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Microfinance as a tool to stimulate self-employment in the EU

Exploring the conditions to reach this objective

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Summary

This thesis will look at the question: Under what conditions can microfinance be a useful tool for the European Union for stimulating self-employment to reduce unemployment?

For decades the EU and its Member States are dealing with unemployment and the high costs for unemployment benefits attached to it. So the Member States are looking for ways to deal with this problem. The objective therefore was getting more people from welfare to work. But before the 1990s there were no common policies for employment within the EU. A big change in employment policies came through the 'European Employment Strategy'. This continued with the Lisbon strategy and more recently the renewed Lisbon strategy that contains a set of guideline to promote employment. The concern about employment was emphasized by the European Commission by increasing the budget for Growth and Jobs. This budget nowadays is the biggest part of the total EU budget. A part of the budget is especially reserved for microfinance as a tool to stimulate self-employment.

Multiple resources are involved in stimulating self-employment to reduce unemployment, however the first question rises: Is there a relationship between the level of self-employment and that of unemployment? There are theories that claim that an increase in unemployment will lead to an increase in self-employment. Other theories claim that an increase in self-employment will lead to a decrease in unemployment. Empirical data showed that the effect of self-employment reducing unemployment has a bigger outcome. The shortcoming for this relationship lies in the fact that the effect takes longer to have its influences. Unfortunately it was also made clear that the start-ups do not have high expectations to survive the first five years. This decreases the chance that the effect of reducing unemployment takes place. This pleads for policies that support the self-employed during the first years. Statistics have also shown that there is case of supporting self-employment in the EU. The self-employment level kept rising, while the unemployment level was going down. Self-employment has also proven to be a continuous stabile factor of total employment.

Other factors that can influence the level of self-employment are the economic development and the social security factor. Different stages of economic development have their reflection on the labour market. Economic prosperity creates more possibilities on the labour market, also that of becoming self-employed. Economic decline has a negative reflection on the labour market. People are threatened by unemployment and than self-employment can be used as a refuge.

Social security for instance is one of the fields that is not entirely covered for the self-employed worker. So people who are becoming self-employed are also giving up there social security.

Fortunately there is improvement in this field.

More Member States are acknowledging self-employment as a separate form of employment and are giving it a status within legislation. This makes it possible to set up social security schemes that are moving towards schemes that already exist for wage employment.

Next to social security there are also other policy fields that need to change in order to stimulate self-employment. So which other policies are there to stimulate self-employment?

Outside the EU, in the US and Australia there are programs to stimulate and support unemployed people who want to become self-employed. The programs are providing different kinds of support, in order to encourage the unemployed to become self-employed. The support consists of financial aid, coaching and training. This kind of support makes it possible for the less advantaged people to become self-employed. The extra non-financial services improve the skills and knowledge of the new self-employed workers. The purpose of these new skills and knowledge is to reduce business failure.

Looking at the EU, entrepreneurship and thereby self-employment are on the policy agenda for the period up to at least 2013. The policies emphasize the shortcomings and the need to overcome the obstacles in order to get people self-employed. Unfortunately at this moment a lot of issues stay part of the dialogue, more clear plans have to be made. An important topic remains the social and legal status of self-employment, this causes that the self-employed themselves stay responsible for getting social insurances. Another topic is the creation of a more SME-friendly regulatory and administrative framework.

Another method of financial support to stimulate self-employment is microfinance. In practice it shows that it is very difficult for people to get a small business loan. There are several issues why banks are reluctant to provide small loans to unemployed people. At first, they do not have a collateral. Second, the revenues are small compared to the efforts that have to be made to provide such a loan. Microfinance can be an option. Microfinance programs are especially designed to help the unemployed and other less fortunate in order to promote social inclusion. Another advantage of microfinance is that besides providing finance also additional services are provided such as education and business training. This gives the participants extra assistance in becoming self-employed. So under what conditions is microfinance a useful tool to stimulate self-employment? There are two types of conditions: the internal and the external. The internal conditions are about good governance to secure the sustainability of a program. This means that the management has to ensure that a program can work as efficient as possible without cutting back on the provided services. This means monitoring the inflow and outflow of the resources.

The external conditions should make it easier for microfinance providers to operate.

The governments should provide an overall framework for microfinance, with certain support form different policy fields such as an economic framework and proper infrastructure.

So what can be done to make microfinance a useful tool to stimulate self-employment? In order to keep stimulating self-employment, the EU should focus on creating a framework containing the following policy fields: a status for microfinance and self-employment, financial and regulatory adjustments. A status for self-employment makes it is easier to create and adopt polices for social security to the self-employed. The next part of the framework is the regulation for providing financial services. A lot if microfinance programs are lending money while they are not registered as a financial institution. To allow these organizations to provide financial services there have to be specific and strict regulations. These regulations are the responsibility of both the EU as well as the Member States.

And of course the design of a microfinance program. The management and staff are preferably people with an entrepreneurial and/or financial background. Because of their background the suggested management and staff know what it is to run a business. This has two advantages; the first is that they can the run the program in an efficient way and the second advantage is that they can use their experience to help the participants. The help consists of giving training, coaching and they can act as counsellors for the new self-employment. A microfinance program naturally also provides finance, so what sort of financing is should be given: a lump sum of money or a monthly allowance? A mix of these products is most desirable. Providing a sum to help out with the start-up, afterwards a periodical allowance. This allowance should be seen as an income support and a support for the operating costs over a certain time span.

And of course people should be more aware of the possibilities to become self-employed.

Therefore the EU and the Member States must promote self-employment more actively.

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Glossary

EES	European Employment Strategy
EIB	European Investments Bank Group
EU	European Union
ILO	International Labour Organization
JEREMIE	Joint European Resources for Micro to Medium Enterprises
MAP	Multiannual Program for Enterprise and Entrepreneurship
MFIs	Microfinance institutions
MGS	Mutual Guarantee Societies
NAPs	National Action Plans
NEIS	New Enterprise Incentive Scheme
NGOs	Non Governmental Organizations
OECD	Organisation for Economic Co-operation and Development
PPM	Post Programme Monitoring
SMEs	Small and medium-sized enterprises
SWOT	Strengths, Weaknesses, Opportunities and Threats
UI	Unemployment Insurance
UISED	Unemployment Insurance Self-Employment Demonstration
US	United States
UWV	Uitvoeringsinstituut WerknemersVerzekeringen

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Chapter 1: Introduction of the thesis

1.1 General introduction

This Master Thesis is written for the University of Twente. The aim of this thesis is to investigate whether stimulation of self-employment can help to reduce unemployment in the European Union (EU). The thesis also examines the possibilities for microfinance as a tool to stimulate self-employment.

Unfortunately, during the current economic recession a lot of people have to deal with unemployment. This can be direct if you lose your job or indirect if people in your environment lose their job.

The governments of the EU Member States have to deal with this unemployment problem. However, unemployment in the EU is not a recent problem. The problem is present for decades. The figures show that unemployment has been rising from just over 4% in 1976 to well over 10% in the mid-1990s (Kleinman, 2002, p.165). These figures show the development of the last century, so what is the current situation? In 2000 the total unemployment rate in the EU (27 countries) was 8.7%¹ and 7.0% in 2008 (Eurostat²). This shows that there is a decrease in the unemployment rate but it still is not at the level of the 1970s.

So the unemployment rate is a structural problem that has to be dealt with. But how can this be done?

Looking again at Kleinman (2002, p.161), the European Commission in the Person of Allan Larsson³ spoke about a 'new approach' in labour market policies. This approach should focus more on active labour market policies and a preventive approach. In other words, changes had to be made. These changes have to come from a Europe-wide shift in social policy 'from welfare to work'. In other words it means getting more people off benefits and let them participate in the labour market. People who are living on unemployment benefits can be active in the labour market again in several ways. Basically there are two kinds of workers: people who are employees and people who are working but are not employees (Pedersini and Coletto, 2009, p. 5). Employees can be described as people who work for an employer and receive compensation for this work in the form of wages, salaries (Pedersini and Coletto, 2009, p. 4).

¹ Percentage of the labour force

² http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_ifs/data/main_tables

(tsiem110) last visited at 9 September 2009

³ Former Director General for Employment and Social affairs for the European Commission

The second group is more difficult to describe because it contains all independent work, meaning all the professions apart from dependant employment (Pedersini and Coletto, 2009, p. 4). One group among these workers are the self-employed workers. As the title of this thesis shows us, this thesis will focus this group. So what does self-employment mean?

Self-employed workers are not easy to describe, because self-employment exists in different forms. Basically self-employed can be divided into a traditional group and a new group. The traditional consists of occupations such as traders, craftspeople, 'liberal' professionals and farmers. Than there are the "new autonomous occupations" where it is not easy to describe different occupational groups (Pedersini and Coletto, 2009, p. 10). This thesis will focus on the "new autonomous occupations" because the traditional group is already heavily regulated (Pedersini and Coletto, 2009, p. 10). So if this thesis mentions self-employment or self-employed workers it refers to the "new autonomous occupations". Among the autonomous occupations there is one group, on which the main focus of this thesis lies, the so called: own account workers without employees of the new group. Or as the definition by the Eurostat Labour Force survey states: "Self-employed persons not employing any employees are defined as persons who work in their own business, profession or farm for the purpose of earning a profit, and who employ no other persons" (Pedersini and Coletto, 2009, p. 4). I will focus on this group because we are examining the stimulation of self-employment and especially people who want to become self-employed. Because it is not likely that these people are having employees from the beginning, the self-employed workers without employees will be the target group.

Self-employment can be a viable alternative for unemployment. However, not everybody is suitable to become a self-employed worker. Most of the disadvantaged people who choose to become self-employed are among the least disadvantaged in terms of assets, education, experience and skills (Schreiner, 1999, p. 511). Making a self-employed worker of someone who does not have these assets could worsen their situation. Besides becoming unemployed again there is also a chance that these people will have (an extra) debt because of ending their self-employment activities. For this group other alternatives for unemployment should be found. To make it possible for people to get employed more easily a change in policy is necessary. Throughout the entire EU measurements have to be taken to support people to get self-employed.

Before the early 1990s there was no common employment policy. Dealing with employment issues such as unemployment was the responsibility of the governments of the Member States.

This changed with the European Employment Strategy (EES). “The Strategy is founded in the Employment Title. This title is incorporated into the Amsterdam Treaty”⁴ (Kleinman, 2002, p.187) Employment is now an issue of common concern for the Union. In March 2000 the Lisbon Summit was held (Groenendijk, 2004 p. 8). This summit was the base of the Lisbon strategy. The Lisbon strategy aimed at employment and the EES had the leading role in order to reach the objectives (European Commission, 2005, p. 25). To reach the objectives in 2002 Employment Policy Guidelines were introduced. These guidelines contain a pillar for entrepreneurship; Pillar 2 Developing Entrepreneurship (Groenendijk, 2004 p. 11). In order to emphasize the importance of entrepreneurship for the EU in 2004 an action Plan: The European Agenda for Entrepreneurship was launched (European Commission, 2006). Such an action plan shows that the EU is active in order to stimulate entrepreneurship.

After a few years the goals of the Lisbon strategy were revised. The European Commission made several proposals to improve the strategy and at the European Council of March 2005 these proposals were approved and the Lisbon strategy was relaunched. With the renewed Lisbon strategy also new guidelines were introduced, the so called “Integrated guidelines for growth and jobs (2005-2008) (European Commission, 2005). The purpose of these guidelines was to provide a stable and coherent framework to make it possible to implement the priority measures approved by the European Council (European Commission, 2005, p. 7). The guidelines contain a set of Employment guidelines in order to provide a framework for the continuation of the employment objectives of the EU. But more interesting are the Micro economic guidelines. In this set of guidelines there are two guidelines that specifically aim at entrepreneurship (European Commission, 2005, p. 7):

- Guideline. To create a more attractive business environment (Integrated guideline No. 9)
- Guideline. To promote a more entrepreneurial culture and create a supportive environment for small and medium-sized enterprises (SMEs) (Integrated guideline No. 10)

⁴ Amsterdam Summit in 1997, Articles 125-120

These guidelines reflect the intentions of the EU in the field of supporting entrepreneurship. In Integrated guideline No. 10 the specific aim is the small businesses under which self-employed workers can be placed. The intentions of the EU did not end in 2008. For the period of 2007-2013, in line with the Cohesion Policy in Support of Growth and Jobs, a new framework has been set up (European Commission, 2005b, p. 8). As part of this framework several strategic guidelines are launched. One set of these guidelines has the purpose to 'Facilitate innovation and promote entrepreneurship' (European Commission, 2005b, p. 20-22).

All the guidelines and the action plan show us that in theory the EU has great interest in promoting employment and entrepreneurship. But has action been taken to support the employment and entrepreneurial objectives in practice?

In the EU the importance of the growth and employment strategy is emphasized by financial support. The budget for growth and employment has increased in the period 2008-2010. The total budget for growth and employment nowadays exceeds the agricultural budget. This started with the budget proposal by the European Commission for 2008. The budget for growth and jobs should grow and it was proposed as follow: "The renewed Lisbon Strategy remains at the core of EU policy. € 57.2 billion will be spent on policies related to growth and employment in 2007, that is 2.3 billion more (+4.2%) than in 2006" (European Commission, 2007, p 1). The budget that was determined for 2008 was even bigger € 58 billion⁵. The proposed budget in 2009 was € 60 billion (European Commission, 2008, p 1) and for 2010 the proposed budget will increase to € 62 billion from which channeling funds into projects to save and create jobs, help companies and restore competitiveness will be the EU's top priority (European Commission, 2009, p 1).

The budgets above represent the entire growth and jobs budget. So the question rises how can this budget be used to stimulate self-employment?

In developing countries a tool that is used to stimulate self-employment is microfinance. Microfinance is already used in developing countries for several decades. For instance one of the founders of microfinance is Muhammad Yunus. In 1976 he started the Grameen Bank in Bangladesh, this is a bank that provides micro-credit to poor people. For this effort over decades in 2006 Muhammad Yunus and Grameen Bank were rewarded with the Nobel Peace Prize. The Nobel Prize was given for the achievements of the Grameen Bank in fighting poverty by using microfinance and also for the long term vision of Muhammad Yunus to fight poverty worldwide.⁶ Such a prize shows that worldwide the potential of microfinance is recognized.

⁵ http://ec.europa.eu/budget/library/publications/budget_in_fig/dep_eu_budg_2008_en.pdf, last visited at 18 July 2009

⁶ http://nobelprize.org/nobel_prizes/peace/laureates/2006/press.html, last visited at 6 September 2009

But what is microfinance? Microfinance is often defined as financial services for poor and low-income clients. In practice, the term is often used more narrowly to refer to loans and other services from providers that identify themselves as “microfinance institutions” (MFIs). These institutions deliver very small loans to unsalaried borrowers, taking little or no collateral” (Microfinance Gateway⁷). Because the MFIs provide small loans, microfinance often is referred to as microcredit. While in fact microcredit is just a part of the total package that is provided under microfinance. Other services are savings, insurance, money transfers (Microfinance Gateway⁸)

Not only is microfinance a tool for the developing countries even in developed countries there are programs to stimulate self-employment by providing microfinance. Although the term ‘very small loans’ has to be put into another context. The EU sets the loans provided under microfinance at maximum € 25,000,- (European Commission⁹)

The EU itself uses part of the growth and jobs budget for microfinance. Even now during the crisis the European Commission still supports self-employment through microfinance. The European Commission has made a proposal to provide a budget for microcredit for the period of 2010-2013. Box 1 represents this proposal:

Box 1 European Microfinance Facility

The current economic downturn started as a financial crisis prompted by severe liquidity problems: banks stopped lending to each other and also stopped lending to people to do business and create jobs. The new microfinance facility aims to make it easier for people who, in the current context of reduced credit supply, might have difficulties in accessing funds for business start-ups.

Workers who have lost their jobs or are at risk of losing them and want to establish their own businesses will have better access to funds and benefit from additional support measures such as mentoring, training and coaching. Disadvantaged people, including the young, who want to start or further develop their own small businesses, will also benefit from guarantees and assistance in preparing a business plan.

An initial budget of €100 million is expected to leverage €500 million of credit in cooperation with international financial institutions such as the European Investments Bank Group (EIB). This could result in around 45,000 loans over a period of up to eight years. In addition, the possibility to apply to the loans interest rate rebates from the European Social Fund will make it easier for

Source: <http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=547> last visited at 19 July 2009

As mentioned before an advantage of microfinance is that it consists of more services than just providing a small loan. During the introduction of microfinance it was mentioned that it consists of financial services that are provided to the participants. Box 1 shows us that the EU also provides non-financial services as a part of the microfinance. This support consists for instance of mentoring, training and coaching.

⁷ <http://www.microfinancegateway.org/p/site/m/template.rc/1.26.9183/>, last visited at 6 September 2009

⁸ <http://www.microfinancegateway.org/p/site/m/template.rc/1.26.9183/>, last visited at 6 September 2009

⁹ <http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=547> last visited at 6 September 2009

As we have seen, at this moment self-employment and microfinance are part of the growth and jobs policies in the EU. The next step is to turn the policies into proposals to use microfinance in practice as a useful tool. This thesis will examine the conditions that are necessary for microfinance to be a useful tool to stimulate self-employment.

1.2 Research plan

In the first paragraph a general introduction of the topic of this thesis is given. But what is the goal of this research? The goal of this research is to explore what possibilities there are for the EU to use microfinance as a tool to stimulate self-employment and thereby reduce unemployment. Taking into account the factors that are of influence for an individual to become self-employed. To reach the goal of the thesis the following central question is formulated:

Under what conditions can microfinance be a useful tool for the European Union for stimulating self-employment to reduce unemployment?

The main question can be divided into separate parts. Each part of the main question is a sub-question by itself. The conclusion of these sub-questions will give an answer to the main question.

The three sub-questions for the thesis are:

- In which ways are changes in the self-employment level related to changes in the unemployment level?
- Which policies are there to stimulate self-employment within the EU?
- Under what conditions is microfinance a useful tool to stimulate self-employment?

The sub-questions mentioned here will act as the main questions in each research chapter. In the chapters themselves the questions will be answered by other sub-questions.

1.2.1 Methodology

The type of research is Exploratory. This means that the aim of the thesis is aiming to explore what possibilities there are for the EU to use microfinance as a tool to stimulate self-employment and thereby reduce unemployment. By answering the sub-questions data or information becomes available to make a final conclusion on the topic. The conclusion will be used to do recommendations towards policymakers.

To answer the sub-questions data and other information about the subject is required. The data and information for this subject is collected by the use of several sources. The main sources are: study books, articles, other research documents and the Internet. The books and the Internet are used for more general information about the topic and the EU.

The articles and research documents are used for more specific research. These articles and research document are used to answer the sub-questions in each chapter. They can be divided into the following categories: Theoretical scientific literature and documents, (empirical) research documents and policy documents.

1.2.2 Limitations of the thesis

This thesis has several limitations, which can influence or have influenced the outcomes in this thesis.

The data shown in several tables is taken from previous years. In the mean while certain rates and/or percentages, such as the unemployment level can differ from the data shown in the tables. Also, this thesis focuses on the topic Union-wide, in this case it means that research is done on macro level. This is done to prevent the thesis from becoming too broad. Therefore several factors the micro level that can influence the level of unemployment and self-employment are left out of the thesis. These factors are: gender, ethnicity, and age. In some cases the previous factors are mentioned in this thesis, but that should be seen as additional information. Another aspect, which will not be examined thoroughly because of the scope of the thesis, are the programs used in the Member States. Just like with the other factors mentioned above, national programs will be used in an informative way or as an example.

Another limitation lies in the literature used in this thesis. In several documents entrepreneurship and self-employment are used interchangeably. Policies discussed in chapter 3 often focus on business start-ups. These start-ups can contain entrepreneurs as well as people who want become self-employed. This can be confusing. Even though in some contexts the terms entrepreneurship or business start-up will be used, the focus of this thesis stays on self-employment.

1.3 Outline of the Thesis

This thesis can be divided into three parts. The first part contains the general introduction and the research plan of the thesis. The second part contains three research chapters and the thesis will end with a final conclusion and recommendations.

To answer the main research question three sub-questions have been formulated, as explained in the research plan of this thesis. To answer these sub-questions this thesis contains three research chapters. The first research chapter, chapter 2, addresses the question what the relationship is of changes in the self-employment rate compared to changes in the unemployment rate. If there is not such a relationship what is the use of making policy and providing funds and resources.

This chapter looks at the theories about the relationship between the changes of the levels of self-employment and unemployment.

To see if these theories can be proven I have also examined empirical research on the different theories. There are also external factors that influence the levels of self-employment and unemployment. These different factors are also examined. Besides theories about the relationship between self-employment and unemployment, there is also a practical side. This means looking at the policies in the EU. What policies are there in the field of self-employment?

Chapter 3 deals with the different policies in the field of self-employment. In the introduction it is mentioned that there are policies for entrepreneurship, but are there also specific policies to stimulate self-employment? Chapter 3 starts with examining two self-employment programs outside the EU. By examining these programs I hope to show what the positive and negative aspects of self-employment programs are. Policies makers can take these findings into account during the process of policy making. After that, the chapter deals with policies and practices within the EU. The two parts of the chapter combined will provide us information about how to form a good self-employment program within the EU.

In order to become self-employed funds are required. So how can these funds be obtained?

Chapter 4 will deal with this question. This chapter focuses on microfinance in the EU. The research question for this chapter is: Under what conditions is microfinance a useful tool to stimulate self-employment? This chapter starts with looking at the fact why there is a need for microfinance. There are enough financial institutions the EU such as banks. Why is it difficult for the unemployed to get a (business) loan there to become self-employed? After this the chapter continues with microfinance in practice in the EU. Are there microfinance programs active in the EU? If these programs do exist at what levels in the EU?

If a microfinance program is active there is a program performance. This can either be good or bad. But how do we know how a program is performing, therefore research on the program performance is required. Section 3 of chapter 4 deals with performance measurements of microfinance programs. After a performance measurement there often is room for improvement. So how can this improvement be reached, in other words what are the conditions that can improve the performance of a microfinance program? These conditions will be examined in section 4. Chapter 4 will end with a model to help policy makers make a strategy for microfinance.

The conclusion recaptures the main aspects of the thesis. In the research chapters, the sub-questions of the thesis were examined. The most important conclusions of the research chapters are discussed in this part of the thesis, in order to answer the main question. Forthcoming from the final conclusion recommendations for the policymakers will be made.

Chapter 2: Relationships between Self-employment and Unemployment in the EU

2.1 Introduction

This thesis is about stimulating self-employment to reduce unemployment. But does self-employment have an effect on unemployment and vice versa? If there is no connection between the two of them it would be a waste of resources to stimulate self-employment. Therefore we have to examine if there is a relationship between these two forms of employment. For that reason this chapter will deal with the following research question: 'In which ways are changes in the self-employment level related to changes in the unemployment level'.

In section 1 we will explore which theories exist about assumed relationships between self-employment and unemployment. Not only the theories will be examined but also empirical studies, to see if there is proof for the theories. If such proof exists then this will provide a base for policymaking in the field of supporting self-employment.

The changes in the self-employment and unemployment rates do not happen by themselves. There are several factors that can influence the rates and changes. Section 2 of this section will focus on factors that can influence the self-employment and unemployment rates. These factors should also be taken into account during the policymaking process.

2.2 The relationships between the levels of self-employment and unemployment.

First of all let us have a look at the self-employment and unemployment figures within the EU. We will look at the development of self-employment and unemployment in the past years. I already mentioned in chapter 1 that the unemployment rate in the EU was 8.7% in 2000 and 7.0% in 2008. But what about the development in the self-employment rates in the EU?

A recent study (Pedersini and Coletto, 2009, p. 7-8) shows us the development between 2004 and 2007. The research shows the changes in the levels of self-employment between 2004 and 2007 expressed as percentages (Var. %) and the percentage point changes in the share of self-employed workers in total employment (Var. pp) (Pedersini and Coletto, 2009, p. 8). The percentages are shown in table 1.

Table 1: Changes in the levels of self-employment expressed in % of the absolute numbers in 2004 and 2007¹⁰

	Total		Men		Women	
	Var.%	Var. pp	Var.%	Var. pp	Var.%	Var. pp
EU 27	4.5	-0.2	3.2	-0.3	7.5	0

Source: Pedersini and Coletto, 2009, p. 7

Table 2: Unemployment rates by gender in 2004 & 2007 in % of the labour force

	Total		Men		Women	
	2004	2007	2004	2007	2004	2007
EU 27	9.0	7.1	9.8	6.6	9.8	7.8

Source: [Eurostat](#): Employment and unemployment main tables¹¹

So table 1 shows that between 2004 and 2007 the absolute numbers in the EU 27 have risen. Especially more women have become self-employed. As a percentage of total employment the EU 27 and the male self-employment rate went down by 0.2 and 0.3 percent. I think this is not a significant decrease, taking into account that for the women there was no change at all. It shows that self-employment over the past few years is a stabile factor of employment in the EU. Table 2 shows us the unemployment rates in 2004 and 2007. The unemployment rate has decreased between these years. Looking at the rates we can see that the rate has gone down with about 2% in all cases. If the unemployment level drops this suggests that the employment level should rise. The Var. pp shows that the level of self-employment as part of the total employment almost stays the same. So this implies that even though employment rises not many people leave self-employment to get employed in another way.

We have seen that the self-employment level has risen and that the unemployment level has gone down. Do tables 1 and 2 just show us the changes in rates of self-employment and unemployment, or is there a connection between the two of them? The next section will look at the theories about the relationship between self-employment and unemployment.

¹⁰ Changes in the absolute level self-employment in % between the level of 2004 and 2007 (Var%) and as percentage points changes in the share of self-employed workers in total employment (2004-2007)

¹¹ http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/main_tables, last visited at 18 September 2009

2.2.1 Theories about the relationship between unemployment and self-employment.

There are different theories about the relationship between self-employment and unemployment. This section will examine different theories. The theories about the relationship between self-employment and unemployment can be divided into two main streams. The first stream argues that unemployment stimulates self-employment (Audretsch et al. 2002, p. 3). The second one claims that a higher level of self-employment reduces unemployment (Audretsch et al. 2002, p. 3). We will now look at both streams.

- First stream theories

The first stream claims that unemployment stimulates self-employment and is based on a positive relationship (Audretsch et al., 2006, p. 2 and Meager, 1992, p. 98). The positive aspect of this relationship consists of the causal relation of two variables (Elmes et al., 2003, p. 107). In this case that means an increase in one variable causes an increase in another variable. For this theory it means that when the unemployment rate rises this causes an increase in the self-employment rate. This relation comes forth from the idea that unemployment pushes people into self-employment. Unemployment pushes people into self-employment, when the opportunities for wage employment are limited, self-employment than can be an alternative joblessness according to Meager (1992, p. 89). This relationship is referred to as the “refugee” effect and the “unemployment push” (Meager, 1992, p. 94).

- Second stream theories

The second stream looks at the relationship between unemployment and self-employment from another perspective. The causality in this stream means that when one variable increases the other variable decreases. This means an increase in self-employment will lead to a decrease in unemployment, an inverse relationship (Audretsch et al., 2006, p. 2). If there is more economic prosperity people also tend to become self-employed and because of the good economic conditions less businesses are likely to fail. This relationship is referred as the “entrepreneurial” effect (Audretsch et al., 2006, p. 2) and the prosperity pull (Meager, 1992, p. 94).

2.2.2 empirical research

We have seen the two streams concerning the relationships between self-employment and unemployment. In the articles by Audretsch and Thurik (1999), Audretsch et al (2002) and Audretsch et al., (2006) more research is done on the “refugee effect” and “entrepreneurial” effect. These studies are similar to each other in a way that they are examining changes in unemployment and self-employment over certain time span. The differences lie in the different mathematical equations that are tested and the different time periods.

The different studies agree that there is a case for both the “refugee effect as well as the “entrepreneurial” effect. But there is a stronger case for policy to support the “entrepreneurial effect” because a change of 1% in entrepreneurial activity causes unemployment to decrease with 1.12% eight years later (Audretsch et al., 2006, p. 9). On the other hand the “refugee effect” shows that a 1% percent increase in unemployment, causes only a 0.16% increase in self-employment (Audretsch et al., 2006, p. 10). It must be mentioned though that it will take a longer period for the “entrepreneurial” effect to have its effect. This is caused by the fact that newly self-employed start relatively small and a lot of them do not survive a period of more than five years. The ones that do survive have the potential to grow and can generate employment in a later phase (Audretsch and Thurik, 1999, p.9).

A different study focuses on the inflow and outflow of self-employment. The starting point is the self-employment level and the changes of this level over a certain time period (Meager, 1992, p. 94). Instead of looking at the unemployment push and prosperity pull, this study examined the number of people that entered and left self-employment over a certain period in time. The outcomes claim that policies should not only support the unemployed that want to become self-employed, the inflow, but also in policies should be more emphasis on preventing outflow. If the outflow is not prevented the effort to support inflow has no effect (Meager, 1992, p. 100).

The different studies show quite some similarities. They claim that unemployment has an effect on self-employment, even though it is not a big effect. They also agree on preventing outflow for two reasons. The first is that the self-employed do not survive and there is a chance that they will become unemployed again claiming benefits. The second reason is because of the “entrepreneurial effect” the survivors of the difficult first period have the potential to generate employment. This pleads for policy in the direction of supporting self-employment after they have started, so that they can have the resources to survive.

Now, let us go back to the beginning of this section. The two tables showed us the changes in self-employment and unemployment and the question was: Is there a relationship between the two of them? Comparing these tables with the theories I think there is a strong case for the second stream theories. During the period 2004-2007 was an increase in the self-employment level of 4.5% and a decrease of unemployment of about 2% in the EU 27. But more important the level of self-employed compared to total employment almost stayed at the same level. That shows that a lot of people stay self-employed, in other words there is a low outflow. The increase of the self-employed level, especially that of the women, shows that more people want to become self-employed

Despite the fact that the percentages do not match with the empirical data, it still implies that there is a case for the “entrepreneurial” effect. In order to reach such an effect it is important the support the people who are already self-employed, also because statistics show that the absolute number of self-employed has increased over the past few years.

This section focused on statistics and theories about self-employment and unemployment. In the next section we will look at different factors that can influence the self-employment and unemployment rate.

2.3 Factors that influence unemployment and self-employment

The previous section showed that changes in self-employment and unemployed are related to each other. Changes are a matter of inflow and outflow. But what influences this inflow and outflow? Several times during this section we mentioned the economic status of a country and the relationship between unemployment and self-employment. The levels of self-employment and unemployment are not just a matter of people who choose to become self-employed or loose their jobs. Economic factors are also responsible for the levels of unemployment and self-employment. Another factor is the social factor. The Member States are dealing differently with employment issues. This can affect self-employment and unemployment in the particular Member States.

2.3.1 Economic development

The economic development and labour market situation of a country can be of influence on the unemployment and self-employment level. The economic or employment situation of an individual can be a motive to become self-employed. But what factors can act as a motivator to become self-employed?

In the previous section we already mentioned the unemployment push and the prosperity pull. These two theories can be linked to the economic development of a country.

If there is an economic decline in a country this increases the unemployment rate because more people will lose their jobs. The unemployment push fits in this context. If there is lesser chance of getting a job people tend to choose for self-employment (Pfeiffer and Reize, 2000, p. 634).

The pull factor on the other hand can be linked with a positive economic development. When an economy rises and people have more money to spend, a demand for certain products and services rises, people are then pulled into self-employment because they expect to gain a better income and thereby more prosperity when becoming self-employed. There are also other links between the level of self-employment and the economic development in a country. After an economy has reached a certain positive level people choose for wage employment because of the financial security because of the steady income, compared to the higher financial risks of self-employment. This causes a relative decline of self-employment compared to wage employment (Carree et al., 2002, p.273).

Then again when an economy keeps developing in a positive way, there is also an increase in material wealth. An increase in material wealth often causes a demand for more technological and service products, these are often niches which can be filled by new businesses. This creates new opportunities. People who at first have chosen to stay wage employed, which causes a decrease in self-employment, can decide to fill up these niches and start up their own business (Carree et al., 2002, p.284). This can be associated with the prosperity pull. If these self-employed survive the first difficult period, perhaps they can start hiring people, which will cause a decrease in unemployment.

It is crucial that these new self-employed will survive even if the economic development will decline. Otherwise these (former) self-employed can become unemployed again. This pleads for policies that will protect outflow from self-employment.

The previous paragraphs show how self-employment is intertwined with the economic cycles of a country. So the governments should act to protect the self-employment levels. This will have to reflect in policies that will support the organizations that are involved in stimulating and supporting self-employment. But Member States are having different labour market policies, so it is not possible to come to a one-size-fits-all solution.

2.3.2 Social security factors

Not only economical factors are important if you are looking at unemployment and self-employment. There are also social security factors. The EU exists of different countries and these countries are also different kind of welfare states. These so called welfare state regimes (Esping-Anderson, 1996, p. 26) are part of the institutional aspects in the countries and influence employment policies in the Member States. So what are these different types of welfare states and what are the characteristics of these welfare state types? Four types welfare states can be distinguished with different characteristics.¹² The characteristics described are the ones that are linked to labour market policies and what this means for the self-employed worker.

- The Liberal Regime

The Liberal Regime is based on the liberal work-ethic norms: it is one where the limits of welfare equal the marginal propensity to opt for welfare instead of work (Esping-Anderson, 1996, p. 26). In practice this means that the state only provides a minimum of social benefits. On the other hand the state encourages the market, both passively as actively. Passively by providing only a minimum of social benefits and active by subsidizing private social insurances (Esping-Anderson, 1996, p. 27). With providing a minimum of social benefits the state wants to encourage people to be employed. The modest benefits are not gender related, so both men and women are encouraged to become employed. By being employed you will gain an income and thereby you can join private social insurance schemes, which as mentioned are subsidized by the state. This regime can be mainly found in the Anglo-Saxon countries.

The self-employed workers are excluded from the mandatory public schemes. In Ireland for instance they are not entitled to unemployment, disability and invalidity benefits. The self-employed worker can however benefit from paying lower income tax and they can claim back certain expenses against tax (Pedersini and Coletto, 2009, p. 18).

¹² The regimes mentioned below are the abstract forms of the welfare state regimes. Most of the Member States are a mix of regime types.

- The Corporatist Regime

The Corporatist regime (Esping-Anderson, 1996, p. 27) can mainly be found at the continent of Europe, in countries like France and Germany. The Corporatist regime is not, unlike the Liberal regime, market orientated. The main provider of welfare in these countries is the state itself. The Corporatist regime is typically shaped by the Church and thereby the traditional family-hood with the male breadwinner. Social benefits exclude non-working wives and benefits encourage motherhood. This means that women are not encouraged to work and services like day care are underdeveloped. This type of regime on the other hand uses the subsidiarity principle; the state will only interfere when the family's capacity to provide welfare is exhausted (Esping-Anderson, 1996, p. 27). This means that the state depends on the inhabitants to provide themselves with an income. But if the breadwinner is no longer capable of maintaining the members of the family the state will provide social securities.

For the self-employed worker the social system in the Corporatist regime is more diverse. Most of the social schemes are more attuned to a specific group of workers, especially for the more traditional groups of self-employment. The complexity of this system lies in the fact that for the self-employed worker there are compulsory social schemes, schemes that they can join on voluntary basis and schemes that are not accessible for the self-employed worker (Pedersini and Coletto 2009, 2009, p. 18).

- The Social democratic Regime

The third regime described by Esping-Andersen (1996, p 27) is the Social democratic regime and can mostly be found in the Scandinavian countries. In this regime the state pursues equality. To maintain this type of welfare is a very costly business. Therefore, the government is pursuing full-employment. This full-employment policy is not gender related also the women have to participate in labour. In contrast of the Corporatist regime that the state provides services (day care) so that women are also encouraged to work. The lesser people depend on social aid, the less social expenditures have to be made by the government. The people who are working have to pay taxes, with the tax revenues the government can fund the welfare state Esping-Andersen (1996, p 27). So the more people who are working, more tax revenues become available to maintain the welfare state.

Even in the Social democratic regime there are differences between the wage employed and the self-employed. For instance in Finland, the self-employed workers can voluntary choose the composition of their social security. This often means that the self-employed workers are less secured than the people who are in wage employment (Pedersini and Coletto 2009, 2009, p. 18).

- The Mediterranean model or Latin Rim

The Mediterranean model (Kleinman, 2002, p. 48) can be found in the European countries around the Mediterranean Sea. This regime has certain characteristics that differ from the other welfare state regimes. Looking at the income maintenance, as mentioned by Kleinman (2002, p. 49) there is a high polarisation. There is no minimum income scheme, there are only benefits for a class of hyper protected. Other people are underprotected such as informal and irregular workers and the long-term unemployed. Unfortunately the governments of these countries are not active reducing the private insurances that divide the rich and poor. There has come a public/private collusion, but this proved to be very inefficient (Kleinman 2002, p. 50). This shows that for the countries under this regime that improvements have to be made for all the aspects of employment.

2.3.2.1 Social security changes in order to stimulate self-employment

We now know what the differences are between the welfare state regimes in the field of welfare and work. Despite the differences all the governments of the Member States have a common goal, they all must strive for cutbacks in the social security expenses. This means getting more people of benefits and back to work. To reach that objective employment-orientated policies are necessary. Labour, should become more of a commodity for the inhabitants of the Member States. The descriptions in the previous section focused on traditional welfare issue of welfare and wage employment, but what about self-employment?

Chapter 1 explained why this thesis focuses on the new group of self-employment. There is a need for better regulation for this group. Not long ago the self-employed workers in the EU were excluded from public social security or only had limited access to public social security. The different welfare state regimes show us the difficulties that the self-employed workers occur in the field of social security. Becoming self-employed often means giving up social security. That was one of the reasons why people did not want to become self-employed.

Fortunately this has changed in the recent years. More policies were made to increase social security for the self-employed workers. A lot of Member States introduce several measures to close the gap between self-employed workers and wage employed. But how can this be accomplished? At first in order to become socially included the governments have to recognize someone as a part of society. In other words this means that someone has to have status in the society. In this case it means that the self-employed worker has a legal definition.

With this legal status the self-employed worker is defined in certain domains of national legislation such as social security acts, employment legislation tax law (Pedersini and Coletto 2009, 2009, p. 15-16). It must be mentioned that the legal status differs per Member State and even a few Member States still do not appoint such a status to self-employment. The entire list containing all the Member States can be found in the study by the European Foundation for the improvement of Living and Working Conditions (Pedersini and Coletto, 2009, p. 15-16).

After establishing a legal status the next step is improving the social security of the self-employed worker. Policy changes can be found in the entire EU, especially in the Social democratic, Mediterranean and Corporatist regimes. So the main question is in which fields is there a need for change? Therefore comparison with wage employment will be made. We will look at the problems that employees can face and because of which they will address the social benefits. Main issues are: unemployment, health care, invalidity, maternity leave and retirement (Pedersini and Coletto, 2009, p. 18). Because more Member States have given a status to self-employment, they are also making schemes custom-made for the status they have given to self-employment. The main topics that have shown a positive development are: unemployment, invalidity, health care, working times, maternity parental leave and sickness leave (Pedersini and Coletto, 2009, p. 26). Still there remains a great diversity about the type of social security schemes. In some cases there are public schemes, sometimes there are only private schemes and even non-accessible schemes for the self-employed workers. These differences are present among the Member States, a full list can be found in a study by the European Foundation for the improvement of Living and Working Conditions (Pedersini and Coletto, 2009, p. 26-37). All in all there still is work to do, but the progress shown in this subsection is a big step in the right direction of social inclusion for the self-employed.

This section discussed two kinds of factors that can influence the level of self-employment: economic development and social security factors. The changes in self-employment levels because economic development are following the trend of the development. At a certain point self-employment will increase and at a certain point the level of self-employment will decrease. At other points in the economic development there is an increase in people who want to become wage employed. This means that the labour market is linked to the economic development. So one could say the market determines the demand for a certain type of employment. This is the preferred situation for the Liberal welfare state regime.

But the EU consists of different welfare state regimes and even though there are differences they have one common tool: The Member States can intervene in economic development or social security. For instance giving self-employment workers a legal status and provide them with certain social securities. This could stimulate more people to get self-employed despite the economic situation. So the level of self-employment can be influenced in a different way by economical or institutional factors.

Not long ago the self-employed workers in the EU were excluded from or only had limited access to public social security. This meant for people that they had to give up social security when they became self-employed. That was one of the reasons why people did not want to become self-employed. Fortunately this has changed in the recent years. More policies were made for the self-employed workers. These policy changes can be found in the entire EU, including all the welfare state regimes. Such policy changes are making it more interesting for people to become self-employed. But making such policies is not an easy task because at first self-employment has to be defined especially because the self-employed represent a diverse group.

2.4 Conclusive remarks

Relationships between self-employment and unemployment were the main theme of this chapter. Studies have shown that such relationships exist. The first is that a rise in unemployment causes a rise in the self-employment rate. The second one showed that a rise in self-employment contributes to a decrease in the unemployment rate. Empirical studies support the theories about the relationships. The empirical data showed that the effect of self-employment helping to reduce unemployment has a bigger outcome. The shortcoming for this relationship lies in the fact that the effect takes longer to have its influences. Unfortunately it was also made clear that the start-ups do not have high expectations to survive the first five years. This decreases the chance that the effect takes place. This pleads for policies that support the self-employed during the first years. Statistics have also shown that there is case of supporting self-employment in the EU. The self-employment level kept rising, while the unemployment level was going down. Self-employment has also proven to be a stable factor of total employment.

Then there are the different factors that influence the rates of self-employment and unemployment. At first, the economic factors. The economic development and unemployment are intertwined. If there is an economic decline this causes a rise in the unemployment level.

Because people lose their jobs or there is a risk of joblessness. People then try to find other ways of gaining an income, instead of depending on benefits. They can consider self-employment as an option. But because there is a low economic level they face a difficult period.

When the economy develops in a positive way and the demand for certain luxury goods rises, niches can appear. These niches are often filled with new self-employed. If these newly self-employed survive the first period, they can perhaps hire staff.

So there is a case for supporting self-employment start-ups in economic difficult times, but mainly a case for supporting the active self-employed during all the varieties of economic development. At first to prevent people from falling back in to unemployment and secondly to support the self-employed to use their potential in order to grow.

The other factor is social security. The governments of the Member States look at social security policies from different angles. These angles express themselves through the welfare state regimes. These regimes are part of the Member States culture, and thereby they make it difficult to come up with a common policy.

Fortunately a lot has changed in the field of social security. Different welfare state regimes are active in making the self-employed workers part of the social security system. Self-employment has got a legal status in most of the Member States. This makes self-employment part of the national legislation and this favours the progress made in social security. More schemes address the self-employed workers nowadays. These schemes allow the self-employed access to benefits such as unemployment benefits, public social insurances and maternity leave. This makes it easier for people to decide to become self-employed without the risk of getting socially excluded. Another advantage of getting a legal status means that the governments can intervene during the several stages of economic development. In other words the governments can intervene during economic decline.

Chapter 3 Self-employment in the EU, the US and Australia

3.1 Introduction

The previous chapter dealt with the relationships between unemployment and self-employment. Chapter 2 examined different empirical research studies on these relationships. Outcomes of the research studies showed us that there are relationships between these two forms of employment. In addition I also discussed the different welfare state regimes and what kind of policies the regimes are having in the field of social security for self-employment. This chapter will continue with examining self-employment policies. The research question for this chapter therefore is: ‘Which policies are there to stimulate self-employment within the EU?’

Before looking at the EU, we will take a side step and examine already existing self-employment programs in countries outside the EU. As case studies two of these programs from the United States (US) and Australia will be discussed in section 2. These case studies are used to show how other developed countries outside the EU try to stimulate self-employment.

With the information from section 2, we will look at EU policymaking. Section 3 will discuss different policies in the EU. This section will focus on different initiatives and actions taken by the EU and its Member States to stimulate self-employment. The policies differ from support for a better regulatory and administrative framework to financial support. These different policy aspects will be examined in this section. The chapter ends with conclusive remarks drawn from the findings in the chapter.

3.2 Self-employment programs in the US and Australia

In the previous chapter the different welfare state regimes are discussed. This showed us different policies concerning welfare and work. The Liberal regime focuses on a working society and therefore encourages the market. Encouraging the market can be achieved by getting more people of benefits and becoming employed. I have chosen two countries from outside the EU that belong to the Liberal regime and that have programs to support unemployed people becoming self-employed. Supporting people to become self-employed is a form of supporting the labour market. This is the policy of the Liberal regimes, getting people active in the labour market again instead of providing more social security. The two countries from the Liberal regime are the US and Australia. These countries are chosen because research has been done on the outcomes of their self-employment programs and these studies are well documented. In chapter 1 was mentioned that a shift from welfare to work is desirable throughout the entire EU.

Another reason for choosing these programs is because they exist for quite some years now, even before there was a common EU employment policy.

Due to the fact that such programs exist for so long shows us that such support for people to participate in the labour market by becoming self-employed is considered quite successful in the US and Australia. Therefore the programs in the US and Australia are used to as an example for the other regimes on how they can participate actively in supporting people from being unemployed to becoming self-employed. In other words, on how to support the shift from welfare to work. The researches done in both countries show the difficulties and successes achieved with the programs. This does not mean that these programs should be copied and put into a EU context; a success in one country is not a guarantee for success in another.

3.2.1 Unemployment Insurance Self-Employment Demonstration in the United States

In the US a pilot program called the Unemployment Insurance Self-Employment Demonstration (UISED) was started. The program is examined by Schreiner (1999) and the outcomes of his research will be discussed in this section.

The UISED program was applied in two cities: Washington and Massachusetts. In both cities unemployed people were invited to come to a so-called “Awareness day” where the attendants were given an introduction about the program. After this introduction the attendants could apply to join the program. The participants in both cities were divided in two groups: the treatment group and the control group. The participants in the treatment group were provided different kind of facilities such as financial support and training. The participants in the control group had no access to these facilities; this group was formed to measure the outcomes of the program.

Although both cities were part of the same program, the program was applied in different ways. Two main differences between Washington and Massachusetts were the type of financial support and the type of training a participant has to attend to gain the financial support.

In Washington the participants in the treatment group had to attend four classes. If a participant joined these classes he or she got 10 weeks of Unemployment Insurance (UI) benefit without the work search obligation. The participants could get more financial support once they had completed their business plan, opened a business bank account and secured licenses and finance. The financial support was given in the form of a lump sum of money that was equal to their remaining UI benefit-eligibility. About 60% of the treatment group received such a lump sum (Schreiner, 1999, p. 506). Besides the lump sum the participants in the treatment group could still get their UI benefit if they met the work search requirements, but only few participants made use of this opportunity.

Next to the financial support, the program also offered business counseling but none of the participants made use of this option neither did they search for business advice by themselves.

The program in Massachusetts used a different interpretation of the UISED program. Their target group in some ways was equal to the target group of the state of Washington, but they also approached other UI claimants. The invitees were those less likely to succeed to become self-employed on their own. Instead of application by a business plan the invitees were told that participants would be picked through a lottery. This had some negative influence on the number of applicants (Schreiner, 1999, p. 508). The participants were split up into a treatment group as well as a control group, just like it was done in Washington.

The approach of providing support in Massachusetts was also different. Instead of providing a lump sum of money applicants were offered 24 weeks of UI benefits without a work search obligation. To gain the UI benefits, the participants of the treatment group had to join a 1-day seminar, six biweekly workshops and individual meeting with a counselor. The state also arranged a bank to consider loans to the participants, but the use of this tool was not measured (Schreiner, 1999, p. 508).

The outcomes of the pilots in Washington and Massachusetts showed that there are only few applicants who will become self-employed after they have finished the program. Data that was collected on participants in the treatment group about whether they had started their own business within 21 months for the group in Washington and 19 months for Massachusetts and within 33 months for both the states. In Washington there were 430 participants who had started their own business within 21 months. This means 9 per 1000 invitees or 2.03% of the invitees of the treatment group. After 33 months the number was 478 participants or 8 per 1000 invitees, this is 2.24 % (Schreiner, 1999, p. 508).

In Massachusetts the increase was lower. After 19 months 319 persons had started their own business, this is 3 per 1000 invitees or 0.99% After 33 months it were 356 persons, 2 per 1000 or 1.1%(Schreiner, 1999, p. 508). These figures show that not a lot of the invitees became self-employed.

Comparing this to the number of applicants, 1932 in Washington (Schreiner, 1999, p. 507) and 1515 in Massachusetts (Schreiner, 1999, p. 509), the figures are more positive. Meaning that people who enter the program are more likely to become self-employed.

The control groups in both programs showed that after 33 months 310 persons had become self-employed in Washington (Schreiner, 1999, p. 507) and 286 persons in Massachusetts (Schreiner, 1999, p. 509). So even without support people can become self-employed and the number does not even differ much to those with support.

So is there an additional value of the program? A positive aspect of the program was that in Massachusetts the number of unemployed participants who entered wage employment did increase.

Unfortunately in Washington the people who entered wage employment decreased. So what was the influence of the UISED program on the total employment figures in both states? The outcome in Washington was that the program had an insignificant positive contribution on total employment. The outcome in the state of Massachusetts was more positive. The program had a significant positive contribution on all the aspects of total employment. But it must be mentioned that most of this positive outcomes came from the increase in wage employment (Schreiner, 1999, p. 515).

Above the outcomes on employment of the program is discussed, but what about the financial outcomes. Funds have been invested in the program. In both States the participants were supported financially, this especially counts for the ones who were put in the treatment group.

In Washington, as mentioned earlier in this section, the participants from the treatment group who joined the four classes received 10 weeks of UI benefits without a job search obligation and a lump sum was provided to those who had fulfilled the tasks that are mentioned earlier. This lump sum was on average \$ 4,200.

In Massachusetts the participants of the treatment group who met the requirements, which are mentioned earlier, received UI benefits for 24 weeks instead of a lump sum.

Besides the financial support given to the participants of course other costs were also made e.g. costs for the administration and salaries for the employees of the program.

This is a short summary of the costs, but what is the total outcome of the program in a financial perspective? This is shown in table 3.

Table 3: Benefits and costs of the UISED

	<i>Washington</i>			<i>Massachusetts</i>		
	<i>Treatments</i>	<i>Government</i>	<i>Society</i>	<i>Treatments</i>	<i>Government</i>	<i>Society</i>
Gains						
Total earnings	+1,093		+1,093	+14,859		+14,859
Assets	0		0	0		0
Psychological well-being	0		0	0		0
Community economic development	0	0	0	0	0	0
Costs						
Program operations		-397	-397		-1,016	-1,016
Transaction costs	0		0	0		0
Displacement	0		0	0		0
Transfers						
Unemployment insurance (UI) payments	+1,013	-1,013	0	+878	-878	0
Tax payments	-164	164	0	-2,229	+2,229	0
Total benefits net of costs	+1,942	-1,246	+696	+11,754	+2,089	+13,843

source: Schreiner, 1999, p. 520

The table above shows that the financial outcomes in Massachusetts are much more favourable than the outcomes in Washington. Looking at the total earnings these were \$14,859 for Massachusetts and only \$ 1,093 for Washington. Taking a further look at the table it can be seen that the total benefits in Washington have a positive outcome of \$ 1,942 for the treatments and \$ 696 for Society. But for the Government there was a loss of 1,246. In Massachusetts on the other hand has a positive outcome for all involved parties, \$ 11,754 for the Treatments, \$ 2,089 for the Government, those two amounts added to one another makes a total benefit of \$ 13,843 for the Society.

For policymakers involved in self-employment and microfinance these outcomes show several aspects. First of all the invitees, are you looking for unemployed people who are motivated and will you let them write some sort of business plan before the invitation or do you select them at random? There is an increase in self-employed workers as a result of the program in both states, but is this increase significant enough to start up such a program? Looking at the influence on total employment, Washington showed a decrease, while Massachusetts showed an increase. This can be interpreted as a positive development, while on the other hand is promoting wage employment a goal of the program? Other aspects are the costs and benefits. There is a large difference between the financial outcomes of the programs applied in both states. Meaning that the same basis for a program but another implementation can have great financial consequences. The lesson from this program for the EU is that the UISED program is not supporting a significant group of unemployed workers. And in a financial perspective there are no significant benefits. Therefore it is wise to have a look at another program. Section 2 will deal with a program that is applied in Australia.

3.2.2 The New Enterprise Incentive Scheme in Australia

In Australia there is the New Enterprise Incentive Scheme (NEIS) program to support unemployed workers who want to become self-employed. The program exists of different types of support such as: Training in small business management, business skills and business plan development, NEIS Allowance for up to a year, Business advice and mentor support during the first year of business operation.

The NEIS program has a website which provides up-to date information. This website also gives an overview on the criteria for applicants and all the different types of support that the program offers, like the types mentioned above.¹³ This program started as a pilot in 1985 and the program still exists. Through the years the program has been evaluated several times and through those evaluations the program has evolved to its current form.

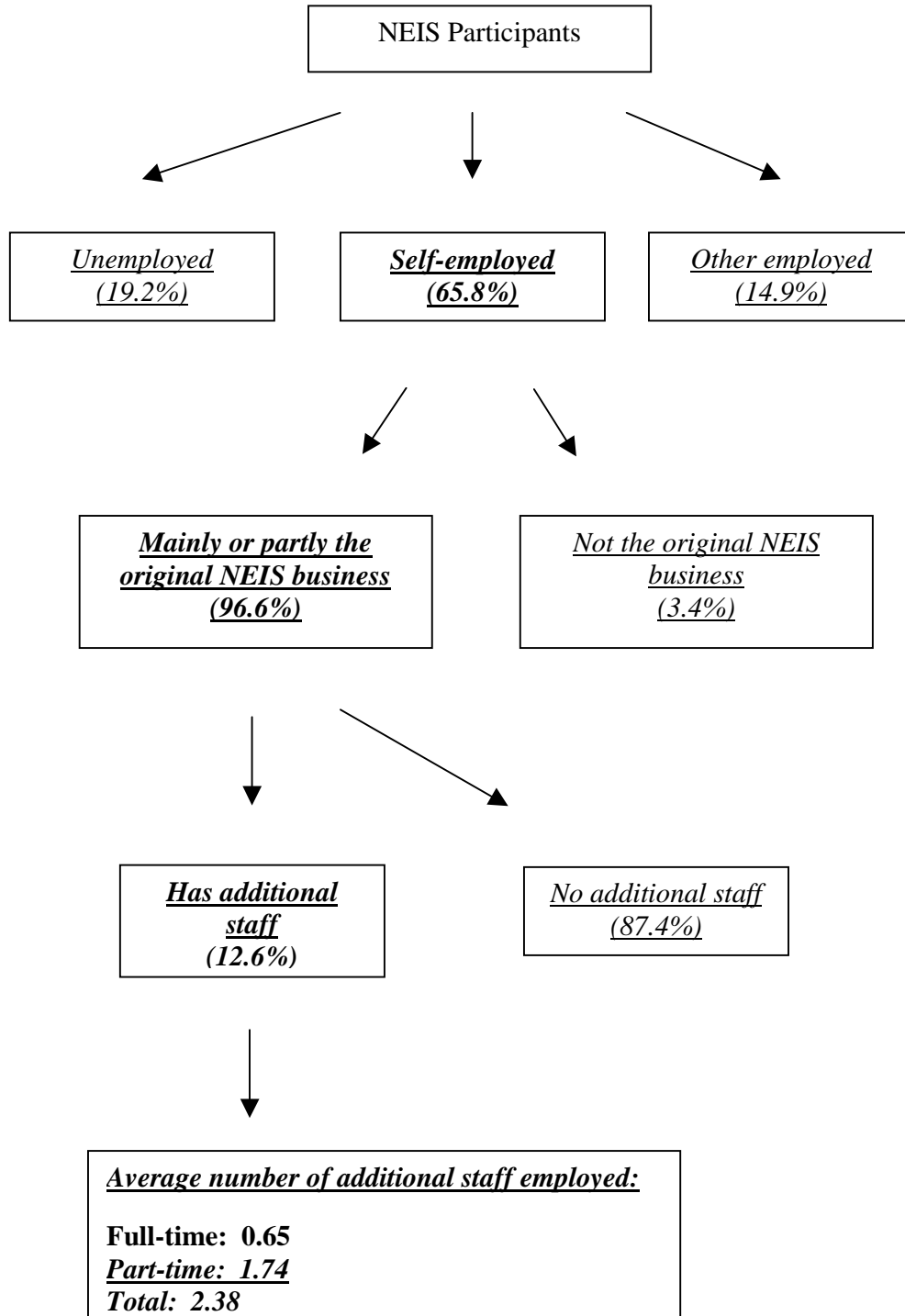
In May 2001 a report was published on one of the evaluations. This evaluation was based on several sources: a survey among different actors in the program (held between May 1998 and February 2000), outcomes of previous studies and literature on self-employment programs.

¹³ <http://www.nna.asn.au/neis-program>, last visited at 3 July 2009

3.2.2.1 Outcomes of the NEIS

This sub-section gives an overview of the outcomes of the NEIS. These outcomes are summarized in a schematic overview in figure 1.

Figure 1 NEIS Employment and Business Outcomes



Source: Kelly et al., 2001, p.36

The numbers in this figure represent the status of the participants after 3 months after they have finished the program, according to those who joined the Post Programme Monitoring (PPM) survey. The outcomes show that 80.8% was employed. This can be divided into two kinds of employment: self-employment and wage employment. From the group who became self-employed 43.4% was full-time self-employed and 22.5% was part-time self-employed (Kelly et al., 2001, p. 26). This means that 65.9% of the participants who cooperated in the PPM survey were in some form of self-employment. The PPM shows that there is a decline in the self-employment rate in the period after the first measured three months after finishing the program.

Besides the numbers from participants it is noteworthy that in some cases the participants who got self-employed after the program created additional jobs. On average 2.38 additional jobs were created, from which 0.65 full-time jobs and 1.74 part-time jobs. Another interesting outcome of the PPM is the percentage of participants who were not again on social benefits. After three months 70.9% was off-benefit and after six months this number even increased to 72.1%. From the group that was off-benefit after three months, 94.1% was still off-benefit after six months (Kelly et al., 2001, p. 26-27). This means that the program has a positive outcome in keeping people off-benefit and that there is some persistence in the outcomes over time.

3.2.2.2 Deficits of the program

The section above showed us the outcomes of the program and they were quite positive, but on the other hand there are also some deficits in the program that should be examined by policy makers in the EU before starting such a program.

The article unfortunately only contains a short period of data on self-employment and contains no monitoring over a longer period for self-employment rates. This is a shortcoming for further research for EU policymaking. Because there is no data available of self-employment rates it is difficult to measure long-term effects; for example how many participants have stopped their self-employment activities within a period of 5 years and could this have been prevented?

The article does contain data on total employment after 9 months. These data shows outcomes after a longer period, but these are not purely the self-employment rates. The fact that not only self-employment but also wage employment was created can be interpreted in two ways: First it is a good thing that people became employed after participating in the program. On the other hand there are also development programs that are specialized in getting people (wage) employed again, could these people not join these programs?

The outcomes of the surveys showed that a lot of people who had joined the program said that they would have started a business for themselves or could become employed again without the support of the program. Mainly the younger participants, the group between the age of 18 and 34 years old claim that they would have found a job very easily (32.3%) or quite easily (18.5%) (Kelly et al., 2001, p. 39) so there is a lot of so-called deadweight loss.¹⁴ Deadweight loss is a great loss of resources, because the program has invested in these people to become self-employed, while the investment should be made in those people who are less likely to become self-employed without the support of the program. To analyze the impact of Deadweight loss table 4 shows different scenarios and costs of the program. The table shows the costs when there is no deadweight loss, 25% deadweight loss and 50% deadweight loss. The table also shows what the costs per participant are when the unemployment benefits that are paid, had to be paid anyway by the governments even if this person is not participating in the NEIS program. And finally, a representation of the costs is given when only primary employment was created through the program or when the program also helped to create secondary jobs.

It can be seen that there is a great difference in the costs per scenario. In the most favorable scenario, when 75% of the benefits that would have been paid anyway, primary and secondary jobs are created and there is no deadweight loss, the gross costs are \$ 5,371. If only primary jobs are created the gross costs are \$ 6,636. The worst-case scenarios are the ones where only 25% of the benefits had to be paid anyway and the deadweight loss is 50%, the costs are 32,697. In between there are a lot of other scenarios and a lot of difference on how to interpret the costs of the programs. It can be stated that even though there are different scenarios, the program is not a cheap initiative to get people self-employed.

Table 4 Costs per employed outcome: NEIS

Proportion of benefits paid anyway	Deadweight loss (proportion who would have found work anyway)						
	Zero (i.e. gross costs)		25 per cent		50per cent		
	Primary only	Primary + Secondary	Primary only	Primary + Secondary	Primary only	Primary + Secondary	
25 per cent	\$12 453	\$10 079	\$18 036	\$13 449	\$32 697	\$20 205	
50 per cent	\$ 9 544	\$ 7 725	\$13 824	\$10 308	\$25 060	\$15 486	
75 per cent	\$ 6 636	\$ 5 371	\$ 9 611	\$ 7 167	\$17 424	\$10 767	

Source: Kelly et al., 2001, p. 35

¹⁴ Deadweight loss refers to people who would have become self-employed or employed in another form without ever haven taken part in the program (Kelly et al., 2001, p. 4)

Because the NEIS is evaluated in quite a comprehensive way, it gives a lot of useful information for EU policymakers. The program shows a high percentage of people who have become self-employed in three months after finishing the program. Which is promising, on the other hand the program mentions a decline in self-employment after three months in the self-employment rate. Surveys held after 9 months show no single self-employment rates available. That makes it difficult to monitor if the decline continues and the rate of survivors. The NEIS programs also shows good outcomes of people who stayed off-benefit after participating in the program.

As a conclusion for this section it can be stated that both the programs from the US and Australia show several good practices and a shortcoming. This makes benchmarking difficult. Should the EU focus on the good practices of the programs or on the deficits?

The good practices are the different kinds of support that are offered. First of all the financial support, especially in Australia. The participants are receiving an allowance of up-to one year. This makes it able for them to get through the first year after their start. The second type of support is in my opinion as much as important as financial aid. This support consists of training and business counseling. The participants of the UISED had the opportunity to visit counselors but nobody used this opportunity to visit them, I think that is a missed chance for them even though it is a good initiative of the program designers. The NEIS program links the participant to a mentor. This mentor can act as a coach and counselor.

Unfortunately as mentioned before, there is a shortcoming. The shortcoming is financial and is a consequence of the deadweight loss. Resources are not unlimited and should be used to support people who want to become self-employed and who need such a program for the necessary support. For the unemployed who are searching for a job other programs are more suitable.

Using self-employment resources for people who do not have the intention to become self-employed is not a good option. These programs can be considered as a tool for economic development.

Supporting people into self-employment under the right conditions reduces the chance of failure. But as mentioned in chapter 1 forcing people to become self-employed, could do them more harm than that they are helped.

3.3 Self-employment policies in the EU.

In chapter 1 an introduction is given on the EU employment policies. This section will examine these policies more thoroughly. As mentioned for the period 2005-2008 the integrated guidelines were endorsed by the European Council for bringing together the Broad Economic Policy Guidelines and European Employment Strategy.

Thereby integrating macro-economic, micro-economic and employment policies (European Commission, 2005). These guidelines were in line with the Lisbon Strategy and they emphasize policy for growth and jobs. Box 2 contains integrated guideline No. 10, including the explanation of the actions that have been taken by the Member States in order to reach the objective of this guideline.

Box 2: Integrated guideline No. 10

Guideline. To promote a more entrepreneurial culture and create a supportive environment for SMEs, Member States should improve access to finance, adapt tax systems, strengthen the innovative potential of SMEs, and provide relevant information and support services in order to encourage the creation and growth of start-ups in line with the SMEs Charter. In addition, Member States should reinforce entrepreneurship education and training (cross reference to the relevant employment guideline). Member States should also facilitate the transfer of ownership, revise their bankruptcy laws, and improve their rescue and restructuring proceedings (Integrated guideline No 10).

Source: European Commission, 2005, p. 20

Looking at box 2, what are the main issues mentioned in this guideline to support entrepreneurship? The guidelines show that there is a need for financial support, training and education, adjustments in the regulations of taxes and bankruptcy. These are specific demands needed to promote entrepreneurship within the EU.

The situation of the EU has changed since the original Lisbon strategy in 2000. For example, the EU has expanded from 15 to 27 Member States. Therefore, the Lisbon Agenda also had to change and was altered into a renewed strategy. In the renewed Lisbon Strategy, growth and employment are still primary topics concerning public policy. The European Commission has set up policy objectives for the period 2007-2013, Cohesion Policy in Support of Growth and Jobs (European Commission, 2005b). As a tool to support the Member States, the European Commission set up several strategic guidelines. These guidelines rather represent a single framework which Member States and regions are invited to use when developing national and regional programs (European Commission, 2005b, p. 12). Just like the integrated guidelines, the strategic guidelines also contain a chapter on supporting entrepreneurship. Box 3 contains an example.

Box 3: Strategic guideline on promoting entrepreneurship

Promoting entrepreneurship, facilitating the creation and development of new firms, and promoting spin-out and spin-off companies from research institutions or firms using a variety of techniques (for example, awareness raising; prototyping; tutoring and the provision of managerial and technological support to entrepreneurs-to-be).

Source: European Commission, 2005b, p. 20

This guideline emphasizes that in order to promote entrepreneurship, all the possible tools have to be used. Especially on how to make people aware of the possibilities to start up a business and helping them too with tutoring and support.

Now that we have seen two guidelines, how can we meet the demands to promote entrepreneurship?

One measurement of reaching the objective is improvement in governance (European Commission 2005b, p. 10-12). These improvements contain more efficiency and transparency in policy making. In achieving improvements in policies the European Commission recommends partnerships between all stakeholders. The stakeholders are the public parties, private parties and representatives of the civil society (European Commission 2005b, p. 11). In partnerships openness should be one of the key factors. If all partners are cooperating this should support efficiency, transparency and effectiveness of policies. In order to help setting up a framework for these partnerships the EU can give financial support through the Structural funds¹⁵ if the necessary demands are met (European Commission 2005b, p.12). The next step is to transform the demands from the guidelines into policy. Therefore we now take a look at initiatives that use the information from guideline in practice.

3.3.1 The Entrepreneurship Action Plan

“Europeans are rather reluctant to take up opportunities for self-employment and entrepreneurial activities. There is a need to create a more favourable societal climate for entrepreneurship in the EU.” (European Commission, 2006, p. 3) Such a statement by the European Commission emphasizes that there is work to be done in order to get more people self-employed.

The EU has taken several initiatives to meet the demands for a better self-employment climate. In this part of section 2 such initiatives will be described.

In addition to the renewed Lisbon strategy the European Commission issued a Green Paper to involve all interested stakeholders to come to an entrepreneurship agenda. This agenda evolved into an action plan. The EU adopted in February 2004 the so-called “Entrepreneurship Action Plan”. The Entrepreneurship Action Plan provided a strategic framework for boosting entrepreneurship in the EU.

¹⁵ Structural Funds: European Regional Development Funds, the European Social Fund (European Commission 2005b, p.5)

This framework also contains a series of concrete steps in order to support entrepreneurship. The Entrepreneurship Action Plan was complementing ongoing work, especially under the Multiannual Program for Enterprise and Entrepreneurship (MAP).

Under the Entrepreneurship Action Plan the European Commission worked with a co-coordinated approach in series of areas that the respondents to the Green Paper thought to be crucial to create a better entrepreneurial climate and making the life for SMEs easier (European Commission, 2006, p.3/4).

The Entrepreneurship Action Plan contains five strategic areas. These strategic areas are just like the action plan itself spin-offs from the integrated guidelines. Integrated guideline no. 10 as shown in box 2, is a kind of summary of several strategic areas of the action plan. The main differences are that the strategic areas also contain certain key points. The key points which are relevant for this thesis will be described below, coupled to the strategic area under which they belong. All the five strategic areas are as follows:

- Fuelling the entrepreneurial mindset
- Encouraging more people to become entrepreneurs
- Gearing entrepreneurs for growth and competitiveness
- Improving the flow of finance
- Creating a more SME-friendly regulatory and administrative framework

The sub-section below will focus on the strategic areas and key points that contribute to the research question of this chapter and thereby give a contribution to this thesis.

3.3.1.1 Fuelling the entrepreneurial mindset

In my opinion the first a lack of knowledge about entrepreneurship preventing people from becoming self-employed. Not all people have enough knowledge about self-employment. Knowledge about being self-employed can be gathered in different ways. Therefore access to information about self-employment should be encouraged. This knowledge should not only be theoretical in booklets or through the Internet. An awareness day, compared those of the UISED, can be a tool. During such an awareness day people can get more information about becoming self-employed.

These awareness days should be led by people who are experienced entrepreneurs and in addition people who successfully switched from unemployment to self-employment. Another method is that self-employment is more stimulated through education.

Education about entrepreneurship can be a part of the economic lessons. Writing a business plan for instance is a practical way to teach economics at secondary schools.

3.3.1.2 Encouraging more people to become self-employed

Looking at the header of this sub-section, why do people need to be encouraged to become self-employed? In other words what prevents them to start up a business for themselves? The sub-section above already mentioned that lack of knowledge could be an obstacle.

A second obstacle for people is bankruptcy (European Commission, 2006, p. 11). A lot of people don't dare to start up a business because of the threat of bankruptcy. Therefore it is important to develop better regulation for bankruptcy and especially the period afterwards. There should be a social safety net so that these people can continue with their lives and do not become socially excluded. These people should keep participating in employment. It should for example become much easier for people to start up a new business. This counts for people which businesses went bankrupt in a non-fraudulent way. The EU therefore has come with new policies to support potential business-owners. One of this policy tools is the two-pronged MAP project on the "Stigma of failure and early-warning tools". This plan was launched in mid-2004 and was built up from input from experts in this field. This input resulted in the following things: A self-evaluation test for entrepreneurs. With this test a business owner can do an assessment on how sound their business is (European Commission, 2006, p. 11).

The other part of the plan was to provide elaborating information on business failure to get more insight in this issue. Both parts of the plan were finished in 2006.

On March 28, 2006 a European conference on insolvency and fresh start was held in Brussels, the focus of this conference was the prevention of bankruptcy, tackling the stigma attached to business failure and promotion of fresh start. During this conference there were presentations on the action taken by the EC and other international organisations. During these presentations attention was paid to the initiatives taken by the Member States, which were linked to the project "Restructuring, Bankruptcy and a Fresh start (European Commission, 2006, p. 13).

3.3.1.3 Improving the flow of finance

To start up a business funds are required. In this thesis there is the assumption that people who want to become self-employed are in need of external funding. The programs examined in section 1 gave the participants financial support, either in the form of a lump sum or a monthly payment. So what is done within the EU to provide financial support?

In the project “Best practices in accessing early-stage finance” an expert group tried to find the best national practices and used these as models for other Member States. The experts concluded that there is a long-standing failure in early-stage equity finance warranting public sector action (European Commission, 2006, p. 13). In May 2006 a joint initiative of the European Commission and the European Investment Fund with the European Investment Bank called JEREMIE (“Joint European Resources for Micro to Medium Enterprises”) was launched. This initiative was launched to improve the access to finance for entrepreneurship and also to improve capacity in the field of financial engineering for Member States and regions (European Commission, 2006, p. 17).

The capital market sometimes has a shortage of resources, which could influence SMEs in a bad way. To prevent that SMEs are becoming over-dependent on debt finance, the European Commission has published a *Vademecum*. This *Vademecum* describes the possibilities for Member States (outside specific sectors) to promote innovation by giving State Aid without distorting competition. On the other hand support by private investors is also encouraged. Private investors (private equity/venture capital) and rotating funds should act as engine for entrepreneurship, innovation and job creation. Public sector institutions are not always best suited for risk-taking. The main goal is to expand specialized providers of risk capitals and bank guarantees where there is market failure. These providers will also be more effective if they also provide a package of support, starting with training prior to business start-ups or expansion (European Commission, 2005b, p. 23).

3.3.1.4 Creating a more SME-friendly regulatory and administrative framework

On March 14 2006 a conference was held on the cooperation between policy makers and stakeholders. During this conference the results of the best project on “Consulting of stakeholders in the shaping of small business policy at national/regional level” were discussed. Because a lot of different involved parties were present, business stakeholders, policymakers and academics, the result of this conference was a further dialogue on how to improve the cooperation and to show the necessity of the involvement of SMEs in policy making (European Commission, 2006, p. 13).

As mentioned earlier in this section, to create a better and administrative framework all involved stakeholder should cooperate in a partnership. In such a partnership the public and private stakeholders can act complementary to each other. Each partner has skills and knowledge that can be transferred to the other involved parties. For instance a business owner knows about the problems a self-employed person encounters in dealing with (local) public administrations and can help by providing information on how to make things easier. The public stakeholder(s) can explain in their behalf why certain decisions have been made. This contributes in the transparency of policies. Now that we have examined different theoretical initiatives, we will examine the possibility of going from unemployment to self-employment in the Netherlands.

Box 4: From unemployment to self-employment, the Dutch case

In the Netherlands, it is possible to become self-employed even if you are on unemployment benefits. The institution that provides the unemployment benefits Uitvoeringsinstituut WerknemersVerzekeringen (UWV) provides assistance through your ‘werkcoach’ (a person who guides you in finding employment again). Together with your coach you can test if you are suited to become self-employed. If you are suited and you want to continue, more information about becoming self-employed can be gained through ‘de Kamer van Koophandel’ (chamber of commerce), for instance assistance on how to write a business plan.

The applicants can still receive their unemployment benefit for up to 26 weeks when they have become fully self-employed. They can even get financial support to help out with start up costs. If a new self-employed worker starts making profit he has to pay back the received unemployment benefits during the self-employment period.

On the other hand there still is not much support for social security. If you are going from unemployment to self-employment there is no more insurance for health, unemployment or invalidity. You will have to arrange those insurances yourself. The ‘UWV’ can provide you such insurances but there are costs attached to getting insured and certain forms have to be filled in.

Source: UWV¹⁶

Let us compare the obstacles examined by the EU, with the information from box 4. It shows us that there are still shortcomings.

The ‘UWV’ in the Netherlands is giving support to people who want to go from unemployment to self-employment, but the this kind of support contains the same obstacles mentioned by the EU. It already starts at the beginning; information about entrepreneurship has to be gained at another institute than ‘UWV’. The coach can play a more important role in gaining the necessary information. He has more knowledge about the different institutions and how to apply to them. This is in contrast with the desired one-stop-shop. Applicants for self-employment should be able to go to one institution and get all the necessary support. In the case of ‘UWV’ this could be done by the ‘werkcoach’.

¹⁶ http://www.uwv.nl/een_eigen_bedrijf/eigen-bedrijf-starten/Vanuit-een-WW-uitkering/Hoe-bereidt-u-zich-voor/index.aspx, last visited at 27 June 2009

Another possibility for coaching is to appoint someone from the private sector; a (former) self-employed can act as a 'werkcoach' especially for those people who want to make the switch to self-employment. The social security stays also an issue. The EU recognized that the transition from unemployment to self-employed is still blocked by the problem concerning the social insurances for self-employed people. Looking at box 4, in the Netherlands self-employed people themselves are responsible for getting insurances for health and invalidity. As mentioned in box 4 self-employment starters can get insured. These insurances are only available for certain professions. Offering such insurances can be seen as an improvement in supporting self-employment. The next step should be to offer these insurances to all professions for the self-employed.

Besides the negative issues, the financial support is a good practice. It helps the newly self-employed financially during half a year. If this period is not too short is a point of discussion. The Netherlands shows us that at this moment, there is a base for the change from unemployment to self-employment but that there is room for improvement.

3.4 Conclusive remarks

Supporting unemployed people into getting self-employed was the central topic of this chapter. Section 3 showed us that there lay several obstacles in the EU that prevent people of becoming self-employed. So policies in this field should aim at removing these obstacles.

To look what support for self-employed can do, two programs in countries outside the EU were examined. This research showed us what the pros and cons are of supporting people in becoming self-employed. A positive aspect of the programs is the way they are set up. The UISED for instance had awareness days to show people what the contents of the program were. The NEIS program has a website that provides a lot of information about the program. Both the programs also give different types of support, not only financially but they also provided training and counseling. The NEIS even assigns a mentor to the participants. Unfortunately there are also negative aspects. These aspects lie mainly in the outcomes.

The UISED only had a low percentage of people who were invited to an awareness day. The group of people who became self-employed through the program did not differ much from those in the control group. In Washington the program even had a negative outcome on the total employment level. The UISED also did not show a lot of financial revenues for the society.

The NEIS program showed better rates concerning self-employment and total employment. But this program lost a lot of resources through the deadweight loss.

Looking at the EU, entrepreneurship and thereby self-employment are on the policy agenda for the period up to at least 2013. The policies emphasize the shortcomings and the need to overcome the obstacles in order to get people self-employment.

The European Commission has acted by setting up The Entrepreneurship Action Plan. This action plan contained several initiatives and meetings to discuss the main issues concerning the stimulation of entrepreneurship. There is a lot of room for improvement, to reach these objectives. One of the improvements can lie in governance. One interesting point in the governance area is the recommendation of the European Commission in partnerships between all stakeholders. If the right partnerships are formed this can help the efficiency of public policies. For example partnerships between schools and regional governments for education and training in entrepreneurship could be formed.

Unfortunately at this moment a lot of issues are still part of the dialogue. The Entrepreneurship Action Plan is a step forward, but there is room for improvements in the Member States. This was also shown in the case of the Netherlands. The 'UWV' gives people the possibility to become self-employed, but support is limited. This shows in the facts that applicants have to gather information by themselves and social insurances also have to be arranged by the applicants.

A big issue remains the social and legal status of self-employment. The 'UWV' treats the self-employed as regular entrepreneurs, meaning that the self-employed are responsible for getting social insurances. The programs in the US and Australia, as countries under the Liberal regime, do not mention social security so it is up to the EU itself to make improvements in this area. That brings us to another issue, most initiatives do not mention the first period after an unemployed person starts with self-employment. The start is only the beginning. More attention should be given in guidance after the start because there are always problems that one can encounter in practice. For example filling the tax forms, it can be explained during the training but doing it for real can differ. Filling in tax forms and other administrative rules and regulations are not in favour of people who have become self-employed. That is also why creating a more SME-friendly regulatory and administrative framework is desirable.

Improving the flow of finance is already mentioned in this chapter. A tool for financing business start-ups is microfinance. Chapter 4 will examine microfinance in the EU. This chapter will deal with this topic in a broad setting. Not only different policies will be discussed, also the different conditions that can support or obstruct a proper use of microfinance will be examined.

Chapter 4: Microfinance in the European Union.

4.1 Introduction

The previous two chapters dealt with self-employment and unemployment. Now it is time to examine microfinance. The problems in accessing finance by the unemployed were already shortly addressed in chapter 3. This chapter will continue on this issue and will examine microfinance as a tool to provide finance to those who encounter problems in accessing finance through the regular channels. The research question for this chapter is: 'Under what conditions is microfinance a useful tool to stimulate self-employment'.

We will start with having a look at the kind of problems the unemployed can encounter when they apply for a loan at a bank. This will be examined in section 1. After that we will continue with different organisations that provide microfinance within the EU. These organizations vary in size and operate at different levels within the Union. When a microfinance program is active there is always a performance of the program. This performance can be good or bad, but how can we determine this? Section 3 will deal with measuring the performance of microfinance programs. This section shows the different criteria that are used to measure the performance of microfinance programs and outcomes of a study that already has been done among microfinance providers in Europe. The performance of the programs can be influenced by different factors. These factors can act from the inside of the organization or they can come from the external environment of the program. The factors that influence the internal organization are the internal conditions. Mismanagement of a microfinance provider can influence these conditions directly, but this requires good governance. The other factors from the surroundings of the provider are the external conditions. These conditions are changes in the surroundings. Program management can not directly influence these conditions, but they can react to them and if necessary take action. All the information gathered has to be combined in order to implement microfinance. Section 6 will use the information to show a structured way to implement microfinance.

4.2 Access to microfinance

Could microfinance be a successful tool to support self-employment? Banks are often not willing to provide credit to small business start-ups. This can be for several reasons. The article 'Which business starters experience limited access to bank funds' (Blumberg and Letterie, 2002) contains a study held among people who had the ambition to become self-employed. The study examined which criteria banks had for providing credit.

The most important criteria were as follows. Banks look at commitments and signals of the potential entrepreneur that repayment of the debt is highly probable (Blumberg and Letterie, 2002, p.17). Among the commitments are the so called collaterals e.g. house ownership, this is a sort of security for the bank that in the case the business stops to exist, the debt can still be repaid. “Entrepreneurs can improve the decision of banks by providing more detailed and more reliable information by writing a business plan for instance, especially if the financial plan of the venture is designed with the support of an accountant and if an accountant approves of it, banks may be more willing to grant a loan” (Blumberg and Letterie, 2002, p. 9). These efforts show that a potential entrepreneur is willing to invest in his or her business and thereby more convinced of being successful. Banks also pay attention to human capital when granting loans. Bank value “Relevant business experience in a paid job, but are reluctant to value previous self-employment” (Blumberg and Letterie, 2002, p.9). Experiences in a previous paid job which can be compared to the skills which are needed for an entrepreneur e.g. management skills and thereby increase the chances of survival. Another issue is that banks are not fond of granting credits to micro and small businesses because the revenues are relative low because of the small transaction. The costs however are relatively high for instance for verifying the creditability of the applicant. Banks therefore do not do proper research, which causes the so-called information asymmetries (Blumberg and Letterie, 2002, p. 1). The banks rely on insecure information that unfortunately can cause a denial in granting a credit.

We now know what the problems are that the unemployed encounter in applying for a loan at a commercial bank. The most important ones are the fact that it is difficult for the unemployed to meet the demand for a collateral. The second one is the fact that not all unemployed have the required experience to qualify as an entrepreneur from the bank’s point of view. The third one is the fact that the banks do not want to provide small loans because of the low revenues and high handling costs. These problems in accessing finance create a market gap.

Microfinance is a tool to fill this gap. Microfinance is more than just providing a loan, additional non-financial services are also part of the program. These are the so-called: business support services. These business support services contain services such as training, technical assistance, mentoring advice provided to an enterprise (European Commission, 2003, p.22). The business services provide training and mentoring. This support increases the knowledge and skills of a participant. Better skills and more knowledge increase the chance of survival.

The EU has undertaken several initiatives to provide microfinance. The next section will look at these different initiatives.

4.3 Microfinance in practice: Who are involved in providing the credit?

As mentioned previously microfinance can be a useful tool to fill the gap in the financial market. In this section different parties involved in providing microfinance within the Union will be identified. These providers can be found at all levels in the EU. We will examine different providers from Union level downward to providers at local level. After that we will look at the different organizations that are involved in providing microfinance¹⁷.

Chapter 1 showed us that the European Commission has come with an extra budget of € 100 million to facilitate microfinance for the period 2010-2013 and with extra support from the EIB group a total of € 500 million of funding should become available. This is a EU wide provision of resources for microfinance, but they have to be implemented within the Member States.

Over the last period, Member States have been encouraging microcredit provision by financial institutions. Member State governments can intervene by offering and enabling an environment in which microcredit can operate. This can be done by providing direct financial support and /or adopting appropriate rules on social protection for micro-enterprises, in particular start-ups (European Commission, 2003, p. 13). These nation-wide programmes are often implemented as national schemes. The national schemes often have common features: national measures to promote the availability of funding to institutional customers; a retail operator, to extend the credit to the micro-enterprises. During this last period several schemes have been launched: partial credit provision; partial risk sharing; tax incentives. The national schemes take into account the fact that a national finance provider is generally less well placed to establish effective business relationships with micro-enterprises than locally or regionally-based finance providers. Where a state-owned promotional bank exists for microcredit activities, this bank is the finance provider of the system and local banks are the retailers to small enterprises (European Commission, 2003, p.14). These schemes have the advantage that both, promotional banks and private banks are under public control or bank supervision. The risk of mismanagement and irregularities therefore is limited. In addition, the operations are subject to State Aid and competition rules (European Commission, 2003, p.14).

¹⁷ For examples of the different providers see European Commission (2003)

Micro-enterprises are perceived as very risky by credit providers and most of the time the micro-entrepreneur has no suitable collateral to offer. A way of sharing the risk is to ensure the participation of either a public, private or mutual guarantee scheme. Guarantee schemes are not generally exclusively targeting microcredit or small entrepreneurs: depending on their individual features, they are open to SMEs in general, to a specific economic sector, to a certain area or to members only in the case of mutual societies (European Commission, 2003, p.16).

In addition to the guarantee schemes there are also the Mutual Guarantee Societies (MGS). These MGS are a private society or organization by owners of small businesses. (European Commission, 2003, p.17). When these societies are in charge of assessing a guarantee application or a bank loan application, they offer a unique service: These societies have knowledge of the economic sub-sector at local level, the precise technical skills required for the applicant and a detailed estimation of revenue prospects (European Commission, 2003, p.17). MGS are quite important because they are particularly complementary to banks by providing data on applicants based on deep local market knowledge thereby fighting the information asymmetry (European Commission, 2003, p.17). Therefore with this kind of support in some cases it could be easier to gain a bank loan for the applicants who want to start a small business.

4.3.1 Types of microcredit institutions

The access to finance by micro-enterprises is not a new phenomenon. Savings banks and co-operative banks have been partly created and developed in the 19th century to facilitate access to finance such as microcredit (European Commission, 2003, p.18)

Microcredit by Non Governmental Organizations (NGOs) is an interesting development to follow. NGOs are following a wide range of objectives, in particular, social inclusion (European Commission, 2003, p.20). But why do NGOs have become active in microfinance? Several factors could explain partly this situation: an important deregulation of financial services; low cost for creating such a service; reluctance of banks to be active in this market segment; greater flexibility; new technologies development. It is important to mention how these NGOs operate. To provide their services, these organizations receive between 60% and 90% of their annual revenues from public subsidy sources (national, regional and European funding). Their operational sustainability is around 20%, far from the benchmark of microcredit banking or bank-like practices (from 80% up) (European Commission, 2003, p. 20).

This section provides us with the different providers of microfinance in the EU. From the EU to the local level there are several initiatives. Not only for the provision of microfinance, but also for changes in regulations for social protection for the start-ups. All the initiatives show common features, funds and regulations are the responsibilities of the governments, especially from the national governments with support from the EU. The provision of microfinance should take place at local and regional level. Because of the knowledge of their environments the providers can act more effectively on the needs from the surroundings. The providers can either be from the public sector or the private sector. An advantage of top-down funding is that there are rules attached to the funds. The microfinance providers are under supervision, this should restrict irregularities or the chance of mismanagements. I think the issues mentioned that there should be a better regulation for partnerships between public and private parties.

We have seen different types of microfinance providers at different levels. A lot of the described providers are in practice at this moment. But how is the performance of these providers? The following section will look at an examination of different providers.

4.4 (Empirical) research done in the field of microfinance

The previous section showed us that there is a lot of difference in microfinance providers. But how do these providers perform? Therefore the performance should be measured. An option for such a measurement is the use of a set of criteria.

This section shows us an example of a set of criteria, as used by the International Labour Organization (ILO). Next to that this section also contains an example of a research that has been done among different microfinance providers in Europe. The criteria and outcomes of the survey can be useful for further research and policy making in the field of microfinance.

The ILO uses a set of criteria to measure the performance. These criteria are divided into several categories. The categories can be helpful during the research process, with different criteria different aspects of a program can be examined. In this thesis we will use the main categories. These categories are linked to the study “Microfinance in Europe”(section 4.3.1). The entire list of criteria can be found in the study of the ILO (2002, p.38/39). The following categories can be distinct: Client profile, Services, Effectiveness/impact/outcomes, Efficiency, Sustainability.

4.4.1. Microfinance in Europe

A study on the use of microfinance in Europe provided data from 32 microfinance institutions (MFIs) acting within nine EU countries (Vigano, Bonomo et al. 2004, p.8). The research was done by a questionnaire spread among the providers and the researchers received data from 32 microfinance providers. Table 5 summarizes the outcomes of the questionnaire. The outcomes are presented per type of microfinance provider and as a sample mean. Certain outcomes can be linked to the criteria of the ILO. A few outcomes are used for further research and are examined below the table.

Table 5: Dimensions of analysis: institutional profiles by group

PARAMETERS	Co-operatives (COOP)	Financial Institutions (FI)	NGOs Associations Foundations (NAF)	Sample mean
SUSTAINABILITY (Dimensions of analysis)				
Repayment rate	96.1%	89.8%	83.3%	89.7%
Average interest rate	6%	6.6%	4.5%	5.5%
Private sources of funds	98.1%	44%	69%	71%
Public sources of funds	1.9%	56%	31%	29%
OUTREACH (Dimensions of analysis)				
No. of clients	91	738	532	437
No. of products offered	1.3	2.1	1.7	1.6
Depth	1.18	0.29	0.30	0.58
Longevity of MF programme	159	63	65	95
COMPLEMENTARY VARIABLES				
There is a focus on clients	90%	34%	67%	63%
There is a system of information collection on risky clients	40%	89%	34%	52%
There is a marketing strategy	40%	89%	50%	56%
No. of clients handled by one general staff member	24	28	48	34.5
Real securities	10%	0%	16%	9%
Personal securities	80%	33%	0%	34%
No collateral	20%	67%	84%	59%

Source: Vigano, Bonomo et al. 2004 p.22

Reducing unemployment through the use of microfinance is one of the issues of this thesis. So we will have a look at the target groups that the providers from the study aim at. The results show that the microfinance providers serve a diverse range of clients. Over one third of the respondents appear to have no specific client targeting strategy. From those providers who have a specific target group the unemployed is the largest one (34%) (Vigano, Bonomo et al. 2004, p.8/9) But what services do the providers offer to the participants? Looking at the services it shows that 56% of the respondents mainly provide financial products and/or services.

The other 44% also provides non-financial services such as assistance in the preparation of credit applications, the provision of collateral to third parties, training, technical assistance and advisory services (especially for the drafting of projects) (Vigano, Bonomo et al. 2004, p.8).

For the financial services there is more detailed information available than of the other services. We therefore will continue with the financial outcomes from the questionnaire.

Table 6 Financial services and repayments of MFIs

	Av Amount	Av. Repayment rate	Av. Interest rate	Maturity	Waiting Period
Loan	13,091	89.7%0	5.5%	36 months	29 days

Source: Vigano, Bonomo et al. 2004, p12.

In table 6 it can be seen that the average loan size is about €13,000. But there is a great difference in the minimum loan size of €118 and a maximum €70000. (Vigano, Bonomo et al. 2004, p.11) This shows that there is a large difference in the amounts that are lent. The maximum of €70,000 exceeds the amount of € 25,000 stated by the European Commission as the maximum for microcredit.

When a loan is received for which purposes is the money used? Most of the credits are used for business start-ups (over 90%) and working capital (about 70%) while approximately 25% of the loans are used for consumer goods (Vigano, Bonomo et al. 2004, p.11). This shows that the money is in most cases used for the main objective self-employment. Of course the loans have to be repaid, under what conditions does the loan has to be repaid? Is this just the sum of money or is there also an interest involved. The average interest rate is 5.5% per year. But here there also is, just like the magnitude of the loans, a great difference between the minimum (0%) and maximum (19.5%) interest rate. The average repayment rate of this is 89.7%, but this varies between the types of microfinance provider. In table 3 the specific repayment per type of provider can be seen. So according to this study there is a 10% failure in repayment of the loans. Unfortunately the study does not contain information about why 10% of the loaners are not able to repay their loans.

The research shows a lot of diversity among the microfinance providers. They serve different target groups. The sample mean shows that almost a third does not focus on a target group. The amount of money lent and the interest rates are. There is quite a difference between the lowest and highest amounts and rates. These differences in my opinion can be partly explained by the fact that the costs for becoming self-employed can differ per Member States.

But I also think that the amount of € 25,000 given by the EU should be the maximum, because otherwise the term “small loan” is not suitable anymore. The minimum is much more difficult because different professions have different starting costs.

This research contains a lot of quantitative criteria. It is based on amounts and figures. The outcomes do not give us information about the quality of the providers. Information about the quality of the services that the participants receive is missing. A provider can say that they are supporting a lot of people and that they are also providing non-financial services. But do the participants receive the right individual support and not a written course on how to become self-employed, including financial advice. Another example is the repayment rate, why are people not able to make the repayments. This is not mentioned in the outcomes.

This section focused mainly on one study and a set of categories, so the outcomes do not represent all the microfinance providers in the EU. But the study does provide information on which criteria performance is measured and it gives us an overview on differences between the providers.

I think that a proper research contains both quantitative as well as qualitative criteria. Qualitative outcomes provide us more information about why something does or does not work. The information from such questionnaire, for example held among the participants, can be used to make changes in the management or policies. Therefore a more thorough investigation is necessary to examine the conditions that will improve the performance and sustainability of the microfinance providers. The next section will examine these conditions.

4.5 Conditions that can influence the use of microfinance.

Running a microfinance program is not an activity that stands on its own. There are factors that can influence the program. These factors can be divided into internal conditions and external conditions. The internal conditions are the conditions from inside the program. These factors can be directly influenced by the program itself and especially by the management. The external conditions are coming from the environment surrounding the program. The management of a program can anticipate on these conditions.

4.5.1. Internal Conditions

The internal conditions are part of a microfinance program itself. If the internal conditions of a program are not good it reflects in the performance. As said in the introduction of this section, the program itself can influence these conditions, but how can this be done in a proper way?

Therefore we have to look at the main activity of microfinance programs; providing finance. In order to run a microfinance, good governance is very important. We will look at the governance of a microfinance program from a management perspective.

It all begins with setting up a good program. Choosing the right strategy is the base on which the program is built. Questions such as who can provide funds and what will be our target group are to be examined. Concerning the choice of the target group, chapter 3 showed that addressing to the wrong group causes a waste of resources as explained in chapter 3 (deadweight loss).

If a program is operational, it is desirable to monitor the performance on a regular basis. The previous section showed us how existing microfinance programs are examined. These different criteria are useful tools for monitoring the performance a program. If the outcomes show that there is a change in one of the conditions, the management has to respond to that. The management has to focus on three conditions that are important in order to continuation of a program: financial outflow, costs and financial inflow.

- Managing the financial outflow

In practice this means that provision of microfinance (outflow) exceeds the inflow, this has to be analysed. If the financial outflow keeps exceeding the inflow, a deficit could exist and this can endanger the sustainability and in worse case the continuation of a program. So the analysis should provide us information about the possible problem(s). For instance if the money lend to the target group is not repaid sufficiently. Perhaps the target group should be determined again. It has been mentioned several times, but determining the right target group can save funds.

- Keeping control of the costs

Another thing that can occur is that the costs of running the program are too high. The management than has to look at different costs. Especially to the costs that do not have an added value or are not necessary to run the program. There are certain costs that represent the microfinance program and its goal, these costs will have to be made because they are having an added value. For instance the extra services that in some cases are provided like education and coaching. In order to provide the extra services a good staff is essential. This staff is the added value for the applicants.

- Obtaining sufficient funds

And at last the funding, the source of income. Funds provided by external parties are the main income source. What if one of the donors decides to cutback or stop the funding. If you can find other donors or get to current donors to give more money there is no problem, but otherwise changes have to be made. The course of the program has to alter; this can be done by looking at the outflow of the funds again or getting other revenues. These revenues can be gained by raising the interest rates, but that is not desirable, considering the goal of microfinance.

The conditions mentioned above are mainly financial, but like a commercial bank or a company, a microfinance program has to stay at least break even to survive. These two organizations are also expected to have a proper management. The main difference lies in the fact that commercial banks and company are aiming at profit and the ones in the EU are acting from a social objective.

If the internal conditions are managed in the right way, microfinance programs can continue with providing finance, without cutting back on the service. In chapter 2 it was already mentioned that the first years after the start up are the most difficult ones. Therefore guidance should not stop just after the business start-up or in the first years. Self-employed also encounter problems when their business is running over a longer period.

4.5.2 External Conditions

Next to the internal organization there also are the external factors. This thesis already made clear that microfinance programs depend on funds provided by external parties. The previous part mentioned that the management of a program has to act on a change in the amount of funds. This is an example of an external condition, in this case external funding.

These conditions can be divided in: demographic, economic, technological, social, political, ecologic and the market factors (Keunig, 1996, p. 155). This is quite a long list with different factors. For research on the entire external environment all these factors can be examined. In this case we will focus on the external conditions that can contribute in the development and sustainability of microfinance programs. We will focus on the following conditions: A macroeconomic and regulatory framework which allows the development of MFIs, good infrastructure, a sufficient diffusion of public services (education, health services and so on) (Vigano, Bonomo et al. 2004, p.27). Below an explanation is given about each condition and what this means in practice.

- A Macroeconomic framework and regulatory framework which allows the development of MFIs

The list shows that there is a desire for better regulation both in an economic as a political way. In my opinion there must be one overall framework. This framework must have the main objective to allow the development of microfinance. In order to make such a framework a success other tools are required. One of the required tools is a good macroeconomic framework. Microfinance programs are in fact financial institutions, but can they be considered as banks? In most countries of the EU banking regulations are quite strict. Many countries only allow banks to provide loans. Therefore a window is desirable that allows micro lending by MFIs (Evers and Jung, 2007, p. 30). This means that microfinance programs must be allowed to provide loans even though they are not always registered as banks. The establishment of such a window must be regulated in order to prevent that commercial companies claim to be a microfinance program and thereby will not have to act according the regulations for banks.

This previous paragraph shows that there is a need for a good regulatory framework. MFIs and microfinance programs are providing both financial as non-financial services. So should they be seen as banks that provide other services than financial or non-financial institutions that provide financial services? This shows that there still is not an official status for microfinance providers that are not promotional or private bank, that unlike NGOs are having a higher level of sustainability. By providing such a status, demands can be made for the governance of these institutions.

On the other hand there should also be tax incentives for the programs. These tax incentives are part of the economic framework. The tax incentives should be given to the programs because their role in social security and getting people of benefits is a desirable contribution.

- A sufficient diffusion of public services (education, health services and so on)

Another measure that can support microfinance in line with the social aspect is the diffusion of public services. Education for instance enlarges the chances on the labour market. If people are better educated this will increase their chances on the labour market. If people unfortunately become unemployed and they opt for self-employment through a microfinance program an education increases their chances of survival. Another issue is social protection for the new self-employed workers, even though there are a lot of changes in the Member States (chapter 2) there still is the danger of social exclusion. Therefore microfinance providers should be allowed to offer social security, such as health insurances.

- Good infrastructure

The different frameworks from the policy fields must be attuned to one another. Here lies a task for the policy makers at the different levels in the EU. In order to attune all the parts a good infrastructure is required. In this case it does not mean a physical infrastructure, but a good infrastructure to process the information streams between the different parties. Technologies such as Internet are tools that can support fast exchange of information. Not only the technological infrastructure should be improved also the information stream between the involved parties should improve.

- Interpersonal relations based on traditional and social links

That last issue is the interpersonal relationship. In my opinion this is in favour of local and regional based programs with a local board and employees. They know the direct environment and the people. They can set up a program that suits best the demands of the markets. I think partnerships between the public and private sectors are most suitable for this task.

Concerning the external conditions steps in the right direction have been taken, but there is also room for improvement. The latest initiative of the European Commission to support microfinance is a big contribution. But next to the extra funds the demand for an overall framework should also be taken into account. The framework is a support for the development and sustainability of microfinance programs. Chapter 2 mentioned the economic development and the influence it has on unemployment and self-employment. Such developments should be taken into account during the policy making process. For instance during economic decline, the government should not cut back on funding. Enlarging the budget for microfinance during a recession will be difficult, but at least the governments should maintain the same level of funding. The overall framework should contain guidelines for Member States on how to act during the different stages of economic development.

The different internal and external conditions in this section show us two things. At first the internal conditions show that good management and governance of the microfinance programs reflects in the outcomes. The right management can anticipate on the different factors and take action if necessary.

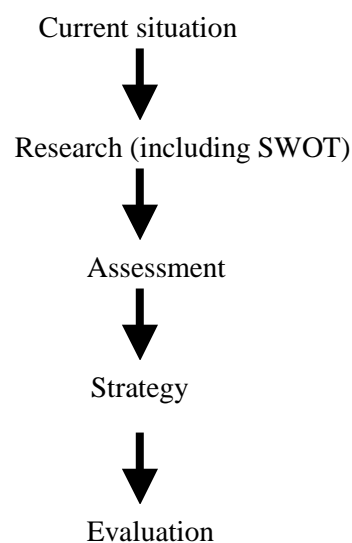
If the management applies good governance, a microfinance program can provide the right services and be sustainable. This section also shows several similarities with the conditions mentioned in chapter 3 to improve self-employment programs. The self-employment programs also claim that better environmental conditions are necessary in order to operate in a good or better way.

The main difference between the microfinance programs and self-employment programs lies in the way of finance. Microfinance uses small loans (microcredit) as the financial tool. Which have to be repaid with interest. Self-employment programs are providing periodical allowances. Setting the way of financing the participants aside both type of programs are also linked with a need for good conditions in order to operate in a proper way. Now that we have seen the internal and external conditions, let's look at the practical side. The next section is dealing with the set-up of program, using the gained information from this thesis so far.

4.6 Implementing Microfinance

The previous sections showed us with supportive conditions for microfinance. These conditions provide us with information for the next step. Turning theory into practice. This means implementing the right ingredients by using the right tools. In the cohesion policy it is described as follows: "The most appropriate mix of investments ultimately depends on the analysis of the strengths and weaknesses of each Member State and region" (European Commission, 2005b, p. 12). This phrase shows us two things. On one hand it shows how policymakers should act and on the other hand that there is not a blueprint for the entire EU. So there is not a blueprint and yet the European Commission emphasizes an analysis of the strengths and weaknesses. That is why I want to present a model to make a strengths and weaknesses analysis and how the outcomes can be used to form a strategy. A model often used in businesses is the so-called model of strategy formulation (Keunig, 1996, p. 155). Figure 2 shows an interpretation of this model on how step-by-step a strategy for microfinance can be formulated.

Figure 2 Determining the strategy of a microfinance programme.



To stay in line with the thesis, this model used for setting up a microfinance program can be compared to writing a business plan. I have chosen this kind of model because by designing a microfinance program step by step, it reduces the chances of forgetting parts that are important for the program. And just like a business model if everything is well documented it is easier to look back or even go back one step if something goes wrong during the process.

The first step “current situation” means looking where we are standing and where we want to go; setting our objectives. In this case we are assuming that the program does not exist at this moment, so we are at point blank and we want to set up a microfinance program. What are our objectives? The main activities of a microfinance program are providing finance and additional services (education, coaching) so all the other objectives have to be in line with these activities. The first logical question is: Who can provide us funds in order to run a program. The next questions can be: what is our target group and how do we want to organize the program? When the objectives are set, we can move towards the next step “Research”.

The second step “Research”, means analyzing the objectives that were set in the first step. The ‘Research’ contains two main fields, the internal and external environment. Section 4 showed us different internal and external conditions that are part of the environments. After the research the outcomes can be divided into good and less good results. A tool to help divide the outcomes is the SWOT-analysis (Keunig, 1996, p. 155; Johnson and Scholes, 2002, p. 183) SWOT stands for Strengths, Weaknesses, Opportunities and Threats.

The internal environment is analyzed by the Strengths and Weaknesses. The analysis focuses on the strong and weak aspects of the program itself e.g. the financial situation. The external environment contains the Opportunities and Threats. These are factors on which the program itself has no direct influence, but the program can and has to anticipate on these conditions e.g. changes in the regulations for microfinance program. To make it easier to divide the different outcomes, they can be put into a matrix. Table 7 is an example of such a matrix.

Table 7: SWOT matrix

Strengths	Weaknesses
- Services provided - Target group	- Sustainability - Lack of a specific target group
Opportunities	Threats
- Macroeconomic framework - Regulatory framework	- Economic decline - External funding

Table 7 consists of examples from the different conditions examined in sections 3 and 4. In practice the matrix can contain more conditions. From the matrix the conditions have to be ranked in matter of importance for the program. This means that if a condition is neglected this has a great influence on the program. For example external funding, the funding has been considered as a threat, this means that the external funding is not entirely arranged. The existing providers are not sufficient at this moment or a change in the future budget of the provider means that in the nearby future the funds will not be sufficient anymore. Therefore action is necessary otherwise the program can become in a difficult financial situation or is even forced to stop. The analysis of the matrix continues in the assessment.

The third step, the assessment looks at the ideas that have come forth from the outcomes of the matrix. During the assessment these ideas are adjusted and turned into concrete actions. If the assessment is complete, it is time for the next step forming the Strategy.

The fourth step, forming the Strategy, means turning the outcomes of the research done in the steps into practice. At the beginning of this section we spoke about using the right tools in order to implement the best ingredients. An assessment provides us with information about the different conditions and the ranking of priority in order to make a viable strategy. The strategy can be used for two different parties. The first party are the policy makers and the second party is the microfinance program designers or management.

The policy makers should focus on the deficits present in current policies to support microfinance and set their strategy i.e. new policy on how to overcome them. Section 4 showed external conditions that should improve from a microfinance program perspective. If proper research is done the policy makers should acknowledge that these issues are deficits in the internal conditions of the policy. Overcoming these deficits should be the main priority in the strategy. Taking all other conditions into account. Policy makers are also dependant of external conditions, such as the budget a government or the EU has reserved for employment policies. If there are changes in policy, these changes will reflect on microfinance programs, either these are new programs or existing programs. Because these policies are part of the external conditions of the program. For example the new micro-finance facility provides an opportunity. So the SWOT-analysis can be adjusted. Therefore it is important to have evaluation moments during the time span of the strategy. These evaluations are a tool to analyse if the strategy is still following the right course. Strategies are not static but dynamic, the environment is constantly changing and the strategy has to react on these changes even though it means that the course of the strategy has to alter in order to reach the objectives. When the time span has ended, the whole process starts again at step 1, using the outcomes of the objectives that were set as the current situation.

4.7 Conclusive remarks

Providing finance for the unemployed, that was the main topic of this chapter.

Research showed that there are several obstacles that prevent the less fortunate in accessing finance through the regular channels. Commercial banks are not fond of lending small loans to the unemployed. Banks have certain demands for the applicants such as collateral and a certain amount of human capital. Most of the unemployed applicants cannot meet these demands and therefore banks are not willing to lend the money. Banks are also not fond of lending small amounts of money because of the high handling costs and the small profits obtained from these loans. So there is a need for providing small loans in other ways.

Microfinance can fill the gap that exists under financing through the regular channels.

Microfinance programs are especially designed to help the unemployed and other less fortunate in order to promote social inclusion. Another advantage of microfinance is that besides providing finance also additional services are provided such as education and business training. This gives the participants extra assistance in becoming self-employed.

Within the EU there are different types of microfinance. Literature showed us that microfinance can be found at all levels in the Union, from funds that act union wide to initiatives at local level. It also showed us that microfinance is not specifically provided by the public or private sector, but that combinations and partnerships between these two sectors do exist, such as MGS. There are also downsides with using microfinance. The microfinance programs are not cheap. The services provided and adequate staff are using a lot of the resources. So if the program is not managed in a good way a lot of resources are wasted.

The next step is measuring the performance of a program. Different criteria can be used to measure the performance of a microfinance provider. The criteria that we examined in section 3 were mainly quantitative and provided us with figures and rates. But there are also qualitative criteria that provide information about factors that lie behind the figures and rates. I think good measurements contain both criteria. There are also certain conditions that can influence the performance of a microfinance provider.

There are two types of conditions: the internal and the external. Both the internal and external conditions require good management and governance, otherwise this has a negative effect on the performance of the program. For the internal conditions this means that the management has to ensure that a program can work as efficient as possible without cutting back on the provided services. This means monitoring the inflow and outflow of the resources.

The external conditions should make it easier for microfinance providers to operate. The governments should provide an overall framework for microfinance, with certain support form

different policy fields such as an economic framework and proper infrastructure. This framework should be flexible in order to react on developments like economic ones.

The last section combined all the information from this and the previous section in order to implement microfinance. Implementing microfinance is a process that can be done by using a model. Using a model has the advantage that the process structured so that there is a smaller chance that important matters are left out. An important matter when using a model such as the one in section five is that there are certain points for evaluation are built in. In this way if something goes wrong the course can be altered. Therefore the model should be seen as something dynamic instead of static. Another thing is that the model is not linear but it is a cycle, the last step of the model is at the same time the new starting point.

Chapter 5: Conclusion

5.1 Conclusion

This thesis is about the question under what conditions can microfinance be a useful tool for the EU for stimulating self-employment to reduce unemployment? To answer the main question I have divided it into three parts. These three parts form the research questions of this thesis. To answer the research questions I have chosen to use different types of literature and other sources such as the Internet. I have chosen these sources to get a theoretical background and practical information about the current situation about stimulating self-employment and the use of microfinance. The theoretical background is necessary to see if it useful to stimulate self-employment to reduce unemployment in other words is there a relationship between the level of self-employment and unemployment. This was examined in chapter 2 with the following research question: ‘In which ways are self-employment and unemployment related?’

The practical information is used to examine the situation in the EU concerning self-employment, unemployment and microfinance. The sources contain mostly information about policies on the topics and researches about the topics in practice. The practical research is done in the chapters 3 and 4 with the research questions: ‘Which policies are there to stimulate self-employment within the EU?’ and ‘Under what conditions is microfinance a useful tool to stimulate self-employment?’ The outcomes of the research chapters are used to answer the main question.

- ‘In which ways are self-employment and unemployment related?’

The outcomes of this sub-question show us that there are two types of relationships between self-employment and unemployment. Empirical research shows that there are relationships between changes in self-employment and the unemployment rate. Even though the outcomes show that a rise in unemployment has little effect on an increase in self-employment, on the other hand the outcomes also show that an increase in self-employment has a relative bigger effect in decreasing unemployment. Looking at self-employment within the EU, statistics show that in the past years there was an increase in self-employment for both men and women. But what is even more important, self-employment proves to stay a stabile factor of total employment.

There are certain factors that can influence the levels of self-employment and unemployment. Economic development is one of the factors. Certain stages in economic development cause an increase and decrease in both self-employment and unemployment. The other factor is the institutional factor.

The governments of the Member States can influence the level of self-employment by making policies and adopting legislation in favour of self-employment. A good example is social security policies for the self-employed workers. More Member States are giving self-employment a legal or social status. Such a status makes them part of the society which allows governments to provide self-employment social schemes. These schemes contain social aid in case of unemployment and sickness, but also pensions and maternity leave. Such social securities are contributing in closing the gap that exists between the social protection of wage employment and self-employment.

- ‘Which policies are there to stimulate self-employment within the EU?’

This question continued where chapter 2 ended, examining other policies besides social security to stimulate self-employment. The US and Australia show us that supporting unemployed people to become self-employed does not always have to be done by enlarging social securities from public schemes. As countries under the Liberal regime they support people to become part of the labour market again. To reach this objective they have specially designed programs. These programs do not only provide financial aid, they also provide the participants other support such as training and coaching. This support improves the skills and knowledge of the participants and thereby the chance of survival increases.

These programs also show us that there are two pitfalls that can lead to a waste of resources. The first is pushing people into self-employment who are not suitable as entrepreneurs. It is not likely that these people will survive. Business failure can be an extra financial burden for them because of debts. Second, there is the deadweight loss. This means that support goes to people who without joining a self-employment program would have become employed anyway.

The EU has good incentives with self-employment. This shows by keeping self-employment on the policy agenda until 2013. Adopting the Entrepreneurship Action Plan and the providing guidelines, show that there are initiatives to stimulate self-employment. One interesting outcome is the recommendation of public-private partnership. The next step is to implement these initiatives into practice.

- ‘Under what conditions is microfinance a useful tool to stimulate self-employment?’

This question focused on the different aspects of microfinance as a tool to stimulate self-employment. Unemployed people have difficulties accessing finance through the regular channels and there lies a market gap. Microfinance is suitable to fill this gap, because microfinance is specially designed to help the less fortunate in order to promote social inclusion. The great advantage of microfinance is that it contains several services, both financial as non-financial.

This means that microfinance consists of a small loan and can also contain services such as training and coaching. In the EU a lot of different programs exist, in all the layers of the EU. Some of them are managed by public private cooperation.

In order to make microfinance a successful tool certain conditions are required. The internal conditions have to be guarded through good governance by the management. This means working as efficiently as possible and monitoring the financial inflows and outflows. This also requires hiring good staff members. The external conditions consist of factors from other parties that can influence the outcomes of the performance of a microfinance program. In this case it means facilitating conditions, to promote microfinance. These conditions are a framework that allows microfinance providers to develop, a good infrastructure and interpersonal relationships.

This brings us to the main question of this thesis: ‘Under what conditions can microfinance be a useful tool for the EU for stimulating self-employment to reduce unemployment?’ I think that self-employment can help reduce unemployment. Empirical studies showed that there is a causal relation between the rise of self-employment and the decline of unemployment. Statistics from the past years also imply that there is proof for this theory. The self-employment level in the EU increased and the unemployment level decreased. Next to that self-employment shows to be a stable factor of total employment. So I recommend that self-employment should be stimulated. Looking at these conclusions, two main issues have come up; how can we stimulate people to become self-employed and how can microfinance support this?

The first issue means that the EU and its governments have to create an environment that socially includes self-employment. This indicates that providing them social security but also the right facilities to become successfully self-employed. That is why a program has to contain different kinds of support, in order to provide the self-employed with the right tools so that the chance of failure because of ignorance is reduced.

Microfinance is a tool that can support people who want to become self-employed. Because microfinance consists of more than just lending money, also other services can be provided. If these services are adjusted to the needs of self-employment there is a strong case for success. There are however certain conditions necessary to make it successful. At first, the internal conditions. These conditions mean that there is good governance by an adequate management, with the help of skilled staff members. Second, the external conditions. The EU and the governments of the Member States are responsible for these conditions. They have to create a self-employment and microfinance friendly environment.

5.2 Recommendations for further research

In this thesis I was not able to examine all the aspects of microfinance and self-employment, but during the process two interesting topics came up, which in my opinion are worth it to be examined more thoroughly. I would like to recommend the following topics for further research.

At first, as I have mentioned earlier, choosing the right target group is an important issue. If the wrong are pushed into self-employment this could harm them instead of helping them. On the other hand it is also a waste of resources. So it is important to know which group of people your aiming at. This thesis focused on the unemployed in general, but unemployed people are a diverse group. The group contains people with different social backgrounds such as: gender, education, ethnicity and age. Further research should focus on these social backgrounds of the unemployed and examine who are or who are not suitable for self-employment.

The second recommendation has to do with the provided services. The surveys examined in this thesis mainly focused on the quantitative outcomes of the microfinance programs. But there are also qualitative aspects in microfinance provision. Surveys could also be used to examine the quality of the services. For instance, are the participants satisfied about the training and coaching that they are receiving? Are there enough contact hours, are the contents of the training sufficient? This information can give another insight about the performance of a microfinance provider.

My final recommendation concerns the financial support given by a microfinance program. Basically there two kinds of aid: providing a lump sum or giving an allowance for a certain period. In my opinion further research should provide information about which type is more desirable. In other words, which type of support shows the best results in keeping people self-employed.

5.3 Policy recommendations

The EU believes in microfinance, this is illustrated by the extra funds that are available at this moment. Policies therefore should play an active role to make sure the funds are used in a proper way. To reach this objective I would like to recommend the following to the policy makers in the EU and the Member States. As mentioned earlier there are external and internal conditions that can influence microfinance. The external conditions in this case are the policies and initiatives to support microfinance. These are part of the framework that I will refer to below. The internal conditions are referring to the governance of a microfinance program.

So the main tasks are making a clear framework for microfinance and to help the microfinance programs operate in an efficient way.

The EU should be in charge of providing the funds and the framework. The Member States themselves should arrange the programs. Because the Member States differ from each other and have different background especially with the expansion of the EU, it is difficult to make one program that suits all the Member States. The framework must at least exist of the following things: a status for microfinance and self-employment, financial and regulatory adjustments.

At first in order to make a framework there should be more focus on how the EU sees the role of microfinance to stimulate self-employment.

A lot is written about microfinance and self-employment and the most suitable conditions, but I found it difficult to find concrete steps into the right directions. For example the status of self-employment. Not every Member State has a clear legal or social status for self-employment. Therefore the framework should contain a guideline that tells the Member States to give a status to self-employment. In that way it is easier to create and adopt policies for social security to the self-employed. This means that the self-employed workers can claim health care, pensions, unemployment or invalidity insurances. These insurances should become part of the package offered by a microfinance program. If somebody joins a microfinance program it entitles him to social security.

The next step is the regulation for the provision of financial services. Here lies a combined role for the EU and its Member States. Some microfinance programs are lending money while they are an organizations that is not a bank. To allow these organizations to provide financial services there has to be specific and strict regulations. These regulations are the responsibilities of both the EU as well as the Member States. I suggest supervision by either banks or governments in order to control the microfinance and prevent them from becoming lenders that in an illegal way will compete with banks by lending small amounts of money to civilians other than people who want to become self-employed.

Another form of financial support are tax incentives. Is it desirable to let the self-employed be entirely financial independent and let them pay taxes as a regular entrepreneur, after the provision of funding has stopped? I think not, because the self-employed worker also has to repay his debt for the microfinance, tax incentives should be provided in the period after the funding has stopped. If next to this repayment also regular taxes have to be paid this is a heavy financial burden. In order to keep people self-employed I suggest the following. A time span should be agreed on. Let us say that the support will last one year or two years where there is an allowance.

Starting from the second year repayments have to be done, because microfinance stays a loan and is not a donation. In the first couple of years during the repayment period, the tax incentives should be applied.

But who has to take the financial risk of bankruptcy? If a participant goes bankrupt in a non-fraudulent way, the participant should at least be entitled again on an unemployment benefit. If there is a debt I think that the self-employed worker stays at first responsible for this debt. But it is the task of the governments to help if this means that someone is threatening to become socially excluded.

From there on we will go to the Member States that are responsible for the program design. I recommend regional or even local (urban areas) programs. For people it is easier to visit a microfinance program if there is one in the region. An even bigger advantage it would be if people with a local background are part of the program. They know the area and the people, which can contribute into a more suitable program.

In order to operate a microfinance program in the most efficient way there is a need for good governance, management and staff. In order to help governing a microfinance program, I have presented a model in chapter 4. Especially the SWOT-analysis is a good tool to help measure the performance. And the outcomes of the matrix can help to see which parts of the program need extra attention.

I would prefer that the management and staff are people with an entrepreneurial and/or financial background. It does not matter if these people are coming from the public or private sector, as long as all involved stakeholders are involved during the process. Because of their background the suggested management and staff know what it is to run a business. This has two advantages; the first is that they can run the program in an efficient way and a second advantage is that they can use their experience to help the participants. With help I mean giving training, coaching and they can act as counsellors. Their business experience also means that they can help select the participants. Because not everybody is an entrepreneur I think it is wise to let the applicants write a business plan, the staff of the program can examine if the plan is viable. This plan does not have to contain a financial plan, but the idea and how the applicant wants to manage the idea in practice. In this way a selection can be made of plans that are viable and which are worthy of an investment.

Concerning the finance part, what sort of financing is desirable: a lump sum of money or a monthly allowance. I would say the best way is a mix of these two. Providing a sum to help out with the start-up, afterwards a periodical allowance. This allowance should be seen as an income support and a support for the operating costs. This allowance is to support the newly self-employed worker to have an income during the start-up and the period afterwards, this in order to prevent people of having to return shortly after starting into unemployment again.

The final condition that can influence the success of microfinance programs is promotion. The EU and the Member States should make more promotion about the possibilities of self-employment and the use of microfinance as a tool to get self-employed. In other words there should be more active stimulation.

Of course this is just a theoretical exploration. Not all self-employed workers will make it I hope that if a self-employed worker has to stop his activities, the newly gained skills can help him to get employed again. The recommendations I have given above are the conditions policy makers should focus on. I think these are the best conditions under which microfinance can be a useful tool to stimulate self-employment and thereby reduce unemployment. But there is always room for improvement.

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