that unemployed people in these two areas have less access to micro-finance support.[6] Targeting also varied by type of location. Targeted provision was more common in large conurbations (by 76 per cent of micro-finance intermediaries), compared with rural and medium/small conurbations (both 61 per cent), with those serving mixed urban/

6 Although it might be thought that the lack of targeting might be due to low unemployment levels in the South East and parts of the South West, this pattern was not replicated in other low unemployment areas, such as East Anglia and the East Midlands.

Table 5. Addressing the needs of the unemployed

per cent of those considering unemployed to have different/greater needs

	How well unemployed's needs addressed				
	Full	Mainly	Slightly	Not at all	n
Target all provision	18	57	20	6	51
Target some provision	12	52	32	4	163
No targeting: used by unemployed	7	38	34	21	56
No targeting: not used by unemployed	0	0	17	83	
Total	12	48	29	10	282

rural areas lying in between (67 per cent). However, in areas where support was not targeted, this was largely compensated for by unemployed people using the service anyway.

Targeting support at unemployed people may influence effectiveness. Certainly, most micro-finance intermediaries, 86 per cent, believed unemployed people had different or greater needs (45 per cent and 46 per cent, respectively), identified in the qualitative research to include confidence building, business/financial skill development and benefits advice and, for certain groups, childcare assistance (single mothers) and transport assistance (rural areas). Those who targeted some or all of their provision at the unemployed were more likely to believe that unemployed people's particular needs were being addressed (Table 5). However, micro-finance intermediaries' practices cast some doubt on the seriousness accorded to targeting, as only 37 per cent judged the outcome of their support by the number of unemployed people assisted and only 56 per cent could estimate the number of unemployed people assisted. TECs and Local Authorities were least likely to have this information.

Indeed, evidence of practices which reduced access by unemployed people was found. Some micro-finance intermediaries charged unemployed people (as well as employed) for advice, training and mentoring to assist with getting finance: of organisations providing advice, 5 per cent charged, 11 per cent charged for training and 8 per cent charged for mentoring, although the charge for unemployed people was usually subsidised. Charging was mainly confined to TECs and Business Links, of which 15 per cent and 17 per cent, respectively, charged for advice, 19 per cent and 21 per cent charged for training and 9 per cent and 19 per cent charged for mentoring. Fifty-eight per cent of intermediaries providing loans required the provision of other capital. Whilst some of these conditions may be understandable, 42 per cent of intermediaries providing loans had rejected applicants in the previous year because they had lacked additional funds and 7 per cent of TECs had rejected people for loans because they were unable to afford the fees.

Of those who could estimate the number, 27 per cent had provided micro-finance support to ten or fewer unemployed people in the previous year and 30 per cent had assisted 100 or more. Whilst it is highly likely that more unemployed people would have been assisted than the numbers reported, the combination of the extent of targeting, the lack of recording of employment status of those assisted and the number of organisations reporting assisting very few unemployed people suggests that, if unemployed people have different micro-finance needs to the employed, it is unlikely that these are being widely addressed.

Half (51 per cent) of the organisations providing micro-finance support targeted at least some of their micro-finance support towards disadvantaged groups or deprived areas. Most commonly, organisations targeted young people (30 per cent), people in deprived areas (25 per cent) and women (22 per cent). Eighteen per cent targeted redundant employees, 16 per cent ethnic minorities and 15 per cent disabled people. Only 11 per cent targeted older people and 7 per cent targeted offenders and ex-offenders. The reasons for targeting these groups were explored in the qualitative interviews with micro-finance intermediaries and the main purposes were to alleviate labour market disadvantage or to alleviate problems securing micro-finance.

Improvements to the system of support

We have argued that government has a legitimate role in improving access to micro-finance for unemployed people wanting to enter self-employment. We have also identified a number of problems in the current system, notably:

- discrimination by banks
- differential access to self-employment assistance across the country
- difficulties accessing the most appropriate provision
- inefficiencies in provision

In this final section, we describe briefly how the system might be improved.

First and foremost, it is important for the government to develop a strategic approach to assisting unemployed people into self-employment, to prevent the unhelpful split of policies across developing business, local regeneration, assisting unemployed into work and social protection. This requires responsibility to be placed with a single body, which would consider all aspects of micro-finance for unemployed people to enter self-employment (including commercial provision and government policies which affect access, irrespective of department). The body should ensure coherent policies, which would improve efficiency. The body should aim to ensure the needs of unemployed people are considered in the delivery of provision, whether aimed at unemployed people or not. It should also oversee proper monitoring and evaluation of support, enabling assessment at national, programme and provider levels. Such information could be used to improve provision. It could also ensure the rationalisation of data collection, so that each programme does not seek slightly different information.

As part of the strategic approach, it is important that the aims of government micro-finance support for unemployed people are clarified. We would argue that the main aim of micro-finance assistance for unemployed people (and therefore the criteria for effectiveness of support) should be to get unemployed people into employment (whether self-employed or as an employee) by addressing disadvantage in access to micro-finance. It should not be regeneration, the reduction of unemployment, the promotion of a thriving business sector nor addressing labour market disadvantage. The reasons for this are as follows: firstly, the unemployment and regeneration effects of self-employment assistance are, at best, small, and likely to be smallest where unemployment is highest (see above); secondly, on social justice grounds, it is a legitimate aim to shorten unemployed people's unemployment spells; and, thirdly, we see no reason to treat self-employment assistance differently from other active labour market programmes, where support for the individual unemployed person is given whether or not it leads to reduced unemployment and whether or not it leads to displacement. Aiming to use micro-finance support for unemployed people for regeneration is unlikely to be successful (owing to displacement). At the same time such an aim would lead to targeting provision in high unemployment areas. Whilst it might be argued that this is beneficial on social justice grounds (because support would be concentrated in areas where people have less chance of re-employment), this is erroneous if the aim is to reach those with poor re-employment opportunities as these are neither wholly concentrated in high unemployment areas nor do all those in high unemployment areas have poor re-employment probabilities. Thus the regeneration aim is not appropriate. To use micro-finance support for unemployed people to promote a thriving business sector is also not appropriate. For this aim, there is no need to restrict support to unemployed people and, given the lesser success of unemployed people entering self-employment (Kellard and Middleton, 1998), it could be argued that support should not be focused on this group. If the aim is not to promote self-employment nor business, but to reduce the period of unemployment for an individual, then achieving employment as an employee should be equally as desirable as employment in self-employment.

There are three main approaches the government may take to increase the micro-finance available for unemployed people wishing to enter self-employment: increasing the funds available commercially, developing the not-for profit loan sector and providing the funds for loans and grants itself. Given the prevailing government desire to restrict public expenditure, we would suggest that the government builds its approach around developing maximum access to commercial sources of loans (i.e. to overcome the disadvantage unemployed people face in accessing commercial loans), but that this is supplemented by public funding of loans and grants to compensate for any remaining disadvantage. Based on past performance, development of the non-commercial loan sector would never be adequate (or be too slow) to provide an alternative source of loans across the country, unless substantial public funding was put into its development. Access to commercial loans could be increased through: regulation to address oligopoly; better enforcement of discrimination legislation (or its extension) to reduce discriminatory practices; action to improve access to banking services for poorer clients through tackling branch closures and discriminatory lending criteria (which may be done through legislation, for example, as in the US, exhortation and publicity, loan guarantees or, in the case of loan criteria, working in partnership with the banks). The public sector should provide training in the skills required to secure loans and advice to improve access to commercial loans. It should also provide on-going support to businesses in their early stages to reduce the likelihood of failure, thus reducing the risk to lenders and the problems for banks associated with self-employment borrowers failing. However, grants and public sector provided loans also have a role to play: the first to reduce the disadvantage of those with low assets trying to enter self-employment and the second to address any continuing discrimination against the unemployed, through the provision of loans at the commercial rate. To make any significant difference, the size of grants should be increased.

Publicly supported provision should be equally available across the country, irrespective of local economic conditions, given the lack of a regeneration argument for self-employment assistance and that unemployment is detrimental to the unemployed individual whether they are in a depressed area or not. Targeting labour market disadvantage (rather than micro-finance disadvantage) is inappropriate for a number of reasons. It introduces competitive advantage in self-employment (as opposed to equalising access to self-employment), it diverts support from those most needing micro-finance assistance (increasing deadweight) and, potentially, it encourages less appropriate individuals to enter self-employment. The latter increases the likelihood of business failure, which is potentially catastrophic for the individual and an inefficient use of public resources. However, targeting of groups who have greater micro-finance difficulties (e.g. those with fewer assets, less confidence or continuing to face greater discrimination by commercial lenders) may be appropriate but only when members of these groups are less likely to benefit from assistance otherwise (e.g. where special encouragement is necessary to access assistance, where members of such groups face peculiar difficulties or can benefit more from segregated or specialist assistance to overcome difficulties).

Thus, targeting (of certain provisions) may be appropriate for ethnic minorities, women, young people and ex-offenders, but is not appropriate for older people.

Delivery of public sector support should be rationalised at the local level to counter the diseconomies of scale, multiple bidding and confusion over access. Either a single organisation should be responsible for all support (although some delivery may be sub-contracted) or good liaison between providers should be prerequisite for delivery of public sector support. This would improve access to the most appropriate provision and improve efficiency of delivery through eliminating the very small provider. Local provision should be centred around micro-finance and business development, delivered by business (not unemployment) specialists (although unemployment experts might be used for confidence building, social security information and similar). The role of the Employment Service, whose specialism is assisting unemployed people into jobs as employees, should be restricted to raising the possibility of self-employment with their clients, distributing information supplied by the self-employment specialists and pointing those with any interest in self-employment to the specialist organisation.

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