



Guidance Note: Facilitating Access to Finance for the Unemployed

Overview

This note describes the steps that policy makers can take to improve access to finance for entrepreneurs starting and growing a business from unemployment. The policy guidance note is structured around the good practice statements that comprise the “Facilitating Access to Finance for the Unemployed” module in the Inclusive Entrepreneurship component of the Better Entrepreneurship Policy Tool. For further discussion of these issues and additional examples of relevant policy actions, please see:

OECD/European Union (2017), *The Missing Entrepreneurs 2017: Policies for Inclusive Entrepreneurship*, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264283602-en> [1]

OECD/European Union (2016), *Inclusive Business Creation: Good Practice Compendium*, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264251496-en> [2]

OECD/European Union (2015), *The Missing Entrepreneurs 2015: Policies for Self-employment and Entrepreneurship*, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264226418-en> [3]

OECD/European Union (2015), “Policy Brief on Sustaining Self-employment”, Publications Office of the European Union, Luxembourg. <https://doi.org/10.1787/23114886> [4]

OECD/The European Commission (2014), *The Missing Entrepreneurs 2014: Policies for Inclusive Entrepreneurship in Europe*, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264213593-en> [5]

OECD/European Union (2014), “Policy Brief on Access to Business Start-up Finance for Inclusive Entrepreneurship”, Publications Office of the European Union, Luxembourg. <https://doi.org/10.1787/23114886> [4]

OECD/The European Commission (2013), *The Missing Entrepreneurs: Policies for Inclusive Entrepreneurship in Europe*, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264188167-en> [6]

5.1. Needs assessments are used to identify how policy can address gaps in the availability and accessibility of business finance for the unemployed.

A needs assessment should be undertaken at the beginning of the policy development cycle. When assessing the gaps in the availability and accessibility of finance for entrepreneurs from under-represented and disadvantaged groups (e.g. women, youth, immigrants, the unemployed), policy makers need to conduct research, surveys and consultations to understand the financing needs and assess how the current finance

support measures are meeting entrepreneurs' needs. Assessing how policy can address the start-up financing needs for the unemployed requires consideration for various profiles of the unemployed (e.g. part-time entrepreneurs, graduates), as well as differences in motivation and intention. It is important to consult with aspiring entrepreneurs and representatives for the financial sector to identify and address gaps in the current suite of financing offers for the target groups.

Setting out clear and appropriate policy objectives for start-up financing initiatives for inclusive business creation is an essential part of their design and implementation. These objectives will shape the actions to be taken, the delivery model for implementation, and the criteria used to measure success. In developing such objectives, policy makers should undertake a needs assessment to ensure that the policy is underpinned by robust evidence and a sound rationale.

A needs assessment should be completed in the initial stage of developing policies and programmes that facilitate access to start-up financing. It should include activities such as: assembling of information and evidence on the challenges faced by entrepreneurs from under-represented and disadvantaged groups (e.g. women, youth, immigrants, the unemployed) in accessing start-up financing; a review of current business start-up financing programmes for these target groups; and identifying gaps in the current suite of start-up financing offers, and options for strengthening policies and programmes. These activities will inform proposals for strengthening start-up financing offers and addressing gaps.

To create a robust evidence-base for proposed inclusive entrepreneurship financing measures and initiatives, decision makers can draw upon three key sources of evaluation information:

- *Benchmarking and meta-evaluations*: This involves compiling and assessing the results achieved in past start-up financing interventions and in various contexts (benchmarking), and the bringing together of all the relevant evaluations of similar programmes (meta-evaluation). Both positive and negative results should be included since a project that has failed to generate the expected impact could offer lessons for future initiatives.
- *Existing data and background research*: Statistical data and background research can be a valuable source of evaluation information. This should include data on the characteristics of under-represented and disadvantaged groups and the financing barriers they face in accessing start-up financing. Such data is often crucial in building a solid evidence-base to justify new policies and programmes to improve access to start-up financing initiatives for under-represented and disadvantaged groups.
- *Stakeholder consultation*: Consultations with relevant stakeholders on the effectiveness and relevance of existing start-up financing initiatives is also an important source of diagnostic evidence. Stakeholder consultation is crucial in developing a shared vision of future start-up financing initiatives. Policy makers should engage with relevant stakeholders from the outset to identify the financing challenges faced and actions that are needed and how such actions can be integrated with existing policy and other stands of policy.

Based on the needs assessment of start-up financing, proposed policy interventions and programmes can be accessed according to the following key criteria:

- *Relevance*: The extent to which the proposed financing policy or programmes is suited to the needs and priorities of the target group and government.
- *Effectiveness*: The extent to which the proposed intervention's objectives are expected to be achieved, considering their relative importance.
- *Efficiency*: The extent to which the intervention uses the least costly resources to achieve the desired results.
- *Expected impact*: The positive and negative changes produced by a policy intervention, directly or indirectly, intended or unintended.
- *Sustainability*: The extent to which the policy intervention will continue after public funding has been withdrawn.

Policy makers can measure the success of their needs assessment exercise through a continuous monitoring of the tailored start-up financing initiatives and the financing needs of the target groups. This could involve regular reviews of the latest statistical data and background research to assess whether the initial gaps in the suite of start-up financing offers remains, or whether different needs have been identified.

In undertaking a needs assessment for start-up financing initiatives for the unemployed, policy makers should:

- Identify existing tailored business start-up financing initiatives for the unemployed.
- Consult with aspiring entrepreneurs, public employment services, trade unions, labour organisations and relevant non-governmental organisations to fully understand the challenges faced by the unemployed in accessing start-up financing. It is also important to consult with investors and representatives of the financial sector to understand market gaps and challenges from their perspective.
- Account for the different profiles of the unemployed (e.g. long-term unemployed, recent graduates) in the identification of gaps in the start-up financing offer, and areas for improvement.
- Map the strengths and weaknesses of existing start-up financing initiatives for the unemployed, including mainstream financing initiatives, against the needs of the target group.
- Assess the relevance and adequacy of mainstream business financing programmes and initiatives.

5.2. The current suite of business start-up financing offers is appropriate for various profiles of the unemployed.

Entrepreneurs from under-represented and disadvantaged groups (e.g. women, youth, immigrants, the unemployed) often face greater challenges in accessing start-up financing, often due to a lack of collateral and credit history. Therefore, it is common for policy makers to introduce tailored schemes to help entrepreneurs access loan guarantees, microfinance and a range of alternative instruments and markets. To facilitate access to start-up financing for the unemployed, policy makers should ensure that financing initiatives match the needs of different profiles of the unemployed, including the long-term unemployed and recent graduates, and are appropriate for their entrepreneurial motivations and intentions.

People who are disadvantaged in the labour market or under-represented in the entrepreneurial population are disproportionately impacted by difficulties in access to finance for business start-ups. Therefore, policy makers often help facilitate access to start-up finance for different profiles of entrepreneurs from under-represented and disadvantaged groups (e.g. women, youth, immigrants, the unemployed), who aspire to create their own business. Public policy typically uses a range of direct and indirect instruments to support access to start-up financing, including grants, loan guarantees, microfinance, and a range of alternative instruments (e.g. crowdfunding, self-funding groups).

Grants are transfers of money from the grant provider (e.g. government ministry, department, agency, local authority) to the grant receiver (i.e. the entrepreneur). Grants are non-repayable, and conditions are used to limit eligibility and use. While they can be effective at stimulating business creation among women, youth, immigrants and the unemployed, there are drawbacks to using grants to support business creation. First, they are not repayable so the public funds have no chance of being recuperated. Second, they do not provide incentives for the user to make the best use of the funds. In setting up a grant scheme for inclusive entrepreneurship, policy makers need to consider the following:

- *Financial support needed:* What are the needs of the target groups? How will a grant scheme meet these needs? How does the scheme fit with, or relate to, other interventions?
- *Mode of delivery:* How will the grant scheme be delivered? How will the scheme be promoted? What resources will be needed for staff training, cost of delivery and co-ordination?
- *Eligibility and conditions:* Who can use the grants? Which activities can be covered by the grant?
- *Stakeholder support:* Are partners from the private or non-governmental sectors involved? What are their

roles (e.g. selection, promotion, coaching)?

Loan guarantees are used to help entrepreneurs overcome market barriers to accessing bank financing such as a lack of collateral. The advantage of loan guarantee schemes is that they leverage private sector know-how through the financial institutions participating in the programme. Key features of loan guarantee schemes are that the final lending decision is usually made by a financial institution and that both the financial institution and government carry the risk of default. Defaults rates are typically higher than for typical bank loans but this is partially offset by the higher rates of interest charged. Loan guarantees can improve credit conditions for SMEs although the evidence of their effectiveness in terms of increasing the number of loan beneficiaries is inconclusive. The following issues should be considered when setting up a loan guarantee scheme for inclusive entrepreneurship:

- *Model*: There are generally three models: (i) **Public schemes** are those managed directly by the government or implemented and managed through the banking sector; (ii) **Public-private schemes** are where government facilitates the creation of the programme but the lending institutions manage the scheme; and (iii) **Private schemes** are driven by mutual guarantee associations that work with entrepreneurs from a local community of businesses or from a particular industry. The associations and banks carry out the assessments of loan seekers and their credit risk while the government's role is limited to setting out the regulatory framework and supplying financial assistance or agreeing to cover any default.
- *Firm eligibility*: Eligibility conditions could include entrepreneur's age, gender, immigration status, labour market status, and/or the business age, size or sector.
- *Guarantee assignment process*: Guarantees can be provided either on personal basis (i.e. credit risk assessment of individual borrowers) or group basis (i.e. shared characteristics like sector and locality of applicants).
- *Coverage ratio*: This specifies the degree of protection over defaulted loans provided to lending institutions. The ratio typically ranges from 20% to 100%. However, a coverage ratio above 90% is not recommended as this could impact on lending institutions' incentives to conduct a proper credit risk assessment.
- *Average guarantee period*: Guarantee periods should reflect that the risk associated with loans tends to decrease over time. They are typically less than 5 years, and rarely more than 10 years.
- *Pricing*: Loan guarantee schemes typically generate revenues from entry fees, annual fees and application fees. This element of the scheme could be subsidised to encourage applications from entrepreneurs from under-represented and disadvantaged groups.
- *Additional services*: Policy makers may consider combining loan guarantee schemes for entrepreneurs who find it difficult to access credit with additional services, such as financial education, in order to increase the likelihood of repayment.

Microfinance is a small loan of less than EUR 10 000. These loans are typically targeted at "unbankable" people, who have little savings, collateral or credit history. Due to the risk associated with these loans, interest rates are typically above market rates. In most cases, microcredit is not self-sustainable so public funds are used to subsidise the schemes. The objective of microfinance is to help someone build a credit history, improving their access to use mainstream financial products. There are a number of fixed costs in setting up a microfinance scheme, including loan capital, operating and refining costs, loan assessment and monitoring costs. Additional support services (e.g. training) also increase fixed costs. In setting up a microcredit scheme, several policy choices must be made:

- *Targeting*: Targeted approaches have been shown effective in bringing excluded groups into mainstream economy, but are typically more expensive to deliver.
- *Fund operator*: This is often a public institution with experience in Fund management, but it could also be a financial institution that is selected through a public tender. The latter is likely more cost-effective, but the first will ensure better coherence between the Fund and policy objectives.
- *Fund manager*: The financial intermediary organisation that delivers the scheme is often a government

body or an existing actor in the credit market that is selected through a call for tender (e.g. commercial banks, non-bank financial institutions, credit unions). The first option will benefit from a dedicated organisation that is tailored to its mission, but which will have high overhead costs. The second approach has the advantage of leveraging private sector expertise.

- *Complementary support*: Microfinance schemes are often more effective when provided with additional services, such as coaching and mentoring. For example, *Kiútprogram* in Hungary offers an integrated package of support through microfinance, combined with training and mentoring, to support business creation among unemployed people from the Roma communities.

Case study: *Kiútprogram*, Hungary

Kiútprogram was an initiative that offered an integrated package of business support for disadvantaged people living in poverty. The main objectives were: (i) to promote social mobility and integration of disadvantaged groups, particularly Roma women and men, through self-employment and business creation; and (ii) to address discrimination and improve social attitudes towards Roma people. The scheme provided microcredit and business support services.

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Alternative financing mechanisms and markets can also be used to support inclusive business creation. Governments usually have a limited role in the design and provision of the alternative finance instruments, but they can ensure that regulatory conditions are supportive, inform target clients about start-up financing options, and in some cases, support the establishment of an infrastructure.

- *Self-financing groups*: These are community-based groups where members lend to each other. Loans are typically under EUR 5 000 and repayment periods are no longer than a year. Government can help establish an infrastructure for self-financing groups, offer training and encourage linkages with more structured support, e.g. microcredit institutions.
- *Crowdfunding initiatives*: Crowdfunding is that financing comes from a multitude of people who invest small sums of money, rather than from a single large institution. These investments are often 'reward-based', e.g. investors receive a final product rather than repayment. These initiatives are typically internet-based and associated with lower intermediation costs and lesser emphasis on risk assessment.
- *Peer-to-peer (P2P) lending*: P2P lending is similar to crowdfunding lending yet there are some important differences. The beneficiaries of P2P lending will typically repay the cash, plus interest, over the term of the loan.
- *Islamic finance*: Islamic finance is a form of financing that forbids interest rates in compliance with Sharia-law. In relation to inclusive entrepreneurship goals, Islamic finance could help the promotion of migrant and ethnic minority entrepreneurship in certain countries and regions. Some of the main tools of this form of finance involve profit sharing and interest-free financing.
- *Social Impact Bond*: These can involve public and private organisations or partnerships designed to deliver social programmes for specific communities facing specific problems. Typically, a service provider develops a solution to a problem and raises private funds to develop an intervention. The government then repays the service provider after the intervention if it has been successful; the payment is based on the specified impact of the intervention. This is a relatively new form of support and the evidence on their levels of success is mixed.

In facilitating start-up financing for the unemployed, policy makers should:

- Ensure that the suite of start-up financing schemes matches the needs of the unemployed.
- Educate the unemployed about their options for start-up financing.
- Offer start-up financing incrementally, starting with small amounts.
- Favour innovative projects for larger amounts of financing to minimise displacement effects.
- Partner with organisations that support unemployed people to promote start-up financing schemes.
- Involve private sector financial institutions in the financing decision. See *Der Mikrokredit* programme in

Austria, where banks are strong partners in making decisions to provide credit.

Case study: *Der Mikrokredit*, Austria

This Austrian scheme supports people who are unemployed, or are at risk of losing their job, in starting or sustaining self-employment through the provision of microcredit, with complementary consultancy and training.

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- Educate investors and financial institutions on the issues and challenges faced by unemployed people to minimise bias in financing decision.

5.3. The current suite of business development and growth financing offers is appropriate for various profiles of entrepreneurs starting from unemployment.

Business development and growth often require external financing to finance new equipment, staff and location. To support the unemployed in accessing finance for business development and growth, policy makers should ensure that financing initiatives are appropriate for this group of potential entrepreneurs. Public policy can also educate the financial sector on biases in lending decisions and how these could be addressed to support disadvantaged entrepreneurs.

Entrepreneurs at the stage of developing and growing their business may have different financing needs and seek different types of financing to sustain and grow their ventures, compared with pre start-up and start-up firms. Moreover, some business development and growth financing offers may be more appropriate for different profiles of entrepreneurs.

Loan guarantees are used to help entrepreneurs overcome market barriers to accessing bank financing such as a lack of collateral. The advantage of loan guarantee schemes is that they leverage private sector know-how through the financial institutions participating in the programme. Key features of loan guarantee schemes are that the final lending decision is usually made by a financial institution and that both the financial institution and government carry the risk of default. Defaults rates are typically higher than for typical bank loans but this is partially offset by the higher rates of interest charged. Loan guarantees can improve credit conditions for SMEs although the evidence of their effectiveness in terms of increasing the number of loan beneficiaries is inconclusive. The following issues should be considered when setting up a loan guarantee scheme for inclusive entrepreneurship:

- *Model:* There are generally three models: (1) **Public schemes** are those managed directly by the government or implemented and managed through the banking sector; (2) **Public-private schemes** are where government facilitates the creation of the programme but the lending institutions manage the scheme; and (3) **Private schemes** are driven by mutual guarantee associations that work with entrepreneurs from a local community of businesses or from a particular industry. The associations and banks carry out the assessments of loan seekers and their credit risk while the government's role is limited to setting out the regulatory framework and supplying financial assistance or agreeing to cover any default.
- *Firm eligibility:* Eligibility conditions could include entrepreneur's age, gender, immigration status, labour market status, and/or the business age, size or sector.
- *Guarantee assignment process:* Guarantees can be provided either on personal basis (i.e. credit risk assessment of individual borrowers) or group basis (i.e. shared characteristics like sector and locality of applicants).
- *Coverage ratio:* This specifies the degree of protection over defaulted loans provided to lending institutions. The ratio typically ranges from 20% to 100%. However, a coverage ratio above 90% is not recommended as this could impact on lending institutions' incentives to conduct a proper credit risk

assessment.

- *Average guarantee period:* Guarantee periods should reflect that the risk associated with loans tends to decrease over time. They are typically less than 5 years, and rarely more than 10 years.
- *Pricing:* Loan guarantee schemes typically generate revenues from entry fees, annual fees and application fees. This element of the scheme could be subsidised to encourage applications from entrepreneurs from under-represented and disadvantaged groups.
- *Additional services:* Policy makers may consider combining loan guarantee schemes for entrepreneurs who find it difficult to access credit with additional services, such as financial education, in order to increase the likelihood of repayment.

Microfinance is a small loan of less than EUR 10 000. These loans are typically targeted at “unbankable” people, who have little savings, collateral or credit history. Due to the risk associated with these loans, interest rates are typically above market rates. In most cases, microcredit is not self-sustainable so public funds are used to subsidise the schemes. The objective of microfinance is to help someone build a credit history, improving their access to use mainstream financial products. There are a number of fixed costs in setting up a microfinance scheme, including loan capital, operating and refining costs, loan assessment and monitoring costs. Additional support services (e.g. training) also increase fixed costs. In setting up a microcredit scheme, several policy choices must be made:

- *Targeting:* Targeted approaches have been shown effective in bringing excluded groups into mainstream economy, but are typically more expensive to deliver.
- *Fund operator:* This is often a public institution with experience in Fund management, but it could also be a financial institution that is selected through a public tender. The latter is likely more cost-effective, but the first will ensure better coherence between the Fund and policy objectives.
- *Fund manager:* The financial intermediary organisation that delivers the scheme is often a government body or an existing actor in the credit market that is selected through a call for tender (e.g. commercial banks, non-bank financial institutions, credit unions). The first option will benefit from a dedicated organisation that is tailored to its mission, but which will have high overhead costs. The second approach has the advantage of leveraging private sector expertise.
- *Complementary support:* Microfinance schemes are often more effective when provided with additional services, such as coaching and mentoring.

Alternative debt financing is another important source of financing, including overdrafts, factoring, leasing and trade credit. There is evidence that small businesses use these sources of finance extensively, with more than one-quarter using trade credit, more than one-third using leasing, hire purchase and factor-ing, and more than one-third using credit lines and overdrafts. With the possible exception of trade credit, alternative sources of debt finance are more expensive than loans and are used mainly when bank credit is unavailable or difficult to obtain.

Alternative debt financing can be influenced by national (and sometimes local) regulatory reforms impacting on leasing contracts, factoring legislation, fees and interest rates on overdrafts. Policy can help by pointing entrepreneurs from under-represented and disadvantaged groups to these sources of finance through support programmes. It can also work with banks, especially community-based ones (e.g. savings banks and cooperative banks), to help entrepreneurs from under-represented and disadvantaged groups obtain a bank account and credit line. Credit lines can be subsidised through interest rebates, which will lower the debt burden on those who may already have limited assets and a negative credit history.

Public procurement refers to the acquisition of goods, services or works from an external source. Procurement is found in the public sector but also found in the private sector where corporations are involved. Corporations and public bodies often define processes intended to promote fair and open competition for their business while minimising exposure to fraud and collusion. Policy approaches to assist inclusive entrepreneurship through procurement include:

- National strategies to give guidance to the large number of different procurement authorities to reduce and

remove barriers to procurement processes faced by entrepreneurs from under-represented and disadvantaged groups.

- Social clauses could be used, and European Commission guidance is available regarding the restrictions that must be taken into account.
- Information and training can be offered to SMEs and entrepreneurs to improve access to procurement processes, including information and training.
- Private procurement can be influenced through the promotion of Corporate Social Responsibility.

In facilitating financing for business development and growth for the unemployed who aspire to create a business, policy makers should:

- Ensure that the suite of financing options is appropriate for the needs of the types of businesses that different profiles of the unemployed operate, including the long-term unemployed and recent graduates.
- Educate different profiles of the unemployed about their options for business development and growth financing.
- Offer support incrementally, starting with small amounts.
- Offer business management training to increase the chances of successfully leveraging funding.
- Involve private sector financial institutions in the financing decision.
- Educate financial institutions on issues and challenges faced by different profiles of the unemployed to minimise bias in financing decision.

5.4. The current suite of business financing offers for high-growth potential firms is appropriate for entrepreneurs starting from unemployment.

High growth firms require large injections of capital to fuel the rapidly expanding business activities, often coming from business angel or venture capital investment. Very few entrepreneurs require this type of financing but it is possible for entrepreneurs from under-represented and disadvantaged groups (e.g. women, youth, immigrants, the unemployed) to need this type of investment. For the unemployed who create high-growth potential firms, policy makers should educate them on the pros and cons of risk capital, and offer training on how to pitch business ideas to investors. It is also important to address any biases in investors' financing decisions.

Entrepreneurs who operate firms with high-growth potential will likely have very different financing needs than other types of businesses. There are many definitions of a 'high-growth' business:

- The OECD defines high growth enterprises as those with average annualised growth in the number of employees greater than 20% per year, over a three-year period, and with ten or more employees at the beginning of the observation period.
- The European Commission defines high growth enterprises as those with at least 10 employees in the beginning of their growth and having average annualised growth in number of employees greater than 10% per annum, over a three-year period.

Financing for firms with high growth potential typically comes in the form of equity investment, either as business angel funding or venture capital investment. In contrast to debt, equity investors take ownership shares in the businesses they invest in. Very few entrepreneurs are successful at securing these types of investment, but it is possible for entrepreneurs from under-represented and disadvantaged groups (e.g. women, youth, immigrants, the unemployed) to operate firms that would attract business angel funding or venture capital investment.

Business angel investment is often associated with high-impact or growth-orientated enterprises. Business angels are people who invest money in a business with the goal of making profit in the medium to long-term. Typically, business angels will also provide business advice and access to professional networks, in addition to

finance. The size of their investments can vary from EUR 25 000 to EUR 500 000 and possibly more where investments are made through angel networks, clubs and syndicates.

Business angel networks, clubs or syndicates are groups of business angels that meet to discuss investment opportunities. The networks are generally run by a 'gate keeper' who reviews investment opportunities and chooses those best suited for their investors. Business angel networks sometimes specialise in opportunities by industry, region or investment stage. The networks are often internet-based which helps facilitate the links between investors and entrepreneurs seeking funds.

Policy makers can support the development of business angel networks for inclusive entrepreneurship by:

- Subsidising operational costs to encourage their creation.
- Offering training programmes for entrepreneurs that aim to strengthen their investment readiness and strengthen their business pitches.
- Providing tax breaks to stimulate the business angel market, especially for investment in enterprises started by entrepreneurs from under-represented and disadvantaged groups.
- Co-investing in the business angel networks that target entrepreneurs from under-represented and disadvantaged groups.
- Offering matchmaking services to connect investors with entrepreneurs from under-represented and disadvantaged groups.

Larger investments tend to be made through the **venture capital** market. While it is possible for entrepreneurs from under-represented and disadvantaged groups to receive venture capital investment, it is highly unlikely that many will.

To improve access to venture capital for inclusive entrepreneurship, policy makers can:

- Offer training to investors so that they better understand the needs and potential of different social target groups.
- Encourage better representation of under-represented and disadvantaged groups among investors.

In facilitating financing for high growth potential firms operated by those who enter entrepreneurship from unemployment policy makers should:

- Recognise that risk capital will be unnecessary for the vast majority of entrepreneurs starting from unemployment.
- Ensure that the suite of risk capital financing is appropriate for the needs of the types of businesses that different profiles of the unemployed are likely to create, including those facing redundancy.
- Educate the potential entrepreneurs about the advantages and disadvantages of risk capital.
- Offer training on pitching business ideas to investors to entrepreneurs starting from unemployment that have high-potential business ideas.
- Partner with organisations that support the unemployed to promote financing schemes for the high growth potential firms.
- Educate investors and financial institutions on issues and challenges faced by different profiles of the unemployed to minimise bias in financing decision.

5.5. Business financing initiatives for the unemployed have strong linkages with non-financial supports.

Business financing schemes that include entrepreneurship training, coaching or mentoring are often more effective when they help equip entrepreneurs with the skills needed to effectively use the financing received. When supporting entrepreneurship among the unemployed through integrated support packages, policy makers should offer financial support incrementally and emphasise individual coaching, mentoring and business consultancy. Policy should favour innovative ideas when supporting the unemployed in business creation to

minimise displacement effects.

The development of a comprehensive and integrated support packages has several benefits. First, it is often more effective in supporting entrepreneurs from under-represented and disadvantaged groups because multiple barriers can be addressed, including a lack of skills, limited financial resources and loss of self-confidence. Second, different services typically complement each other, providing a more complete package of support for people with multiple needs.

Integrated support packages should be underpinned by an understanding of the policy context, identification of existing supports and its key stakeholders and the actions needed, and the use of monitoring and evaluation to improve policy interventions. This would also help in determining the mix of support that is needed and how it should be delivered.

Good practice examples of schemes adopting an integrated approach to inclusive entrepreneurship support suggest that a number of barriers or challenges may arise in the course of delivering and implementing support for under-represented and disadvantaged groups. These include, but are not restricted to:

- *Attracting and selecting participants:* there is a need to strike a balance between picking winners and supporting the most disadvantaged.
- *Managing and co-ordinating programme delivery:* it can be difficult to attract partners that are experienced with co-ordinating support, and build and maintain relationships with local service providers.
- *Meeting objectives and targets:* objectives and targets can change in response to changing circumstances and factors.
- *Cost-effectiveness of programme(s):* a comprehensive and integrated package of support can be costly as it provides intensive individual support.
- *Monitoring and evaluation:* inadequate integration of monitoring and evaluation in the inclusive entrepreneurship policy objectives can generate difficulties in terms of learning lessons from the experience.

To ensure the business financing initiatives for the unemployed have strong linkages with non-financial supports, policy makers should:

- Condition access to financial instruments on completing entrepreneurship training, coaching or mentoring.
- Provide the most intensive support packages to the potential entrepreneurs who are most likely to succeed. Measure for commencing commercial activity or self-employment in Latvia is an example of an integrated package of support scheme where applicants are assessed prior to receiving a more intensive non-financial and financial support.

Case study: Measure for commencing commercial activity or self-employment, Latvia

This initiative provides an integrated package of support for unemployed people in business creation. Launched in 2008, the scheme comprises business advisory services, a small grant and a bridging allowance. The goal is to help start-up businesses survive in operation for two years. Eligible applicants must be registered as unemployed and have some experience of business management, or meet particular educational requirements.

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- Ensure that the decision to offer financial support is not undertaken by the trainer, coach or mentor since they may not be impartial.

5.6. Business financing support for different profiles of the unemployed is delivered through appropriate channels.

For business financing support to make an impact, it is important that it reaches the targeted entrepreneurs. Therefore, it is imperative that the financing is delivered through the most appropriate channels. In delivering business financing to the unemployed with potential to create a business, policy makers should work with specialist organisations to conduct outreach and/or deliver the support, e.g. public employment services.

One of the difficulties in accessing mainstream entrepreneurship support for under-represented and disadvantaged groups (e.g. women, youth, immigrants, the unemployed) is the lack of appropriate services and service delivery. The “one size fits all” approach may not be suitable for inclusive entrepreneurship. A different approach may be needed to address the specific needs and circumstances of different entrepreneurs, and utilises appropriate delivery channels to ensure that different profiles of entrepreneurs can access entrepreneurship training, coaching, mentoring, and business development services.

Delivering start-up financing to entrepreneurs from under-represented and disadvantaged groups through partnerships with appropriate organisations and channels has several advantages. Each party can bring specialist expertise and resources that, in combination, offers a more comprehensive package of support that could not be achieved by a single partner working alone. This support typically involves a “bottom-up” development of tailored services by specialist agencies, although policy makers can also initiate programme creation as part of the strategy to support the delivery of programmes, particularly at the local level. A partnership with a specialist agency can be a valuable instrument for creating support programmes for inclusive entrepreneurship, or for improving performance of existing mainstream schemes. This is often the case where there are low levels of trust in the mainstream support provision, for example among new immigrant groups with limited experience of engagement with formal business support agencies.

A successful partnership often involves co-operation of all partners as equal members in the organisational structure, and collaboration with a shared strategic vision and compatible targets. To create an effective partnership for inclusive entrepreneurship support delivery, policy makers should undertake a number of key actions:

- *Identify the right partner(s):* The partner should be an organisation with a shared vision and the necessary resources and infrastructure to deliver support. Ideally, this should be an organisation with experience of supporting the target groups of inclusive entrepreneurship. This preparatory stage should also involve clarification of roles and responsibilities of all partners.
- *Obtain formal commitment:* A formal commitment involves signing of a partnership contract. However, the success of an initiative will also depend on the ability of all parties to develop and maintain trust throughout the project duration.
- *Develop a shared, long-term strategy:* A partnership should create a long-term strategy setting out a vision of the outcomes to be achieved at the local, regional or national level, an action plan to identify short-term priorities, a co-ordination mechanism to ensure effective communication, and arrangements for monitoring and reporting progress.

In identifying appropriate channels for business financing support delivery aimed at the unemployed, policy makers should:

- Partner with public employment services, trade unions, labour organisations and non-governmental organisations that have experience working with the unemployed.
- Consider the needs of the unemployed when selecting the delivery mechanism. This is illustrated well by the BBZ programme in the Netherlands, where municipalities have great freedom in implementing the programme.

Case study: BBZ, the Netherlands

The BBZ programme aims to support unemployed people to move into self-employment through the provision of entrepreneurship training and loans. Recipients are eligible for a comprehensive package of services which includes the provisions of information on self-employment, entrepreneurship training, business consultancy and mentoring services, as well as loans and temporary income support.

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- Use online interfaces for financing initiatives to the extent possible, including for financing applications.
- Ensure that a range of profiles of the unemployed can access the support that they need, e.g. long-term unemployed, recent graduates.

5.7. Monitoring and evaluation are used to measure the impact, effectiveness and efficiency of business financing schemes for different profiles of the unemployed.

Monitoring and evaluation are important tools for managing business financing schemes and understanding which initiatives have an impact and which do not. When assessing business financing schemes that support the unemployed, it is important to evaluate the differential impact made by the financing initiative. This should include the impact of non-financial support, and account for deadweight loss and displacement effects. Evaluations should also investigate selection biases against the unemployed that constrain their access to business financing.

The policy development process should include monitoring and evaluation to measure progress against the objectives and targets. Policy makers should want to understand what works, what does not work, and to ensure that lessons can be learned and shared with others.

Basic monitoring is done with key performance indicators (KPIs) by programme or project managers. KPIs measure progress of a policy or project against the objectives and targets. Indicators can be grouped into three main types:

1. *Impact* (i.e. changes in the problem or other outcomes of concern);
2. *Cost-effectiveness* (i.e. costs for a given level of impact); and
3. *Net Benefits* (i.e. all beneficial impacts minus all costly impacts).

Mid-term and *ex-post* evaluations can help identify the ways in which the policy can be improved or developed to increase its impact. These evaluations are typically undertaken by external experts to ensure independence and objectivity. Such evaluations should be built into the policy design process from the outset. Furthermore, the lessons learned from evaluations should be available and accessible to other policy makers in order to share good practice.

Effective policy evaluation should include several features. It should be systematic and analytical, focused on actual effects and provide judgement of the level of success. Moreover, they should aim to improve decision making, help resource allocation, enhance accountability, and bring about organisational learning. Six principles for evaluation practice can be highlighted:

1. Evaluation should lead to policy change;
2. Evaluation should be part of the policy debate;
3. Evaluators should be “in at the start”;

4. Evaluation techniques should always use the most appropriate methodology;
5. Evaluation should apply to all policies and programmes; and
6. International comparisons should be made where necessary.

The process of policy evaluation may vary, depending on the circumstances. Some government departments and organisations have a dedicated unit with responsibility for evaluating policies, while others may commission evaluations in-house or from outside organisations, as required. Although best practice principles exist, the context of the policy and the target audience requires particular attention against these broader best practice guidelines.

Evaluations provide important insights into the successes and failures of schemes, such as start-up grants, informing future policy. A lack of evaluation evidence, on the other hand, could mean that effective schemes may subsequently fail to secure future funding for lack of demonstrated impact. Equally, implementers of schemes with large financial backing but lower effectiveness may be wasting valuable resources without continuous monitoring. The sophistication of evaluation may depend on the scale of a scheme. Some of the success indicators could include the number of businesses started, the number of jobs created, and the cost of the scheme per new business or job created. Surveys and interviews can be used to gather data on the scheme outputs as reported by its beneficiaries.

As with other types of finance instruments, an appropriate allocation of resources should be made to allow monitoring and evaluation of microcredit schemes. Considering the specific difficulties faced by entrepreneurs from under-represented and disadvantaged groups to access main forms of finance, the indicators of success may differ in evaluating microfinance schemes. Financial empowerment of people is at the heart of microcredit. The impact of microcredit should, therefore, be measured in terms of softer or wider indicators, such as changes in the financial confidence of the recipient, having more decision-making power, or being able to open a bank account; in addition to more measurable indicators, such as the number of businesses founded and default rates.

Measuring the activities of business angel networks can be difficult. Investors, for instance, are often reluctant to disclose their private financial behaviour. It has been suggested that a multi-methods approach to collecting data on business angels is needed to provide policy makers with an overview of the financing environment and to monitor the effects of interventions in the business angel market. To improve the monitoring of policy interventions for creating business angel networks aimed specifically at entrepreneurs from under-represented and disadvantaged groups, interventions could be underpinned by some minimal data collection conditions being met.

When monitoring and evaluating business financing schemes for the unemployed, it is important to:

- Estimate displacement and deadweight loss effects in the market when computing the net impact of initiatives.
- Identify ways to minimise selection bias during the programme's in-take.

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