Self-Employment for the Unemployed

Experience in OECD and Transitional Economies

Sandra Wilson
Arvil V. Adams
<table>
<thead>
<tr>
<th>No.</th>
<th>Title</th>
<th>Authors/Editors</th>
</tr>
</thead>
<tbody>
<tr>
<td>206</td>
<td>Information Technology in World Bank Lending: Increasing the Developmental Impact</td>
<td>Nagy Hanna and Sandor Boyson</td>
</tr>
<tr>
<td>207</td>
<td>Proceedings of a Conference on Currency Substitution and Currency Boards</td>
<td>Edited by Nissan Liviatan</td>
</tr>
<tr>
<td>208</td>
<td>Developing Effective Employment Services</td>
<td>David Fretwell and Susan Goldberg</td>
</tr>
<tr>
<td>209</td>
<td>Evolving Legal Frameworks for Private Sector Development in Central and Eastern Europe</td>
<td>Cheryl W. Gray and Associates</td>
</tr>
<tr>
<td>210</td>
<td>Marine Biotechnology and Developing Countries</td>
<td>Raymond A. Zilinskas and Carl Gustaf Lundin</td>
</tr>
<tr>
<td>211</td>
<td>Revitalizing Agricultural Research in the Sahel: A Proposed Framework for Action</td>
<td>Jan Weijenberg, Josué Dioné, Michael Fuchs-Carsch, Adolphe Kéré, and Jacques Lefort</td>
</tr>
<tr>
<td>212</td>
<td>Institutional Options for the Provision of Infrastructure</td>
<td>Christine Kessides</td>
</tr>
<tr>
<td>213</td>
<td>The Contributions of Infrastructure to Economic Development: A Review of Experience and Political Implications</td>
<td>Christine Kessides</td>
</tr>
<tr>
<td>214</td>
<td>From Macroeconomic Correction to Public Sector Reform: The Critical Role of Evaluation</td>
<td>Eduardo Wiesner D.</td>
</tr>
<tr>
<td>215</td>
<td>China: Reform and Development in 1992-93</td>
<td>Peter Harrold and Rajiv Lall</td>
</tr>
<tr>
<td>216</td>
<td>The Reform of Public Expenditures for Agriculture</td>
<td>Bonni van Blarcom, Odin Knudsen, and John Nash</td>
</tr>
<tr>
<td>218</td>
<td>Cooperatives and the Breakup of Large Mechanized Farms: Theoretical Perspectives and Empirical Evidence</td>
<td>Klaus W. Deininger</td>
</tr>
<tr>
<td>219</td>
<td>Development of Rural Financial Markets in Sub-Saharan Africa</td>
<td>Sabapathy Thillairajah</td>
</tr>
<tr>
<td>220</td>
<td>The Maritime Transport Crisis</td>
<td>Hans J. Peters</td>
</tr>
<tr>
<td>221</td>
<td>Policy-Based Finance: The Experience of Postwar Japan</td>
<td>The Japanese Development Bank and The Japan Economic Research Institute</td>
</tr>
<tr>
<td>222</td>
<td>Macroeconomic Management in China: Proceedings of a Conference in Dalian, June 1993</td>
<td>Edited by Peter Harrold, E. C. Hwa, and Lou Jiwei</td>
</tr>
<tr>
<td>223</td>
<td>The Development of the Private Sector in a Small Economy in Transition: The Case of Mongolia</td>
<td>Honggoo Hahm</td>
</tr>
<tr>
<td>224</td>
<td>Toward an Environmental Strategy for Asia</td>
<td>Carter Brandon and Ramesh Ramankutty</td>
</tr>
<tr>
<td>225</td>
<td>&quot;Fortress Europe&quot; and Other Myths about Trade: Policies toward Merchandise Imports in the EC and Other Major Industrial Economies (and What They Mean for Developing Countries)</td>
<td>Jean Baneth</td>
</tr>
<tr>
<td>226</td>
<td>Mongolia: Financing Education during Economic Transition</td>
<td>Kin Bing Wu</td>
</tr>
<tr>
<td>227</td>
<td>Cities without Land Markets: Lessons of the Failed Socialist Experiment</td>
<td>Alain Bertaud and Bertrand Renaud</td>
</tr>
<tr>
<td>228</td>
<td>Portfolio Investment in Developing Countries</td>
<td>Edited by Stijn Claessens and Sudarshan Gooptu</td>
</tr>
<tr>
<td>229</td>
<td>An Assessment of Vulnerable Groups in Mongolia: Strategies for Social Policy Planning</td>
<td>Caroline Harper</td>
</tr>
<tr>
<td>230</td>
<td>Raising the Productivity of Women Farmers in Sub-Saharan Africa</td>
<td>Katrine Saito</td>
</tr>
<tr>
<td>231</td>
<td>Agricultural Extension in Africa</td>
<td>Aruna Bagchee</td>
</tr>
<tr>
<td>232</td>
<td>Telecommunications Sector Reform in Asia: Toward a New Pragmatism</td>
<td>Peter L. Smith and Gregory Staple</td>
</tr>
<tr>
<td>233</td>
<td>Land Reform and Farm Restructuring in Russia</td>
<td>Karen Brooks and Zvi Lerman</td>
</tr>
<tr>
<td>234</td>
<td>Population Growth, Shifting Cultivation, and Unsustainable Agricultural Development: A Case Study in Madagascar.</td>
<td>Andrew Keck, Narendra P. Sharma, and Gershon Feder</td>
</tr>
</tbody>
</table>

(Continued on the inside back cover.)
Self-Employment for the Unemployed

Experience in OECD and Transitional Economies

Sandra Wilson
Arvil V. Adams

The World Bank
Washington, D.C.
Discussion Papers present results of country analysis or research that are circulated to encourage discussion and comment within the development community. To present these results with the least possible delay, the typescript of this paper has not been prepared in accordance with the procedures appropriate to formal printed texts, and the World Bank accepts no responsibility for errors. Some sources cited in this paper may be informal documents that are not readily available.

The findings, interpretations, and conclusions expressed in this paper are entirely those of the author(s) and should not be attributed in any manner to the World Bank, to its affiliated organizations, or to members of its Board of Executive Directors or the countries they represent. The World Bank does not guarantee the accuracy of the data included in this publication and accepts no responsibility whatsoever for any consequence of their use. The boundaries, colors, denominations, and other information shown on any map in this volume do not imply on the part of the World Bank Group any judgment on the legal status of any territory or the endorsement or acceptance of such boundaries.

The material in this publication is copyrighted. Requests for permission to reproduce portions of it should be sent to the Office of the Publisher at the address shown in the copyright notice above. The World Bank encourages dissemination of its work and will normally give permission promptly and, when the reproduction is for noncommercial purposes, without asking a fee. Permission to copy portions for classroom use is granted through the Copyright Clearance Center, Inc., Suite 910, 222 Rosewood Drive, Danvers, Massachusetts 01923, U.S.A.

The complete backlist of publications from the World Bank is shown in the annual Index of Publications, which contains an alphabetical title list (with full ordering information) and indexes of subjects, authors, and countries and regions. The latest edition is available free of charge from the Distribution Unit, Office of the Publisher, The World Bank, 1818 H Street, N.W., Washington, D.C. 20433, U.S.A., or from Publications, The World Bank, 66, avenue d'Iéna, 75116 Paris, France.

ISSN: 0259-210X

Sandra Wilson is a consultant to the World Bank's Education and Social Policy Department. Arvil V. Adams is human resources adviser in the Human Resources Division of the Bank's Africa Technical Department.

Library of Congress Cataloging-in-Publication Data

Wilson, Sandra, 1962—
Self-employment for the unemployed : experience in OECD and transitional economies / Sandra Wilson, Arvil V. Adams.
p. cm. -- (World Bank discussion papers ; 263)
Includes bibliographical references.
ISBN 0-8213-3027-6
III. Series.
HD8036.W555 1994
331.13'77—dc20 94-33787
CIP
9. Percentage of Program Participants Either Self-Employed or Employed
10. Survival Rates Before and After Increased Screening
11. Secondary Job Creation by the Self-Employed
12. Deadweight Estimates for Self-Employment Programs
13. Self-Employment Program Expenditures per Participant Year
15. Comparison of Unemployment and PNIDZ Benefits in 1992
16. PNIDZ Loan Features in 1992
17. PNIDZ Expenditures as a Share of Labor Fund Spending and Participants as a Share of the Unemployed
18. EC PHARE Micro Credit Line -- Sept. 1992 to October 1993
19. Újk Loan Scheme
20. Újk and Mvve Expenditures as a Percent of the Employment Fund
21. Number of Mvve Participants by Type of Service

Figures
1. Self-Employment Schemes as a Percent of Total Public Expenditure on Labor Market Policies
2. Percent of the Unemployed Participating in Self-Employment Programs
Foreword

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

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

K.Y. Amoako
Director
Education and Social Policy Department
Abstract

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

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

The authors express appreciation to those who have provided access to data for OECD country self-employment programs. They include: Ted Powley and Trevor Tucknutt (Australian Department of Education, Employment and Training); Ken Kerr and Dennis MacDonald (Employment and Immigration Canada); Ib Lockenwitz and Merete Vinje (Danish Ministry of Labor); Anders Rosdahl (The Danish National Institute of Social Research); Annie Pouliquen, Xavier Monchois, Anne-Lise Aucouturier and Catherine Daniel (Ministère du Travail, de l’Emploi et de la Formation Professionnelle); Kurt Berlinger (German Federal Employment Service); Roger Falk (FAS International Consulting Limited); Jan Fokkens (Netherlands Ministry of Social Affairs and Employment); Caroline Berry and Rebecca Hutten (U.K. Department of Employment); Jacob Benus and Michelle Wood (ABT Associates); Bonnie Dallinger (Massachusetts Department of Employment and Training); and Sergio Arzeni (OECD).

We also owe a debt of thanks to the many individuals in Hungary and Poland who took time to explain the self-employment initiatives of their organizations and provide background materials. A paper on small business in Hungary was prepared by Marton Vági and László Trautmann. Arrangements for this paper and visits to organizations were made by Christine Allison and Csaba Feher of the World Bank’s Resident Mission Hungary. Additional background was furnished by József Bagó and Katalin Nagy of the Hungarian Ministry of Labor. From the World Bank, David Fretwell helped with arrangements for the study in Poland and provided comments on early drafts. Krzysztof Mika and Malgorzata Andrejewska of Poland’s Ministry of Labor and Social Policy handled local study arrangements. The study was initiated with the assistance of Timothy King and Mary Canning who have served as project advisors.

The study was financed by the Europe and Central Asia Region and the Education and Social Policy Department. As is customary, the findings, interpretations, and conclusions are the authors’ own. They should not be attributed to the World Bank, its Board of Directors, its management, or any of its member countries.
Executive Summary

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

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

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

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

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

1 Country specific annexes describing the nine OECD self-employment programs are available through the ESP Discussion Paper Series, No.30. All data on self-employment programs contained in this study, unless otherwise cited, are drawn from these annexes.
Introduction

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

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

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

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

---

2 The list includes Australia, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, and the United Kingdom. (Barker 1989).
The observation that small businesses are an engine of economic growth makes self-employment programs an attractive policy to governments seeking to reduce high unemployment and stimulate sluggish economies. However, these policies account for only a small fraction of the total expenditures on labor market policies in most countries. Public expenditures on labor market policies of all types in industrialized countries vary from less than one percent of GDP to slightly over six percent (OECD 1993). These expenditures cover training and specialized employment assistance programs, including support for self-employment, in addition to unemployment benefits. Self-employment schemes for the unemployed offered in a number of OECD countries in 1991, shown in Figure 1, ranged from less than one percent up to nearly six percent of these expenditures.

Figure 1

<table>
<thead>
<tr>
<th>Country</th>
<th>Self-Employment Schemes as a Percent of Total Public Expenditure on Labor Market Policies:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selected OECD Countries - 1991</td>
<td></td>
</tr>
</tbody>
</table>

Source: Meager 1993

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

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

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

**Self-Employment and Micro-Enterprise Programs in OECD Countries**

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

**The Target Population**

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

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

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

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

Source: Data provided by national authorities.

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

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

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Length of Unemployment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Means tested benefit</td>
</tr>
<tr>
<td>Canada</td>
<td>In receipt of UI, or means tested benefit</td>
</tr>
<tr>
<td>Denmark</td>
<td>In receipt of UI</td>
</tr>
<tr>
<td>France</td>
<td>In receipt of UI, or means tested benefit</td>
</tr>
<tr>
<td>Germany</td>
<td>In receipt of UI</td>
</tr>
<tr>
<td>Ireland</td>
<td>In receipt of UI, or means tested benefit</td>
</tr>
<tr>
<td>Netherlands</td>
<td>In receipt of UI, or means tested benefit</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Eligible for means tested benefit</td>
</tr>
<tr>
<td>United States</td>
<td>Eligible for UI</td>
</tr>
</tbody>
</table>

Source: Data provided by national authorities. For more information, see World Bank Education and Social Policy (ESP) Discussion Paper No. 30.

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

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

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

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

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

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

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

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

Each of the nine programs reviewed currently employs or expects to employ some form of applicant screening. Denmark is the only country where screening is not used after the applicant’s eligibility for the program is determined. However, this will change in 1994 when Denmark joins the other countries in screening proposals before an applicant is admitted to the program. The level of screening varies from light to rigorous. Light screening usually involves a review of an enterprise proposal prepared by the applicant to ensure it meets program objectives and contains all the elements of a business plan. The objective is to make sure the applicant intends to create a business and has a full understanding of the legal and technical requirements involved.

Table 3: Pre-Entry Screening Activities

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

* In January 1994, the Ministry of Industry will be responsible for screening the enterprise proposals.
Source: Data provided by national authorities. For more information, see World Bank Education and Social Policy (ESP) Discussion Paper No. 30.

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

**The Application.** In a number of countries—Canada, the U.K. and the U.S.—attendance at an information or orientation seminar is mandatory before obtaining the application. Other countries conduct interviews. After these steps are completed, the applicant can pursue the application or withdraw. Program officials in most of the countries studies indicated that these low cost screening methods lead a significant number of individuals to drop out at this stage. The U.K. estimates that just over half the potential applicants pursue a place in the program after an information seminar designed to make them aware of the requirements for program participation and self-employment (IFF Research 1992).

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

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

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

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

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

Table 4: Final Selection Procedures

<table>
<thead>
<tr>
<th>Country</th>
<th>Business Plan Compulsory</th>
<th>Selection Based on Likelihood of Success</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Canada</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Denmark</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>France</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Germany</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Ireland</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>United States</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

Source: Data provided by national authorities. For more information, see World Bank Education and Social Policy (ESP) Discussion Paper No. 30.

Delivery of Services

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

The TECs are given considerable flexibility in designing self-employment programs (Marquand and Murphy 1990). The purpose is improve the delivery of training and enterprise assistance by making it more relevant to local market needs. There is a calculated risk in devolving decision-making to the private sector, which makes monitoring and evaluation all the more important. Evaluation takes place at three levels. At the national level, the Department of Employment monitors to see that national standards are maintained by TECs. At the regional level, the Department of Employment evaluates local TECs when negotiating their contracts compares them with other training providers. And locally, TECs are responsible for self-evaluations.
Canada's Self-Employment Assistance Component (SEAC) relies heavily on a public-private organization created expressly to deliver a portion of the Ministry of Labor's labor market programs. The SEAC is delivered by Business Development Centers with funding from the national government. The Centers are responsible for advertising the program, conducting orientation seminars, providing pre- and post-entry training and monitoring participants. In the case of the U.K. and Canada, new private sector organizations have been created to support the delivery of self-employment assistance. Other countries in the study have used existing private organizations.

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

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

Participant Monitoring

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

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

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

In the Washington State demonstration project in the U.S., participants must fulfill a number of conditions before they are eligible to receive a lump-sum payment. These conditions included: completion of post-entry training, development of an acceptable business plan, establishing a business bank account, and obtaining necessary licenses and financing. Progress toward these conditions is monitored during the 10th week of the program and a decision is made whether to extend participation in the program. If the extension is not offered, the unemployed claimant reverts back into the unemployment insurance program and must satisfy its job search and availability requirements to continue receiving unemployment benefits. In Massachusetts, participants must attend seven mandatory workshops and declare their status biweekly before a stipend is paid.

Program Benefits

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

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

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

In the Netherlands, the periodic allowance is unrelated to alternative sources of incomes support and is instead roughly equal to the minimum wage. Since unemployment benefits are typically more generous than the minimum wage, this could create a disincentive to participate in self-employment programs.
Lump-sum Payments. Lump-sum payments are offered as a means to provide participants with a source of capital to invest in the business. Payment of these sums up front can make self-employment programs more attractive to the unemployed and expand the number of applicants, putting more pressure on screening mechanisms. The lump-sum, however, is important where the lack of seed capital is an obstacle to the potential entrepreneur. Three of the nine countries studied offer lump-sum payments.

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

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

Source: Data provided by national authorities. For more information, see World Bank Education and Social Policy (ESP) Discussion Paper No. 30.

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

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

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

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

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

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

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

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

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

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

Source: Data provided by national authorities. For more information, see World Bank Education and Social Policy (ESP) Discussion Paper No. 30.

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

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

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

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

Source: Data provided by national authorities. For more information, see World Bank Education and Social Policy (ESP) Discussion Paper No. 30.

Denmark and France rely on markets for business advisory services and limit their role to the financing of these services. Beginning January 1, 1994, participants in Denmark’s Enterprise Allowance Scheme receive a Ministry of Industry grant valued at approximately U.S.$3,000 for a period up to two years to purchase business advisory services in the open market. France offers participants the option of purchasing a booklet of vouchers. A compulsory three-day business course is included. Each booklet contains 15 vouchers that can be exchanged for one hour of legal, accounting, and other business services valued at approximately U.S.$60 per hour. The participant pays one-quarter of the cost and the ACCRE program pays the remainder.
The delivery of these services, like those for pre-entry components, follows a mixed model of public and private activity. Table 7 summarizes the agents responsible for delivery of pre-entry and post-entry business advisory services.

**Figure 2**

*Percent of the Unemployed Participating in Self-Employment Programs (1991)*

![Bar chart showing the percent of the unemployed participating in self-employment programs for different countries.](chart)

Source: Data provided by national authorities. For more information, see World Bank Education and Social Policy (ESP) Discussion Paper No. 30.

**Program Outcomes**

The nine OECD countries participating in the study have provided a wide array of data for evaluating program outcomes, and in a number of cases, independent evaluation studies. The data, however, are not collected in a uniform manner for comparative analysis and may differ in terms of the population represented and the definition of concepts used. The findings are nevertheless remarkably robust. The study sets out to examine four program outcomes. These outcomes include: (i) the take-up or participation rate in self-employment programs by the unemployed; (ii) the survival rate of new business after a period of time; (iii) the number of new business start-ups that would have happened without the program, the so-called *deadweight effect*; and (iv) the participant cost of self-employment assistance.


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

These rates, however, are a function of the size of program budgets and the rigor of the screening mechanisms. In the Business Start-Up Scheme of the U.K., about half of the regions reported that the demand for self-employment assistance in 1992 exceeded the number of budgeted places (IFF Research 1992). In France, prior to 1984, the ACCRE budget was fixed. When the program was initially transformed into an entitlement program, the number of participants doubled from 35,000 to 70,000. When screening procedures were introduced in 1987, participants fell nearly 10 percent from 1986 to 1987, from 71,000 to 64,000. Even so, France with the widest target group and lightest screening exhibits a participation rate of less than two percent.

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

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

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

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

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

Survival Rates. Having assisted the unemployed in becoming self-employed, several questions arise. First, how long do the unemployed survive in business and what effect does the assistance have on their subsequent employment status? Small businesses are known to have a high failure rate. The question is can assistance from self-employment programs influence this rate? Second, are some program features more effective than others in extending survival rates? And finally, do the self-employed generate additional employment for others? Most of the countries in the sample have tried to address these issues. The definition of survival used here includes those who are continuously self-employed, whether or not in the same business. The survival rates produced probably over-estimate actual survival rates since they treat non-respondents as having the same survival rates as respondents.

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

<table>
<thead>
<tr>
<th>Intake Year</th>
<th>Months Since Leaving Program</th>
<th>Survival Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>1990</td>
<td>12 months</td>
</tr>
<tr>
<td>Denmark*</td>
<td>1989</td>
<td>12</td>
</tr>
<tr>
<td>France</td>
<td>1986</td>
<td>54</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1985</td>
<td>36</td>
</tr>
<tr>
<td>UK</td>
<td>1991</td>
<td>7b</td>
</tr>
<tr>
<td>US (Washington)</td>
<td>1990</td>
<td>15</td>
</tr>
<tr>
<td>US (Massachusetts)</td>
<td>1990-92</td>
<td>13</td>
</tr>
</tbody>
</table>

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

Source: Data provided by national authorities. For more information, see World Bank Education and Social Policy (ESP) Discussion Paper No. 30.

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

The question emerges as to whether these rates are any better or worse than those of new business start-ups not participating in self-employment programs. In France, the survival rates of the ACCRE participants are lower than those of the self-employed not receiving ACCRE assistance. However, ACCRE enterprises tend to have a smaller capital base and the participants possess cultural, professional, and social backgrounds that are perceived to be less-oriented toward enterprise creation (Aucouturier and other 1993). A similar conclusion is reached for the Danish program in a comparison of participants and non-participants (Rosdahl 1993). In the Netherlands, the Central Statistics Bureau in a study of businesses established in the last quarter of 1985 reported 67% still in existence after 38 months (Netherlands Ministry for Social Affairs and Employment 1990, p.2). This exceeds the estimated survival rate of 52 percent for Bz Scheme participants.

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

<table>
<thead>
<tr>
<th>Table 9: Percentage of Program Participants Either Self-Employed or Employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intake Year</td>
</tr>
<tr>
<td>-------------</td>
</tr>
<tr>
<td>Australia</td>
</tr>
<tr>
<td>US (Washington)</td>
</tr>
<tr>
<td>US (Massachusetts)</td>
</tr>
<tr>
<td>UK</td>
</tr>
<tr>
<td>Germany</td>
</tr>
</tbody>
</table>

Source: Data provided by national authorities. For more information, see World Bank Education and Social Policy (ESP) Discussion Paper No. 30.
Some entrepreneurs may voluntarily return to wage and salary employment or possibly sell the business. In the U.K., a recent evaluation of non-survivors of self-employment assistance programs found that 27 percent had full-time jobs, 8 percent had part-time jobs, and a further 2 percent said their business was being operated by someone else (Tremlett 1993). When the percentage of participants engaged in either self-employment or wage and salary work is measured in follow-up surveys, approximately eight out of ten are found in one or the other type of employment (see Table 9). The U.S. demonstration projects provide an interesting comparison of the employment status of program participants and non-participants. Participants in these projects received support for self-employment, while non-participants remained in the unemployment insurance scheme. A higher percentage of participants were employed in both demonstration projects than non-participants (shown in parenthesis in Table 9).

There is evidence that increased screening of program participants weeds out those most likely to fail, but that program assistance such as business advisory services has no measureable impact on survival rates in the short term. The attraction of this assistance, however, may increase program participation rates. There are many factors influencing survival rates and it is difficult to sort out the influence of any single factor. The U.K. self-employment program underwent changes in 1991 that led to a tighter screening of participants. The Australian NEIS program did likewise. Subsequently, as shown in Table 10, both experienced higher survival rates with the tighter screening of participants.

<table>
<thead>
<tr>
<th>Table 10: Survival Rates Before and After Increased Screening</th>
</tr>
</thead>
<tbody>
<tr>
<td>Survey</td>
</tr>
<tr>
<td>-----------------</td>
</tr>
<tr>
<td>Before</td>
</tr>
<tr>
<td>UK (1987)</td>
</tr>
<tr>
<td>Australia (1989)</td>
</tr>
<tr>
<td>After</td>
</tr>
<tr>
<td>UK (1991)</td>
</tr>
<tr>
<td>Australia (1990)</td>
</tr>
</tbody>
</table>

Source: Data provided by national authorities. For more information, see World Bank Education and Social Policy (ESP) Discussion Paper No. 30.

Comparison of survival rates between program participants and non-participants in the two U.S. demonstration projects do not reveal any difference in these rates to attribute to participants' access to business advisory services in the short term. Survival rates collected during the 18 month follow-up survey showed that those receiving business advisory services were no better than those in the control group who did not receive the business training and counselling. The numbers of self-employed in the treatment groups were much higher, however, suggesting that access to these services increased self-employment rates (Benus and others, 1993). However, early results from the final follow-up survey suggest significantly higher survival rates for those receiving the business advisory services (Benus and others, forthcoming).
As an employment generation strategy, self-employment does not contain a large multiplier effect in which the self-employed hire large numbers of additional workers. As seen in Table 11, only about 10 percent of the self-employed in Australia's NEIS program after 12 months had hired full-time workers. Another 12 percent had hired part-time workers. The U.K.'s experience was similar to this. In France, after four years 29 percent of the self-employed had hired additional full-time and part-time workers. The multiplier effect in these cases is about one-half job for each self-employed survivor. Low hiring rates are the pattern of self-employment in most OECD countries (OECD 1992).

<table>
<thead>
<tr>
<th>Survey</th>
<th>1. Employing Enterprises</th>
<th>2. Jobs Created (per 100 survivors)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Full time</td>
<td>Part time</td>
</tr>
<tr>
<td>Australia 1991 (12 month)</td>
<td>9.8 %</td>
<td>12.4 %</td>
</tr>
<tr>
<td>France 1986 (54 months)</td>
<td></td>
<td>29</td>
</tr>
<tr>
<td>UK 1991 (18 month)</td>
<td>9</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: Data provided by national authorities. For more information, see World Bank Education and Social Policy (ESP) Discussion Paper No. 30.

Deadweight Effect

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

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

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

Table 12: Deadweight Estimates for Self-Employment Programs

<table>
<thead>
<tr>
<th>Country</th>
<th>Estimate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>39 %</td>
</tr>
<tr>
<td>Denmark</td>
<td>56 %</td>
</tr>
<tr>
<td>France</td>
<td>60 %</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>42 %</td>
</tr>
<tr>
<td>US (Washington)</td>
<td>26.6 %</td>
</tr>
<tr>
<td>US (Massachusetts)</td>
<td>28.6 %</td>
</tr>
</tbody>
</table>

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

Source: Data provided by national authorities. For more information, see World Bank Education and Social Policy (ESP) Discussion Paper No. 30.

Table 13: Self-Employment Program Expenditure per Participant Year

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

* a. Cost figures exclude administration costs except in Canada and Australia.
* b. Includes small enterprise loans.

Source: Data provided by national authorities. For more information, see World Bank Education and Social Policy (ESP) Discussion Paper No. 30.
The U.S. demonstration projects suggest that lump-sum payment programs produce higher expenditures per participant than periodic allowance programs. Even though the maximum benefit available to both groups was the same, the Washington State program paid program participants an average of $1,100 more than was paid to control group members through unemployment insurance payments. By comparison, in the Massachusetts program, self-employment participants were paid, on average, $550 less than unemployment beneficiaries. This added cost has to be weighed against measures of the program’s effectiveness.

Self-Employment and Micro-Enterprise Programs in Poland and Hungary

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

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

Poland

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

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

Donor organizations are beginning to play a key role in financing and technical assistance for small and medium-sized enterprises. The Cooperation Fund was established by the Government to stimulate and support activities and initiatives aimed at facilitating democratic change, ownership transformation, and economic development. The Fund currently administers two small enterprise development programs, which are being financed by the European Commission’s PHARE program: the Small and Medium Enterprises Sector Import and Support Program (ECU 6 million) and the Private Sector Development Program (ECU 6 million). The Structural Development in Selected Regions (STRUDER) program, also supported by the EC PHARE with a fund of ECU 76 million and managed by the Polish Agency for Regional Development, is designed to aid the development of small and medium-sized private enterprises and contribute to local infrastructure and training of human resources.

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

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

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

Average exchange rate (market rate rf) for 1992: Zi 13626.
Source: Data provided by the Polish Development Bank (PDB), the Bank for Socio-Economic Initiatives and the Polish-American Enterprise Fund.
Target Population. The PNIDZ Program, like its OECD counterparts, is not an entitlement program. The numbers supported are constrained by the size of the program budget, which is drawn from the MOLSP’s Labor Fund. An individual must be either unemployed or have received notice by his employer of a pending layoff. Those who have exhausted their unemployment benefits are not eligible for the program, although another loan scheme is available to them through social welfare assistance.\(^3\) The combined target populations of the two MOLSP programs makes the number of those eligible for self-employment assistance large. There is no further restriction on the target population related to the length of unemployment.

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

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

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

Delivery of Services. For applicants admitted to the PNIDZ Program, services are provided directly by local labor offices. Private intermediaries are not used as in OECD countries. The MOLSP through its local labor offices both finance and deliver self-employment assistance. The contract is signed with these offices and the loan is paid, frequently in cash, by these offices. Local labor offices are also responsible for monitoring loan repayments. Should the recipient be late in his payment or default, the local labor offices contacts the applicant and, if necessary, pursues the matter through the

\(^3\) One of the programs administered by the MOLSP’s Social Policy arm is the Social Welfare Loans for Individual Economic Activity (Rozwój Malej Przedsiębiorczości). The program provides loans and business counselling to participants wishing to start new businesses. The maximum loan is 30 times the minimum social welfare benefit.
courts. This places a burden on the staff of these offices who in many instances are not trained for this activity and whose time must be taken from other labor exchange functions.

The MOLSP is taking steps to address this problem by financing the development of private sector organizations to deliver pre- and post-entry business advisory services. As an example, the Foundation for Socio-Economic Initiatives (FISE) has received a grant from the MOLSP to provide PNIDZ clients in 60 local labor offices with a one-week training course and five hours of business counselling. FISE is an independent, non-profit agency with a network of 14 local offices offering business advisory services and training to small businesses. MOLSP is also receiving support from a World Bank loan that would develop the capacity of non-governmental institutions to promote self-employment for the unemployed.

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>Unemployment Benefit</th>
<th>PNIDZ Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum benefit payable</td>
<td>ZŁ 10,800,000</td>
<td>ZŁ 54,000,000</td>
</tr>
<tr>
<td>Maximum term allowed by law</td>
<td>12 months</td>
<td></td>
</tr>
<tr>
<td>Avg benefit paid</td>
<td>..</td>
<td>32,600,000*</td>
</tr>
</tbody>
</table>

* Because of budgetary constraints, many of the local labor offices prefer to offer smaller loans (ZŁ 32 000 000) in order to be in a position to accept more applicants to the program.
Source: Data provided by the Ministry of Labor and Social Affairs, Poland.

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

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

Source: Data provided by the Ministry of Labor and Social Affairs, Poland.

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

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

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

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Participants</th>
<th>Participants/Unemployed (%)</th>
<th>Share in Labor Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>32,419</td>
<td>2.9</td>
<td>13.9</td>
</tr>
<tr>
<td>1991</td>
<td>13,426</td>
<td>0.6</td>
<td>2.0</td>
</tr>
<tr>
<td>1992</td>
<td>4,907</td>
<td>0.2</td>
<td>0.7</td>
</tr>
<tr>
<td>1993</td>
<td>6,145</td>
<td>0.2*</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Source: Data provided by the Ministry of Labor and Social Policy, Poland.

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

Hungary

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

A number of Ministries are engaged in supporting new enterprises. The Ministry of Labor, however, was the first in Central and Eastern Europe to offer a self-employment program. The Ministry of Industry and Trade (MIT) created the National Small Enterprise Development Office (OKFI) in 1990 to develop small business policies and plan an advocacy role, but neither the Ministry or OKFI offered technical or financial assistance to new entrepreneurs. Other Ministries, however, such as Finance, Agriculture, and Environment Protection and Regional Development administered credit programs for new enterprises. Access to credit is a major component of small business programs in Hungary as it is in Poland.
Table 18: EC PHARE Micro Credit Line -- Sept. 1992 to October 1993

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

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

Source: Data provided by SME PHARE Program, Hungary.

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

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

**Target Population.** The Újk program was introduced nation-wide in 1989. It was open to the registered unemployed who were eligible for unemployment benefits and to those graduating from high school and university. Almost immediately, the target group was expanded to include individuals without any employment. This proved important in light of the program’s failure to screen applicants effectively. Anyone without a job could claim the credit offered. There was no requirement for individuals to be unemployed for a period of time. Thus, individuals leaving their job the day before were eligible as were those with no employment history. The MOL was unable to predict accurately the
were eligible as were those with no employment history. The MOL was unable to predict accurately the demand for the program. Claimants came from highly-qualified blue-collar and white-collar professionals who would have had little difficulty finding paid employment.

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

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

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

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

The cost of the Újk program began to swell and the Ministry of Labor withdrew from the loan scheme and shifted to the Mvve program which offered a monthly allowance and 50 percent cost reimbursement on business advisory services. The Mvve program was simple. It too required little screening as explained above. It offered six months of extended unemployment benefits plus the 50 percent rebate of expenditures on business training, counselling, and credit security insurance. While not nearly as financially attractive as the Újk program with its large, interest-free loans, it nevertheless offered additional income for the unemployed with little effort required in return.
Table 19: Újk Loan Scheme

<table>
<thead>
<tr>
<th></th>
<th>1989</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Maximum loan size</strong></td>
<td>300,000 HUF (US$5,080)</td>
<td>400,000 HUF (US$6,300)</td>
</tr>
<tr>
<td><strong>Maximum Term</strong></td>
<td>10 years</td>
<td></td>
</tr>
<tr>
<td><strong>Collateral</strong></td>
<td>none</td>
<td></td>
</tr>
<tr>
<td><strong>Total number of loans</strong></td>
<td>12,782</td>
<td>29,429</td>
</tr>
<tr>
<td><strong>Total amount lent (HUF)</strong></td>
<td>4.5 billion</td>
<td>10.2 billion</td>
</tr>
<tr>
<td><strong>Average loan size</strong></td>
<td>345,472 HUF* (US$5,500)</td>
<td></td>
</tr>
<tr>
<td><strong>Average Terms</strong></td>
<td>4.7 years</td>
<td></td>
</tr>
<tr>
<td><strong>Interest rate paid by Ministry of Labor</strong></td>
<td>market</td>
<td>market</td>
</tr>
<tr>
<td><strong>Interest rate paid by recipient</strong></td>
<td>0 %</td>
<td>0 %</td>
</tr>
</tbody>
</table>

* 1989-90 average.

Source: Data provided by the Ministry of Labor, Hungary.

Average HUF exchange rate (official rf) for 1998: 59.066; 1990: 63.206.

Program Outcomes. The results in the case of the Újk program were predictable. With interest-free loans offered and a widely defined target group, participation exploded to nearly half the unemployed in 1989, before falling to 37 percent in 1990. The program proved to be costly since the Ministry assumed all interest payment obligations. Under a tightened budget constraint and the more narrowly defined target population of the Mvve program, participation rates fell sharply to levels like those in Poland and some OECD countries.

Table 20 reveals the cost of the Újk program to Hungary’s Employment Fund. Interest payments a year after the program was closed absorbed one-third of the Fund’s resources, while the Mvve program accounted for less than 2 percent. Even three years after closure of the Újk program, interest payments amounted to more than seven percent of the Employment Fund.

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

<table>
<thead>
<tr>
<th></th>
<th>Újk</th>
<th>Mvve</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>6.9</td>
<td>---</td>
</tr>
<tr>
<td>1990</td>
<td>38.8</td>
<td>---</td>
</tr>
<tr>
<td>1991</td>
<td>33.7</td>
<td>0.2</td>
</tr>
<tr>
<td>1992</td>
<td>15.7</td>
<td>1.8</td>
</tr>
<tr>
<td>1993*</td>
<td>7.4</td>
<td>1.2</td>
</tr>
</tbody>
</table>

* January - September

Source: Data provided by the Ministry of Labor, Hungary.
and reduced the program’s financial benefits, but the number of program participants, instead of falling, rose. The numbers, however, have not exceeded those of Poland or OECD countries. Without screening or the benefit of participant monitoring there is a question of whether the benefits are being used for self-employment, or for merely extending unemployment benefits. Table 21, for example, shows virtually no use of the subsidized business advisory services offered by the Mvve, while the number of claimants is rising.

Table 21: Number of Mvve Participants by Type of Service

<table>
<thead>
<tr>
<th></th>
<th>Loan or allowance</th>
<th>Training reimbursement</th>
<th>Counselling reimbursement</th>
<th>Insurance reimbursement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>1,042</td>
<td>3</td>
<td>24</td>
<td>2</td>
</tr>
<tr>
<td>1992</td>
<td>5,466</td>
<td>5</td>
<td>124</td>
<td>5</td>
</tr>
<tr>
<td>1993*</td>
<td>8,388</td>
<td>1</td>
<td>137</td>
<td>1</td>
</tr>
</tbody>
</table>

* January - September  
Source: Data provided by the Ministry of Labor, Hungary.

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

Lessons from Experience

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

Support for self-employment should be seen as one item on a menu of strategies for employment creation. As this study shows, it is not a panacea for unemployment. In both market and transitional economies well-designed self-employment programs will reach up to five percent of the
unemployed. Those who participate will be primarily male, better educated, and in their 30’s. The programs offered tend not to attract women. If gender issues are of concern among the unemployed different strategies will be required to introduce women to self-employment. The findings also diminish expectations of self-employment as a solution for graduate unemployment. Not only are the young less inclined to participate in these programs where self-screening is used, there is the suggestion that the success and survival of the enterprise is greater for those 35 years of age and older.

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

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

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

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

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

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


Benus, Jacob et al. (Forthcoming). Final Analysis of the Washington State and Massachusetts Demonstrations. Bethesda, Maryland: Abt Associates, Inc.


36


Distributors of World Bank Publications

ARGENTINA
Carlos Hirsch, SRL
Galeries Cusums
Rienda 165, 4th Floor-OFC 423/426
1333 Buenos Aires

AUSTRALIA, PAPUA NEW GUINEA,
FIJI, SOLOMON ISLANDS,
VANUATU, AND WESTERN SAMOA
D.A. Information Services
648 Whitehorse Road
Mitcham 3132
Victoria

AUSTRIA
Gerold and Co.
Graben 31
A-1011 Wien

BANGLADESH
Micro Industries Development Assistance Society (MIDAS)
House S, Road 16
Dhanmondri, R/Area
Dhaka 1209

BELGIUM
Jean De Lannoy
Av. du Roi 202
1060 Brussels

CANADA
La Diffuseur
151 A. Boul. de Montagne
Boucherville, Quebec
H4L 5A

CHILE
Inverte ICT S.A.
Av. Santa Maria 6400
Edificio INTERC, Of. 201
San Santiago

CHINA
China Financial & Economic Publishing House
8, Da Fu Si Ding 5F
Beijing

COLOMBIA
Infonlace Ltda.
Apartado Aereo 34270
Bogota D.E.

CÔTE D’IVOIRE
Centre d'Edition et de Diffusion Africaines (CEDA)
04 B.P. 541
Abidjan 04 Plateau

CYPRUS
Center of Applied Research
Cyprus College
6, Diogenes Sreet, Engomi
P.O. Box 2066
Nicosia

DENMARK
Samfundsforskningens Forlag
Rosenhøj Allé 11
DK-1570 Copenhagen C

DOMINICAN REPUBLIC
Ediciones Taller, C. por A.
Restauración e Isabel la Católica 309
Apartado de Correos 2190 Z-1
Santo Domingo

EGYPT, ARAB REPUBLIC OF
Al Ahram
Al Galia Street
Cairo

The Middle East Observer
41, Shefik Street
Cairo

FINLAND
Akademinen Kirjakauppa
P.O. Box 128
SF-00101 Helsinki 10

FRANCE
World Bank Publications
66, avenue d’Iéna
75116 Paris

GERMANY
UNO-Verlag
Poppendorfer Allee 55
D-5060 Bonn 1

HONG KONG, MACAO
Asia 2000 Ltd.
46-48 Wyndham Street
Winning Centre
2nd Floor
Central Hong Kong

HUNGARY
Foundation for Market Economy
Domboveni Ut 17-19
H-1117 Budapest

INDIA
Allied Publishers Private Ltd.
751 Mount Road
Madras - 600 002

Breach office:
Pine View, 1st Floor
100 Agrasinh Commercial Area
Chittagong 410

BELGIUM
Jean De Lannoy
Av. du Roi 202
1060 Brussels

IRELAND
Makati, Metro Manila

SPAIN
Mundi-Prensa Libros, SA
Casella Postale 552
1200 Lisbon

ITALY
Lire&Commissione Sanioni SPA
Via Duca Di Calabria, 1/1
Casella Postale 552
50125 Firenze

JAPAN
Eastern Book Service
Hong Kong

KENYA
Africa Book Service (E.A.) Ltd.
Quaran House, Mliango Street
P.O. Box 4260
Nairobi

KOREA, REPUBLIC OF
Pan Korean Book Corporation
P.O. Box 101, Kwangwhamun
Seoul

KOREAN STOCK BOOK CENTRE
P.O. Box 34
Yeooldo
Seoul

MALAYSIA
University of Malaysia Cooperative Bookshop, Limited
P.O. Box 1277, Jalan Pantai Baru
59700 Kuala Lumpur

MEXICO
INFOTEC
Apartado Postal 22-860
14610 Tlalpan, Mexico D.F.

NETHERLANDS
De Lindeboom/Infopublikaties
P.O. Box 202
7486 AE Haaksbergen

NEW ZEALAND
EBSCO NZ Ltd.
Private Mail Bag 9914
New Market
Auckland

NIGERIA
University Press Limited
Three Crowns Building Jericho
Private Mail Bag 5095
Ibadan

NORWAY
Norwegian Information Center
Book Department
P.O. Box 8125 Bletterad
N-0620 Oslo 6

PAKISTAN
Mirza Book Agency
65, Shahrah-e-Quaid-e-Azam
P.O. Box No. 729
Lahore 54000

PERU
Editorial Desarrollo SA
Apartado 2824
Lima 1

PHILIPPINES
International Book Center
Suite 1703, Cityland 10
Condominium Tower 1
Ayala Avenue, H.V. dela Rosa Extension
Malakal, Metro Manila

POLAND
International Publishing Service
Ul. Placna 31/37
00-677 Warsaw

For subscription orders:
IPF Journal
Ul. Okrężna 3
02-916 Warsaw

PORTUGAL
Livraria Portugal
Rua Da Cunha 70-74
1200 Lisbon

SAUDI ARABIA, QATAR
Jair Book Store
P.O. Box 3196
Riyadh 11471

SINGAPORE, THAILAND,
MYANMAR, BRUNEI
Tower Asia Pacific Pte Ltd.
Golden Wheel Building
41, Kallang Paddling, 04-03
Singapore 1334

SOUTH AFRICA, BOTSWANA
For single titles:
University Of Pretoria
P.O. Box 1141
Cape Town 8000

For subscription orders:
International Subscription Office
P.O. Box 11095
Craighead
Johannesburg 2024

SPAIN
Mundi-Prensa Libros, S.A.
Casella Postale 552
28001 Madrid

ST. LUCIA

SRI LANKA AND THE MALDIVES
Lake House Bookshop
P.O. Box 244
100, Sir Chittappalam A.
Gardner Matawa
Colombo 2

SWEDEN
For single titles:
Fritzes Fackbokslagret
Regeringsgatan 12, Box 18356
S-103 27 Stockholm

For subscription orders:
Wennergren-Williams AB
P. O. Box 3065
S-171 27 Solna

SWITZERLAND
For single titles:
Librairie Payot

For subscription orders:
Librairie Payot
Service des Abonnements
Case postale 3212
CH 1022 Lausanne

THAILAND
Central Department Store
306 Silom Road
Bangkok

TRINIDAD & TOBAGO, ANTIGUA
BARBUDA, BARBADOS,
DOMINICA, GRENADA, GUYANA,
JAMAICA, MONTserrat, ST.
KITTs & NEVIS, ST. LUCIA,
ST. VINCENT & GRENADINES
Systematics Studies Unit
w 9, Wata Street
Curepe
Trinidad, West Indies

UNITED KINGDOM
Microinfo Ltd.
P.O. Box 3
Alton, Hampshire GU3 4PG

England
Recent World Bank Discussion Papers (continued)

No. 235  The Design and Administration of Intergovernmental Transfers: Fiscal Decentralization in Latin America. Donald R. Winkler

No. 236  Public and Private Agricultural Extension: Beyond Traditional Frontiers. Dina L. Umali and Lisa Schwartz

No. 237  Indonesian Experience with Financial Sector Reform. Donald P. Hanna

No. 238  Pesticide Policies in Developing Countries: Do They Encourage Excessive Use? Jumanah Farah

No. 239  Intergovernment Fiscal Relations in Indonesia: Issues and Reform Options. Anwar Shah and Zia Qureshi

No. 240  Managing Redundancy in Overexploited Fisheries. Joshua John

No. 241  Institutional Change and the Public Sector in Transitional Economies. Salvatore Schiavo-Campo

No. 242  Africa Can Compete!: Export Opportunities and Challenges for Garments and Home Products in the U.S. Market. Tyler Biggs, Gail R. Moody, Jan-Hendrik van Leeuwen, and E. Diane White

No. 243  Liberalizing Trade in Services. Bernard Hoekman and Pierre Sauvé

No. 244  Women in Higher Education: Progress, Constraints, and Promising Initiatives. K. Subbarao, Laura Raney, Halil Dundar, and Jennifer Haworth

No. 245  What We Know About Acquisition of Adult Literacy: Is There Hope? Helen Abadzi

No. 246  Formulating a National Strategy on Information Technology: A Case Study of India. Nagy Hanna

No. 247  Improving the Transfer and Use of Agricultural Information: A Guide to Information Technology. Willem Zijp

No. 248  Outreach and Sustainability of Six Rural Finance Institutions in Sub-Saharan Africa. Marc Gurgand, Glenn Pederson, and Jacob Yaron

No. 249  Population and Income Change: Recent Evidence. Allen C. Kelley and Robert M. Schmidt

No. 250  Submission and Evaluation of Proposals for Private Power Generation Projects in Developing Countries. Edited by Peter A. Cordukes

No. 251  Supply and Demand for Finance of Small Enterprises in Ghana. Ernest Aryeetey, Amoah Baah-Nuakoh, Tamara Duggleby, Hemamala Hettige, and William F. Steel

No. 252  Projecting the Governance Approach to Civil Service Reform: An Institutional Environment Assessment for Preparing a Sectoral Adjustment Loan in the Gambia. Rogerio F. Pinto with assistance from Angelous J. Mrope

No. 253  Small Firms Informally Financed: Studies from Bangladesh. Edited by Reazul Islam, J. D. Von Pischke, and J. M. de Waard

No. 254  Indicators for Monitoring Poverty Reduction. Soniya Carvalho and Howard White

No. 255  Violence Against Women: The Hidden Health Burden. Lori L. Heise with Jacqueline Pitanguy and Adrienne Germain

No. 256  Women's Health and Nutrition: Making a Difference. Anne Tinker, Patricia Daly, Cynthia Green, Helen Saxenian, Rama Lakshiminarayanan, and Kirrin Gill

No. 257  Improving the Quality of Primary Education in Latin America: Towards the 21st Century. Lawrence Wolff, Ernesto Schiefelbein, and Jorge Valenzuela

No. 258  How Fast is Fertility Declining in Botswana and Zimbabwe? Duncan Thomas and Ityai Muvandi

No. 259  Policies Affecting Fertility and Contraceptive Use: An Assessment of Twelve Sub-Saharan Countries. Susan Scribner


No. 261  Poverty Alleviation and Social Investment Funds: The Latin American Experience. Philip J. Glassner, Kye Woo Lee, Anna Maria Sant'Anna, and Jean-Jacques de St. Antoine

No. 262  Public Policy for the Promotion of Family Farms in Italy: The Experience of the Fund for the Formation of Peasant Property. Eric B. Shearer and Giuseppe Barbero