



Contents

About the authors

| | |
|--|----|
| Executive summary | 1 |
| 1. Introduction | 4 |
| 2. Women, unemployment and self-employment | 8 |
| 3. Welfare-to-work, gender and self-employment | 11 |
| 4. Surveys of women and support agencies on making the transition from unemployment to self-employment | 17 |
| 5. Conclusions and policy recommendations | 19 |
| Bibliography | 21 |

About the Authors

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Susan Marlow also has personal experience of self-employment, when as a lone parent and re-engaging with education as a university student, she developed a number of independent enterprises to help make ends meet. Susan is therefore able to contribute to the debate with knowledge drawn from a range of perspectives and experiences.

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Erika Watson is Executive Director of Prowess, the UK-wide trade association working towards equal numbers of men and women starting businesses. Erika was previously Chief Executive of the Norfolk-based Women's Employment, Enterprise & Training Unit (WEETU) where she introduced a highly regarded range of women-friendly enterprise support and skills development programmes including Full Circle, the UK's first micro-credit programme.

She has also worked as a journalist and run her own business. She set up her first business as a young lone parent and found it both incredibly liberating and an ideal way to combine work and parenthood. It has become her professional mission to ensure all women have such experience and opportunity if they choose. Erika was a founder board member of the CDFA (Community Development Finance Association) and is a member of the National Policy Forum for Start-up Businesses.

Executive Summary

Despite the obvious freedoms of self-employment, unemployed women say that one of the major barriers to setting up a business, alongside childcare and concern over future low incomes, is still the benefit system. What needs to be flexible and responsive, is instead rigid and highly complex. The benefit system is currently contributing to increasing risk rather than smoothing the transition to self-employment for many women. Some find themselves in a 'Catch 22' position, losing out whatever they try and do.

For a significant number of benefit-dependent women, the flexibility of self-employment is highly attractive – often to combine care responsibilities with challenging and rewarding work. And it may also be necessary; in some disadvantaged areas, particularly rural, it may be one of few employment opportunities. Even small amounts of enterprise activity can lead to increased self-confidence, increased likelihood of future employment and greater community involvement.

In addition, the major programmes of New Deal and Work Based Learning for Adults (WBLA) are failing to attract women onto the self-employment options. Evidence indicates that the programmes are still not offering the most appropriate support. If there is a real will in government to reduce poverty and social exclusion, as well as increase the numbers of female business-owners, then there is a need to radically review current policy.

Despite recent reforms, the benefit system is still biased towards a traditional model of male unemployment and full-time employment. The result is a benefit system that is unable to adequately support the transition from unemployment to self-employment and is particularly inappropriate in dealing with the relatively greater flexibility of many women's part-time or temporary employment and self-employment needs. This is problematic given the need for many women to accommodate caring responsibilities. When these issues are linked to the greater difficulties women have in creating successful self-employment opportunities and growing businesses, there is a serious need to address how the benefit system can become more responsive to flexible needs.

There also needs to be a more thoughtful and considered response to the informal economy and how this supports women who are unemployed. It appears that women relate to the informal economy in different ways to men and that informal transactions are motivated, not just by economic necessity, but also by creating social bonds. A heavy-handed approach by government to trying to formalise this activity could destroy the important role that such links play for unemployed people and in creating support networks in disadvantaged areas.

The key issues for women entering self-employment from benefits relate to the highly risky and unpredictable nature of future income as well as the relatively greater need to often work flexible and variable hours because of care commitments. There are also problems relating to the complexity of the benefits systems and delays in payments which can cause debt and hardship, even contributing to having to cease to trade. Additionally, women tend to take longer setting up a business and therefore require longer-term support on average.

The specific issues which both discourage women from taking on self-employment, and limit their ability to do so, can be summarised as:

- **The low level of earnings disregard** (in other words, the amount of money that can be earned before benefits are reduced) creates disincentives for anyone wishing to test trade whilst also being on benefits. It discourages building up savings which could be a vital safety net for volatile self-employment income or be used for business investment.
- **Covering childcare costs** remains a barrier in the transition to self-employment. New Deal self-employment programmes currently do not typically provide assistance with childcare costs and in-work benefits only cover up to 70 per cent.
- **The need for flexible working hours** Having to work for over 16 hours at a business to qualify for in-work tax credits is hugely problematic for women with caring responsibilities. Self-employment is nearly always assumed to be full-time work and therefore you have to claim tax credits rather than Income Support (although this is accessible in limited cases). Equally the upper limit of 16 hours work when claiming benefits does not easily allow a gradual move into self-employment. Also the variable income of self-employment, and the need for flexible working hours, may mean having to move in and out of tax credits and benefits in future but this is difficult because of the different criteria, bureaucracy and delays in claiming.
- **Tax credit calculations** Tax credits are calculated on previous yearly income or projected income if you are coming off benefits. But given the volatility of self-employed income, there could be serious problems if income is very low. Tax credits can be reassessed at any time during the year – however, there are delays which can cause great hardship.
- **Difficulties with delays in housing rent support** While housing and council tax 'run-ons' are available to people leaving benefit, once these have finished, the individual has to either pay for rent from their wages or apply again for reduced Housing Benefit support. This application can take time and the delay may be problematic with an uncertain income or act as a deterrent to even starting a business.
- **Inability of the benefit system to cope with fluctuating income levels** The benefit system is complex and time-consuming to re-enter if self-employment fails or income levels drop to an unsustainable level. Additionally, there is rarely Income Support for someone who is self-employed and the benefit system is unable to easily accommodate sporadic income from say temporary employment or self-employment. All of these issues can be major disincentives to attempting the risky prospect of self-employment.
- **Losing mortgage support** Support with mortgages is not available if you are self-employed. Additionally, if your business fails, you would have to wait nine months before being eligible for any support. This is a significant deterrent to starting a business from benefits if you feel you may lose your home.

- **Losing secondary benefits** Receiving in-work tax credits and leaving benefits means losing entitlement to secondary benefits such as free prescriptions, dental and optical care. You also lose entitlement to free school meals.

Currently, the main programmes that assist in the transition from benefits to self-employment are the New Deal and WBLA. It appears that there is very little take up of these options by women. One of the main reasons is the 18-month unemployment eligibility rule for New Deal 25+. There are also other issues which could be contributing to reduced viability and survival rates of businesses. However, there is little if any evaluation of the effectiveness of these programmes and their impacts which makes analysis and review very difficult. Some key issues are:

- **Restricted eligibility** You are only eligible for New Deal 25+ if you have been unemployed for over 18 months and to those wishing to work at least 16 hours per week. Most women need this support much earlier and it is well known that the longer the period of unemployment, the less viable the business.
- **The difficulty of the 16 hours rule** This effectively rules out tentatively testing the business idea to assess the risk and it also prevents the use of self-employment as a flexible option which can be matched to household needs – term time working for example.
- **Short test trading period** The 26 week period of benefit support through New Deal 25 + (and 3 months for Enterprise Rehearsal in WBLA) is far too short to gauge the potential success of any enterprise and to support many, particularly women, to a point at which they are viable. There is no test-trading period under New Deal for Lone Parents.
- **Restricted access to funds** Restricted access to funds does not allow savings to be built up and acts as a disincentive to maximise income.

Additionally, there has also been criticism of the way in which these government programmes are poorly marketed and do not link appropriately with advice and support available from Business Links and other sources. There is also considerable anecdotal evidence that job centre staff are ill-informed about self-employment programmes and support.

It is clear that a thorough review is required by government of the issues as well as the effectiveness of the support available for those making the transition between benefits and self-employment in order to increase the attraction and viability of self-employment as a suitable option. The implications do not just affect women but also men who need, or have to, work in a flexible way. Various areas for reform should be considered. These include:

- **Increase the earnings disregard in line with inflation** The earnings disregard has not increased for more than 25 years for individuals and only marginally for lone parents. This provides no incentive for those who wish to start a business in a cautious and tentative manner from benefits, as many women choose to.
- **Lower the eligibility period for entry onto the self-employment option of the New Deal 25+ from 18 months to, for example, 6 months** This will enable more people to

receive the appropriate support they need at a more relevant time and should increase take-up.

- **Consider flexible universal income bridges of at least 12 but preferably 18 months or even up to 2 years** This is particularly important for women's businesses, which are characterised in general as having a longer incubation period. It may be possible to create a system which is more responsive to individual circumstances and combine a tapering income bridge with access to loans or appropriate mixes of grant and loan.
- **Find a way to merge in and out-of-work benefits for the unemployed moving into self-employment** At present the disincentives of the earnings disregard as well as the 16 hour working limit rule on benefits combine to discourage the start-up, and development of a business. In-work tax credits are somewhat more flexible but there is no easy transition between the two depending on need and circumstance. Given the highly flexible nature of women's self-employment needs as well as the variability of self-employment income, a more coherent benefit system linking tax credits and benefits would prove the best response to overcoming many interrelated problems.
- **Develop asset-based strategies** Women's businesses are often disadvantaged by financial undercapitalisation. An enlightened welfare-to-work strategy may be able to actively address this issue by enabling start-up businesses to test trade, either full-time during an extended test-trading period or part-time through an enhanced benefits disregard, with additional income retained in a savings account for investment in the business or as an additional 'back to work bonus'. In the United States such initiatives have been further incentivised through the development of Individual Development Accounts, where the level of savings is matched by 100 per cent or 200 per cent, after a specified regular period of saving.
- **Increased assistance with childcare costs** Assistance with childcare costs is a prerequisite for women-friendly business support and it is recommended that unemployment to self-employment programmes provide financial assistance for full and part-time start-ups and that there is a significantly higher percentage of support for childcare costs during the first year in business.
- **Faster and more responsive tax credit calculations** There is a need to reconsider how tax credit support could be made more flexible and responsive to deal with the variable income of self-employment.

For agencies providing support to low-income and unemployed women there are several ways of dealing with some of the barriers caused by the current benefit system. These include:

- **Providing an integrated welfare benefits advice service** to help people understand their entitlements.
- Arranging to have a **regular information desk at the local Job Centre Plus** to ensure that both clients and Job Centre staff are fully informed about self-employment as an option.

- **Developing an outreach service** by working in partnership with community organisations and providing support services at a range of locations appropriate to different groups, such as ethnic minorities.

Support providers also need to be sensitive to client needs (for example, appointments that fit with caring arrangements). Unemployed or non-waged women are likely to lack confidence and will benefit from programmes with in-built long-term peer support, such as micro-credit. A relationship with a mentor can also provide invaluable support.

1. Introduction

The Government has set itself a challenge:

"to create an environment and culture that encourages more women to start and grow businesses, and where every woman with the desire to start or grow a business has access to appropriate help and support." (DTI, 2003).

Of those women that do start businesses almost half choose to start part-time and 21 per cent do so to fit work around their families. This is very different to the male business ownership norm, where 80 per cent of men are full-time self-employed and only 2 per cent become self-employed due to family commitments (ONS Labour Force Survey 2000).

Business ownership or self-employment presents an attractive solution for a large number of women to enable them to balance work with other priorities. For women with comfortable incomes and support networks it is fairly easily attainable. For others it may be more of a necessity. Most families now need two incomes to make ends meet. If the mother feels that it is a priority to be at home to look after children or other relatives her options are very narrow: (usually) low-paid part-time shift work or self-employment in her own home.

A number of business advisors interviewed by Kellard *et al.* (2002) in their review of self-employment as a route off benefit in the UK reported:

"that the flexibility of self-employment is particularly important for lone parents with childcare responsibilities. For some lone parents with young children this was seen as their only viable employment opportunity."

Similarly Parsons and Warren-Smith (2001) have identified that lack of local employment opportunities means that self-employment is often the only option left to rural women who want or need to be economically active. Some ethnic minority women have few other options than self-employment (Phizacklea and Ram, 1995).

It would be too easy to define the businesses these women create as either 'lifestyle' or 'lifeline', but such narrow stereotypes obscure the fact that, despite gradual beginnings, some will aspire to, and will succeed in developing, sustainable and higher growth businesses. Others will use a period of self-employment as a stepping-stone between jobs or life-stages. It appears that women are more likely to take this pragmatic approach but the short-term contribution of those women to their families' well-being and their own future employability should not be underestimated.

In the US, there is recognition that micro-enterprise creation by the unemployed is important not just for employment but for increasing employability, self-confidence, community involvement and networks, all of which enhance future work prospects of whatever form (Servon, 2000).

Flexible self-employment is, therefore, a very positive option for some women but is frustratingly restricted by an inflexible and gender biased welfare benefit system. Despite recent reforms, the benefit system is still fundamentally based on a traditional model of male unemployment and full-time unemployment. Additionally, it

inadequately supports the transition from unemployment to self-employment and is particularly inappropriate in dealing with the relatively greater flexibility of women's employment and self-employment needs.

This report looks at how current government policies, chiefly the benefit system, New Deal and Work Based Learning for Adults, might be changed to accommodate the needs of women and therefore also become more flexible and appropriate for all unemployed people. It is a joint collaboration between Prowess and the New Economics Foundation, building on an initial research paper by Dr Susan Marlow of De Montfort University.

Policy context

The Labour Government has taken a broader view of enterprise policy than just seeing it as a contribution to productivity and growth. In a speech in 2000, Gordon Brown stated that:

"Opportunity for all means a Britain where all have the opportunity not just to work, but work their way up, start a business, become self-employed."

Enterprise is also seen as a way to also address goals such as tackling unemployment, particularly of marginalised groups such as disadvantaged women, the over 50s, ethnic minorities and the disabled, as well as contributing to regenerating poor communities. The promotion of social enterprise, organisations that meet social and environmental needs primarily through trading, is also part of widening the concept of enterprise in order to address such issues as public service renewal, alternative forms of business, and the creation of viable local services such as childcare.

There has been a particular focus on trying to encourage women into self-employment and business as a result of studies showing the relatively few numbers of female entrepreneurs in the UK compared particularly to the US. The *Strategic Framework for Women's Enterprise* (DTI, 2003) set out a multi-faceted approach to meeting women's needs and aspirations. It specifically highlighted the problems that women have in making the transition between benefits and self-employment:

"The issue of benefits, and how women can be assisted in making the transition from welfare into enterprise, is consistently highlighted as one of the deterrents to self-employment for women in disadvantaged areas. Take-up by women of the self-employment options in New Deal programmes is relatively low in comparison to men. Action has to be taken to address this, for example, by changing the ways these programmes are marketed to women."

The barrier of the benefit system was also raised in the Treasury's Policy Action Team 3 report on *Enterprise and Social Exclusion* (HM Treasury, 1999) where they noted that enterprise was important for "renewing the poorest and most marginalised communities" and that there was a need to "consider providing an income bridge to help the move from benefits to business".

The two main policy initiatives supporting the transition from benefits to self-employment are the New Deal and Work Based Learning for Adults (WBLA).

New Deal

New Deal (25+) In order to be eligible for the New Deal 25+ programme for self-employment, you need to have been unemployed for 18 months during the previous 21 months, at which point you enter the 'gateway'. A woman could also be eligible by virtue of having 'signed on' for National Insurance Credits (particularly the case where she is not entitled to Job Seekers Allowance (JSA) because her partner has earnings or they have a high savings level).

During the gateway phase, which can last up to four months, the individual works with a personal advisor to consider the range of employment options available, of which self-employment is one. Stage two of the self-employment option requires people to engage with counselling or training to prepare themselves further, during which time they are still required to be available for work and indeed, actively seeking it.

Stage three then involves a 'test trading' period of self-employment of up to 26 weeks during which you continue to receive benefits plus a small top up payment of currently £15.38 per week. You also have to undertake training leading to a formal qualification and the business must be operational for at least 16 hours per week. A business advisor oversees the test trading period. During the period of test trading the participant is not allowed to access any profits for personal use; these are held in a separate account until after this period or may be used for investment in the enterprise. After this period, you enter independent trading with support from in-work tax credits, if necessary.

The test-trading period means that participants are able to claim JSA for up to 6 months with linked entitlement to housing benefits (rent or mortgage) and council tax benefit. There is also access to a discretionary fund of up to £300 for equipment and tools.

New Deal for Lone Parents This is a voluntary programme for lone parents who have been claiming Income Support (IS) for more than 6 months. Self-employment support includes a 'run-on' of benefits (one month housing costs and council tax benefit and two weeks IS). There is also a discretionary grant for equipment. It may be possible to receive help with childcare costs for one year after starting self-employment but this is at the discretion of the Lone Parent advisor and based on the business case.

New Deal 18–24 provides self-employment support after claiming JSA for 6 months. Upon starting trading the young person will receive a weekly allowance equivalent to her benefit plus a grant of up to £400 spread over the first 26 weeks.

New Deal 50+ provides an employment credit of up to £60 per week for people working self-employed for over 16 hours a week and depending on your household income.

The numbers of people starting business through the New Deal are, in fact, acknowledged as being very low and evidence shows that both New Deal and WBLA do not seem to be taken up to any great extent by women. Some of these reasons relate to the relatively fewer women who go into self-employment but other issues concern the nature of the programmes themselves. Kellard *et al.* (2002) found that New Deal 50+ has the highest take-up rate with 9.4 per cent taking the self-employment route, 4.6 per cent for New Deal 25+ and 1.6 per cent for New Deal for Young People. This compares with 13 per cent self-employment in the workforce (PIU, 2002).

Actual numbers of women taking part in New Deal self-employment programmes are not available but are reported to be very low. Additionally, women are generally less likely to take the self-employment option than men. In New Deal for Young People, 1.7 per cent of all men take the self-employment option compared to 1.4 per cent of all women; in ND25+, the levels are 4.9 per cent of men and 3.7 per cent of women; and in ND50+, 10.9 per cent men compared with 5.6 per cent women. Apart from the over 50s, however, the discrepancies in rates between men and women are far less than found for self-employment generally. There are also significant drop-outs. (PIU, 2002) reported that only 22 per cent of people who finish test-trading on NDYP go on to self-employment.

Significantly, there does not appear to be any long-term monitoring of these programmes to assess their effectiveness and appropriateness. Business survival rates are also not

Work Based Learning for Adults (WBLA) is found in England and Wales and is known as Training for Work in Scotland. This programme is a mix of customised training, work experience and support to enable people to access jobs. To be eligible you have to be over 25 and have been unemployed, claiming Job Seekers Allowance or Income Support, for more than 6 months. The WBLA also offers 'Enterprise Rehearsal', 3 months benefit support while beginning to trade.

recorded. This makes it difficult to assess the relative success of these schemes for different groups of people, identify any problems and adapt them in the light of clear evidence. With the low take-up and clear evidence of inflexibilities in the programmes, which act as barriers to successful self-employment particularly for women, then there is an urgent need for review.

Other relevant benefits and support which could be used by someone moving from benefits to self-employment, either with or without New Deal or WBLA, are:

- **Job grant** If you are aged over 25, receive Income Support, JSA or Incapacity Benefit for more than 52 weeks continuously, then you can claim a one-off tax-free payment of £100 to start work as long as that job will last longer than five weeks. (This is not available to lone parents.)

- **Back to work bonus** If you work part-time and benefits are reduced because of wages, you can claim a one-off tax-free payment of up to £1000 when you start to work full-time (over 16 hours a week). Back to work bonus is being abolished in 2004 and replaced by a system of extended benefit payments plus job grants. Details of the new scheme are not yet available.
- **Housing and Council Tax benefit run-on** On leaving benefits to enter work, you can receive four weeks further payment of Housing Benefit and Council Tax benefit (as long as you had previously been on IS or JSA for over 26 weeks); four weeks continued mortgage interest payments; and two weeks run-on of IS or JSA for lone parents.
- **Working Tax Credits (WTC)** supports low-income households by topping up earnings calculated on income levels and hours worked, which must exceed 16 hours. Claims are made annually and are paid either monthly or weekly. The WTC can be claimed at the end of the test-trading period of the New Deal self-employment option. A parent with children who receives WTC can also claim up to 70 per cent of registered childcare costs, but in two parent families this only applies if both parents are working over 16 hours per week or one parent is disabled. If you are claiming Working Tax Credit you are not entitled to help with housing costs (mortgage) and you may lose, or, have reduced your entitlement to help with, rent and council tax. You may also lose health benefits including free prescriptions, dental and optical treatment. You automatically lose entitlement to free school meals.
- **The earnings disregard** Whilst you are on benefits, you are allowed to earn small amounts of money without losing benefits – the 'earnings disregard' – any amount earned above this level means that benefits are reduced pound for pound. This disregard is currently £10.00 per week for a married couple, £20.00 for a single parent, £5.00 for an individual.
- **Income support** There is very limited scope for claiming Income Support whilst self-employed part-time for less than 16 hours a week. The benefit rules here are complex and largely depend on personal circumstances and Benefits Agency interpretation. Benefits Agency staff have on occasion ruled that self-employment is automatically more than 16 hours per week and so Working Tax Credit is the only applicable benefit.

On balance then, there appears to be a range of targeted and welcome support. The difficulties arise from the complexity of the system, delays, the changes from benefits to in-work tax credits and the realities of a fragmented and uncertain income and the need to work flexible hours.

Support beyond benefits

The move from unemployment to successful self-employment is a risky option and requires more than just a supportive benefit system. There is also a need for good quality advice and support, access to appropriate finance, as well as peer support and mentoring.

Business Links and their partners offer advice to people wishing to start a business, some of which is targeted on the unemployed. There is also a range of organisations outside government, often

in the third sector, which provide support for people moving from unemployment to self-employment, often combining loans or grants with advice and support. Examples include the Prince's Trust which offers advice and financial support to young people (18-30) who are unemployed or underemployed. There are also women-focused support agencies such as Women's Employment, Enterprise and Training Unit (WEETU) in Norwich. Specialised lending facilities – Community Development Finance Institutions (CDFIs) – are available in various parts of the country and a Community Investment Tax Credit supports access to finance in disadvantaged areas by businesses who would otherwise be turned down by mainstream banks.

The Small Business Service (2002) *Comprehensive Strategy for Start-ups* consultation sets out the ways in which government has supported enterprise in disadvantaged areas through, for example, the Phoenix Fund or New Entrepreneurship Scholarships – available to help potential entrepreneurs in deprived areas access business skills.

Prowess members use some of the following methods, within the confines of the current benefit system, to ease women's transition from benefits into business (see the Prowess website for details of these organisations):

- Train 2000 in Merseyside provides integrated welfare benefits advice alongside its business support programme, with an in-house benefits advisor who works in partnership with a local Citizens Advice Bureau.
- WEETU in Norfolk and Streetcred in Tower Hamlets have both adapted the internationally renowned Grameen Bank micro-credit programme to provide access to finance and long-term peer support to assist workless people into self-employment.
- The Women's Business Development Agency (WBDA) in the West Midlands and South West have a community outreach service, with targeted services for several ethnic minority groups. They reach clients through partnerships with other community organisations and deliver training at a wide range of locations.
- Mentoring is a valuable complement to broader packages of support, especially for people whose confidence is at a low ebb. Some Prowess members, like Everywoman, have developed their own women-to-women mentoring service and others work in partnership with established programmes such as the Prince's Trust.
- Several other members work closely with their local Job Centre Plus, having noticeboards and information desks located within the JC+, to ensure that both clients and JC staff are fully informed about self-employment as an option.

While these examples are all appropriate to the needs of the client group, members have reported that they are still limited by the inflexibility of the benefit system which would be greatly enhanced by some of the measures recommended in this report.

The following example illustrates some of the difficulties women may find themselves in:

Ms Shah is a lone parent of a 5 year old and has been claiming Income Support. She rents a flat from a private landlord. Ms Shah wants to start her own catering business. She has been participating in New Deal for Lone Parents (NDLP) and has a first year business plan that projects it will take fifteen months for her to build a full-time business.

She is offered a NDLP discretionary grant to buy catering equipment, plus she is entitled to benefit 'run-on'. Ms Shah can claim Working Tax Credits and help with childcare costs. However, only 70 per cent of after-school childcare costs would be covered and Ms Shah is uncertain how she will afford the other 30 per cent if and when her business develops to full-time capacity. Ms Shah also loses entitlement to free school meals.

NDLP do not agree to pay a contribution to childcare costs as they do not judge that the business will build to full-time hours within the year. Ms Shah is also worried that should her business fail after a year, she will have to renew her claim for Income Support and Housing/Council Tax benefits. The average delay in Housing Benefit payments in her local authority area is three months and Ms Shah fears, should that be the case, she will fall into arrears and her landlord will evict her. Ms Shah decides against commencing trading.

In order to address these issues, this report takes a look at women's experience of self-employment and its attraction to women who are unemployed in Section 2. Section 3 then looks at the current benefit system and self-employment programmes to see how they support the transition to successful self-employment and then supplements this with some additional in-depth discussions with women and support agencies in Section 4. Finally, we look at what this means for current welfare-to-work policy and how it might be changed to accommodate the needs and challenges of women taking the difficult path to self-employment from benefits.

2. Women, unemployment and self-employment

Men and women appear on average to have some different motivations for self-employment. Whilst both are looking for autonomy, women are more likely to see this as the ability to combine work with other commitments. For many benefit-dependent women, manageable, employment solutions such as self-employment can be highly appropriate to deal with care responsibilities and be close to home, or offer means to overcome the problems of a fragmented work history and low self confidence (Westall *et al.*, 2000).

Self-employment can be a flexible employment opportunity for women but it is, at the same time, a risky option for people with little or no safety net to fall back on. Whilst some women create highly successful growth companies, on balance there appear to be some clear barriers to start-up and success. Overall, women tend to be under-represented and under-perform in self-employment and businesses relative to men. Being unemployed further increases the risks associated with starting a business and requires that appropriate support is available for those that choose this route.

Becoming self-employed

Women are currently about 27 per cent of the total number of self-employed with only 12 per cent of businesses being majority-owned by women (DTI, 2003). Although the proportion of self-employed women in the UK is comparable with other Northern European countries (Holmquist, 1997) it is considerably lower than the US, where the female share of business ownership increased from 5 per cent in 1970 to 38 per cent in 1999 (Brush and Hisrich, 1999) after concerted federal programmes of support and encouragement.

It is not easy to understand exactly why women are less likely to consider self-employment or business but several pieces of research indicate some of the main reasons, although the results are not clear-cut. For example, Birley (1989) found few differences in motivations between men and women which were chiefly around autonomy and wealth creation. However, when Marlow (1997) looked at a matched survey of men and women, she found that whilst they each wanted autonomy through self-employment, this meant different things. Men appeared to be seeking greater personal freedom to be their own boss and make decisions over business and product development whereas women wanted more flexibility over where and when they worked in order to balance the conflicting demands of home and employment. Hughes (2003) also found initial similarities between Canadian men and women but further exploration through interviews showed that women were more likely to identify issues such as the need for flexibility to accommodate caring responsibilities – in some ways both a 'push' and a 'pull' into self-employment.

The UK Global Entrepreneurship Monitor (Westall, 2001) also found some interesting differences between men and women. These statistics look at a broad definition of 'entrepreneur', covering people involved in both self-employment and business. They found that women are more than half as likely to think that they have the skills to start a business as a man, and half as likely to believe that there will be start-up opportunities in the next six months. These statistics suggest that women may be more realistic about their skills and/or that men have more confidence to just go ahead.

From unemployment to self-employment

A major study for the Department for Work and Pensions in 2002 looked at the success and characteristics of those who moved from unemployment to self-employment (Kellard *et al.*, 2002). It appears that about 8 per cent of those on benefits enter self-employment in any given year and of these, 68 per cent are still trading after a year. That compares with 80 per cent trading after a year for all start-up businesses (Gavron *et al.*, 1998).

The study also noted that:

- People entering self-employment from benefits are more likely to be men, living with a partner, and older. They are also likely to have higher qualifications, and have fewer and shorter previous spells of claiming benefit.
- Those people whose businesses survive, tend to be concentrated in low capital and labour intensive businesses, be sole traders and have low earnings and high work hours. Survival is also linked to being older, with partners and skills, qualifications or labour market experience.
- The main reason for leaving self-employment is due to insufficient income. For some that leave self-employment, they will go on to other employment while most return to benefits.
- Sixteen per cent of those who moved from unemployment moved to employment over three years, illustrating the role of the stepping stone of employment.
- Non-financial support such as help with business planning, marketing, debt advice and soft skills such as confidence building is particularly important for people on benefits who therefore require quite intensive and targeted support.

As far as the unemployed are concerned, there is even less evidence around the different motivations of men and women. Kellard *et al.* (2002) found that: "men were more likely to become self-employed because of difficulties in the labour market while for women, flexible hours and easier childcare were important".

There is a problem here that most research focuses on women claiming some form of benefit but this omits the high levels of 'inactive' women who do not claim benefits, some of whom may well be surviving on very low incomes. In fact, Barclays (2003) found in a recent quarterly start-up and closure survey that inactivity and unemployment were less of a deterrent to setting up a business for women than for men. They found that the proportion of women who are not in work and setting up a business is 2.4 per cent, compared to 2.5 per cent in work. The gap between men in and out of work is wider – 5.8 per cent of employed men form businesses compared with 3.6 per cent who are not in the workforce. The main reason for this difference is presumed to be the fact that economic inactivity amongst women is more of a 'choice' rather than forced unemployment or ill health.

It is also interesting to note that unemployed people who move into self-employment have a better chance of remaining employed than those who become an employee (Bryson and White, 1996).

Performance and survival

Women are more likely to become self-employed in easy entry service industries because these sectors reflect previous work experience and are cheaper to set up and run (Carter *et al.*, 2001). However, these areas are often highly competitive and associated with lower than average survival rates and high levels of churning.

The available evidence indicates that women-owned firms in general under-perform in the marketplace, relative to similar male-owned businesses. This is presumed to be due to their relatively lower ability to build up appropriate resources such as finance; human capital from education, training and employment experience as well as social capital (relevant professional and social networks) and the cultural capital of credibility. Much of this capital is created for both sexes through waged work but women are generally found in employment positions that may make it less likely that they can build these personal and external resources to the same extent.

Mirchandani (1999) notes that women tend to be in jobs that “involve little control or power, and these jobs are simultaneously labelled as ‘unskilled’ work requiring feminine traits”. If a woman does not build up networks she will not have access to customers and suppliers or if she does not build up financial or marketing skills, this will be a disadvantage to future business creation. For some women in this situation, they will be more likely to set up businesses or become self-employed in those sectors that require few of these skills and contacts and which tend to be those which experience poor growth, are high risk and over-crowded.

Additionally, limited access to highly paid employment reduces women’s opportunities to build up substantial levels of personal savings to invest in new enterprises and, together with periods in and out of full and part-time work, may result in unfavourable credit histories which may influence the lending decisions of banks and other finance providers. Women also appear to use about a third of the financial capital to start their business than men, irrespective of sector, are more likely to rely on limited personal savings and rarely access venture capital funding (for example, Carter and Rosa, 1998; Marlow and Patton, 2003). They are, therefore, likely to be slower growth and run the risk of being undercapitalised.

Rosa *et al.*, (1996) indicate that the long-term growth performance of firms is strongly affected by resources mobilised at start-up and women’s businesses tend to:

- employ fewer core staff,
- be less likely to have grown substantially in employment (more than 20 employees) after twelve months in business,
- have a lower sales turnover,
- be valued at a lower level than male owned businesses.

Some of these differences are not just due to lack of resources but also to motivations for the business. The Global Entrepreneurship Monitor (Westall, 2001) found that women are relatively more likely than men to believe that they will create no jobs in the next five years and less likely to believe that they will generate over 20 jobs. There is a danger, though, in policy makers being overly concerned about growth rates and not recognising that so-called ‘lifestyle’ businesses, which are low or no-growth,

are legitimate job and wealth creators reflecting the needs of their owners.

If you are unemployed, all the potential problems highlighted above will be exacerbated since you will be less likely to develop appropriate or up-to-date skills if you are not working and you may well have lost or reduced your previous contacts. Survival rates are positively correlated to the amount of start-up funding and businesses set up by the unemployed are more likely to be underfunded (Crowley and Bainton, 2000). Levels of savings will be severely reduced and this, together with your lack of employment, will affect your credit rating and ability to access finance.

It appears that unemployed men are more likely to be able to draw upon relevant previous work experiences, have more family support during this process, have greater credibility and so create more durable businesses. Women meanwhile, are more likely to begin new ventures in areas where they have no previous work experience so have fewer ‘employment assets’ to draw upon and use self-employment to combine generating an income with caring responsibilities (Kellard *et al.*, 2002).

The informal economy

One of the ambitions of the current welfare-to-work approach is to minimise engagement with the informal or hidden economy (Budget Report, 2000) where such work is defined as “the paid production and sale of goods and services that are unregistered by, or hidden from the state, for tax, social security and/or labour law purposes but are legal in all other respects” (Williams and Windebank, 2003). This definition therefore excludes work involving illegal substances or acts, for example, drug dealing, robbery, car theft, but includes undeclared employment and self-employment. It is difficult to estimate the degree of this activity within the economy. The EU has estimated that this practice accounted for between 7 and 16 percent of GDP in Europe in the 1990s.

By introducing reduced taxation levels and providing in-work benefits, alongside greater supervision of those claiming benefit through regular interviews and training programmes, it is believed that the informal economy will become a less attractive option. However, this may be overly ambitious. The main problems with the current welfare system outlined in the next section will, if anything, encourage informal working. If you also factor in the situation for many women of requiring childcare, and the relatively greater risk of self-employment, then it is even more likely that current benefit regimes encourage, rather than discourage, informal working.

The following case study shows how easily this situation can arise.

Sally has suffered from chronic depression for many years and, although only in her late 30s, with a degree and having had a well-paid job with a utility company, she has not worked for approximately seven years. Consequently, Sally is on Incapacity Benefit as a result of her health problems which pays the interest on her mortgage for her very small and rundown home. Her parents top up this payment to cover some capital repayments.

Sally, however, enjoyed horse riding when she was well and bought her own horse, keeping it close to a local riding stables where she also helped out at weekends. After her illness prevented her from working, Sally spent more time at the riding stables and whilst this was sometimes difficult due to her mood swings and behavioural problems, her presence was largely tolerated. When well Sally taught on a freelance basis being paid 'cash in hand' and recently has begun to sell some horses on behalf of the owner. The arrangement is that the owner of the stables requires a certain price and anything above that is Sally's to keep. Sometimes Sally makes hundreds of pounds from a sale (always in cash or payable to a third party), sometimes the horse does not sell so this is not a regular income.

Since the supply of horses through the riding stables is sporadic, income from these sales is unpredictable. Moreover, Sally's continued presence at the stables is uncertain as her behaviour has caused the owner and other staff to exclude her. Her mental health makes both her short and long term prospects difficult to predict. Therefore, understandably, Sally does not declare this income since she is aware that the limited earnings disregard and inflexibility of the system, combined with her personal situation makes it too risky to relinquish her benefits.

There is also another aspect to the informal economy which requires care in future policy design. Williams and Windebank (2003) found that there is a clear gender difference in how men and women relate to informal labour. They found that men were much more likely to undertake informal self-employment as an economic activity for strangers whereas women were more likely to work for friends and relatives for small payments and, of more importance, for the establishment of reciprocal social networks. They state:

"Most (informal work) is between friends, neighbours and relatives, conducted for an array of reasons associated with developing social capital and/or redistribution ... the majority is more akin to mutual aid; it is conducted under non-market social relations for redistributive and community building purposes.

Therefore, it cannot be argued that informal work is undertaken for purely economic motives, although this will be important for those struggling on benefits. Any attempts to marginalise it, or remove it altogether, may be highly damaging to women and the social fabric of communities already suffering from various forms of deprivation.

3. Welfare-to-work, gender and self-employment

The focus on 'welfare-to-work' by the Labour Government has underpinned a tendency to see paid work as a significant part of being a citizen and escaping 'social exclusion'. In some respects, this approach downplays the importance of other forms of work such as caring responsibilities and voluntary activity despite the current vogue for encouraging work-life balance. Lister (2003) notes:

"whatever the welfare regime, citizen the-wage-earner tends to be privileged over citizen the-carer".

There is also a clear gender bias in the benefit system which is still based on the assumption of men being unemployed and needing full-time employment which does not reflect the needs and realities of women's working lives (and some men's) and creates particular problems in the context of becoming self-employed from benefits.

Gender bias in the benefit system

It has been argued that the current benefit system is fundamentally disadvantaged against women because it is based on assumptions about those claiming benefit and accessing waged work. Rake (2001) argues that:

"while much policy has assumed that women will provide unpaid caring labour the corollary for men has been the assumption that they will be breadwinners ... to satisfy their own needs and those of their families."

The benefit system presumes a male norm of unemployment where men leave full-time work, are then workless over a period of time sufficient to qualify for benefit entitlement, before re-entering full-time work (Gregory, 2000). This contrasts with women's labour patterns which are more likely to be fragmented with shorter periods in low paid work followed by periods of inactivity. Furthermore, women are much more likely to be benefit-dependent, experience long term poverty and are constrained from seeking mainstream, full-time employment because of caring responsibilities, particularly those of sole parenting, the majority of whom are lone mothers (Bradshaw and Finch 2002). (These issues also affect those men who wish to, or are forced to, work in more flexible or part-time arrangements.)

These fragmented work histories perpetuate poverty since there are few opportunities to save, develop skills or progress within work and create problems regarding benefit claiming and entitlement as the system is not sensitive and responsive to such short periods in and out of work (Kempson and White, 2001). Therefore, although men and women are treated as 'equal players' within the welfare system (Pateman, 1988) little regard is given to their different experiences of waged work and domestic responsibilities which critically impact upon their access to, and needs from, welfare support.

More men tend to be found using New Deal programmes such as those for young people or the long-term unemployed which have an element of compulsion and which clearly distinguish between working and not working on a full-time basis. Women tend to be found more in the New Deal for Lone Parents (NDLP) and New Deal for Partners of the Unemployed (NDPU) which are voluntary and which have relatively lower levels of funding (Gray, 2001; Dorsett, 2003).

Rake (2000) states that:

"rough estimates suggest that, compared with lone parent new dealers, young unemployed new dealers will have double the amount spent on them on average."

The benefit system creates barriers to self-employment

Aaron Barbour (2003) makes a clear point:

"the single most significant barrier to self-employment is the benefits system itself."

In a critical appraisal, he argues that the combination of the New Deal programme and the benefit system positively discourage the unemployed from successfully engaging with self-employment.

The way in which the benefit system penalises people is well illustrated by a model prepared by Ben Rowlands of Community Links in 2003, and reproduced with their kind permission. The model, which is adapted to incorporate specifically some of the issues facing women, compares two people entering self-employment, one from unemployment and the other from employment. They are referred to as X and Y respectively.

A number of assumptions are built into this scenario:

- Both businesses will generate uncertain and fluctuating incomes unlikely to cover all costs in the first few months;
- Both X and Y will need a 'safety net' to fall back on to make up for any shortfalls in income;
- For X the safety net will be a return to benefit, for Y this will be accumulated savings and other sources of funding;
- There is a moral equivalence between the safety nets as it is presumed that it is equally desirable that both of these individuals should be able to move into self-employment;
- Both X and Y will have had some support and counselling prior to business start-up;
- No differences in human capital are presumed;
- We will presume that X is in a programme which offers 26 weeks supported trading.

Given that the focus of this report is on women, we will also assume that both X and Y are single parents with two children – one pre school and one school age. The following scenarios show all the disadvantages that women (and men in similar positions) may face when trying to start a business from benefits.

Childcare provision: both X and Y must ensure that adequate childcare provision is in place for their two children, one pre school and one at primary school, before they can begin to trade.

X has not had to arrange formal childcare for her two children before. On the couple of occasions she has been in short term work or undertaken informal labour, friends or relatives have stepped in to help out. This has worked well as they are familiar with the children and flexible regarding time. However, now X is contemplating self-employment, childcare will be required regularly, in fact it would help her prior to business start to undertake some market research and other training and preparation. Initially, her needs will be for unpredictable time periods since the hours which the business will require in order to be sustainable are not known. Relatives and friends would still help out as the 'burden' could be shared amongst them but, with this more permanent arrangement, payments will have to be made. X is now in a dilemma, childcare support is only payable to registered child minders or nurseries and then, do not cover the full costs. So X can either find the costs herself (bear in mind that no income can be claimed from the business during test trading) or commit to formal care so, she has to now anticipate an income from her business in order to make a claim for care costs. Moreover, she must make some level of time commitment to the minder or nursery so they can also plan accordingly. One child will need to be in day care but the other only requires picking up from school – X wants to enter self-employment partly because she feels she will eventually be able to combine the business and some of her caring responsibilities such as picking up the eldest from school. X could easily arrange this with friends/relatives but could not chop and change around the child minder commitment. Added to this, she feels that her children would be better off with people she and they both know and trust. So, X feels she is being coerced into an expensive and perhaps, partly unnecessary commitment to formal childcare which she feels, is not the best option for either her or her children.

There are two scenarios available for Y. Firstly, she can chose to rely on family and friends using her savings to meet the costs until the business income covers this. Alternatively, as Y was previously in employment, she is likely to have formal childcare arrangements in place for which she is receiving state support. Y can take advantage of this provision when planning her business as she can use some of her 'free' time to prepare her business venture. The level of assistance Y requires to meet childcare costs is likely to change due to entering self-employment but again, she has more resources to draw upon to meet short term short falls.

Test trading: both X and Y need to 'test trade' to work out the viability of their businesses

X is permitted a 26-week test trading period during which she can continue to receive benefits plus limited earnings. Consequently, there is little incentive to maximise income at this time. After the test-trading period she will, however, have to commit at least 16 hours a week to the firm to have this recognised as 'employment' and to qualify for in-work benefits such as Working Tax Credit (including assistance with childcare costs) plus other one off 'return to work' grants such as the Back to Work Bonus.

Y is able to keep all the income generated from her business and use it as she deems appropriate. She will also be able to invest her savings in the firm to support it during this vulnerable period; she can also choose the number of hours to spend on the business so, if she desires, can operate part-time whilst remaining in waged work to determine the viability of the firm whilst reducing the risk of lost income.

Housing costs: X and Y both enter full-time self-employment but after six months, the firm has a short term cash flow problem, both women need to draw upon their reserves to tide the business over.

X has now left benefits and despite small back to work bonuses has little savings potential so limited resources to draw upon. Although she is receiving tax credit, the problem of having to re-submit her claim, including delays in assessment, plus the difficulty of calculating self-employed income means that in this period of volatility, she has a real income short fall and without an appropriate safety net cannot pay her rent. It is possible to reapply for Housing Benefit but Rowland notes that in Newham, for example, it takes an average of 80 days to process a new claim – private landlords can evict their tenants if they are over 56 days in arrears with their rent. Moreover, because of the short test trading time and small earnings disregard, X has been unable to accrue any savings which she might use at this time. If X has an unemployed partner, any income she will have generated will have affected his/her benefit entitlement so she will not automatically be able to depend on this income to get through this period of difficulty.

Y can access her savings as she sees fit to meet housing and other domestic and business costs. Whilst Y is also receiving tax credit, should there be a short fall in this calculation, she will have some resources to manage this – even if this causes problems. By then sustaining the business into the next 12-month period, she will have a track record to adjust her claim accordingly to make provision for periods of volatility. If Y has an employed partner, there will be another potential source of income to draw upon during this difficult time.

Coping with hard times: both businesses then take off such that profit is accrued which is saved as insurance against fluctuating demands or for future investment potential. Both firms then experience a down turn but Y has the advantage of having entered self-employment with a greater safety net – previous savings already generated so she has greater resources to fall back on. However, X began from a disadvantaged point and will also find that savings will affect eligibility for in-work benefits even if these reserves are maintained or drawn upon specifically for business support purposes.

Things get worse for both X and Y, business income falls further to the point it cannot provide a subsistence income so both must fall back on their safety nets.

X has few savings so must reapply for benefit but this safety net also means that she must be available for other work, training or activities. So, what is a temporary downturn for a potentially sustainable business probably becomes terminal as the individual is prevented from putting the firm on 'hold' by the rigidity of the benefit system. If X has a benefit-dependent partner, he will be unlikely to have any resources to share which might help support the business at this time.

Y draws upon her savings safety net to support her business at this time; she may also be able to call upon her recent 'employability assets' to gain casual or part-time work with greater ease than her counterpart who has no recent formal employment experience or work histories. When the market becomes stronger, she can then revive her business again. If Y has a waged partner, she may have access to these resources to help sustain her firm at this time

This is a useful illustration of the inequities which are imposed by the benefit system on those wishing to become self-employed; when gender is also factored into the situation, the transition becomes even more problematic.

Since benefit-dependent women are more likely to also have caring responsibilities or be partners of the unemployed, any decision to engage with a risky activity, be that insecure, low paid employment or unpredictable self-employment impacts

beyond the individual (Gray, 2001; Dorsett, 2003). For lone parents in particular, financial deprivation is inextricably linked to child poverty so there are considerable and wide ranging implications for any high risk decisions regarding income sources (Gray, 2001).

A female carer can, however, enter the New Deal for Lone Parents where the focus is on advice and support to prepare for waged work. Entering the programmes triggers top up payments

(Brown, 2003) but the initiative is very much upon practicing interview techniques, preparing CVs and general advice on work capture; there is little investment made on training and development or alternatives to waged work such as self-employment (Dean and Shah, 2002). Should X, as a lone parent, wish to enter self-employment, the flexibility she is likely to require in terms of hours worked is restricted – the hours limit means that at least 16 hours per week, every week, are a minimum. There is an obvious and considerable risk for the lone parent of jeopardising benefit entitlements, particularly when re-entering the benefit system is a lengthy and complex process during which time family income will be restricted and debt accrual is a real possibility (Barbour, 2003).

Gender related problems are also evident for the partners of the unemployed, most of whom are women (Dorsett, 2003). Traditionally, if a couple were benefit-dependent, one partner claimed and received allowances for the other members of the household. The claimant had to fulfil obligations regarding seeking work but 'dependents' were not; this situation changed in 2001 such that in households with no dependent children each adult is required to make an independent claim and be available for work. The motive behind this shift was to reduce the number of workless households where poverty is likely to be long term and difficult to alleviate (Gregg *et al.*, 1999). Should an individual enter employment of any form and their partner remain benefit-dependent, the low level of earnings disregard (the amount which can be earned before benefits are reduced) then effectively ensures that the advantages of paid work are few (Dorsett, 2003). Dorsett found that the initiative did encourage people to cease claiming Job Seekers Allowance but this was not necessarily due to finding secure work but rather, for women in particular, more likely to do with engaging with short term work solutions or attempting to manage without benefit altogether.

Considering the scenario again, the woman (Y) whose partner is in employment does not compromise her partner's income to the same extent as benefit-dependent couples. Of course, should her business fail with considerable debts, her partner will be involved but, barring this situation, Y has the security of her own accrued safety net and probable access to her partner's support. Should unemployed partners consider self-employment, attempting to forecast income in terms of earnings disregard and the risk to their partner's benefit entitlement makes this an unattractive option.

Summary of the main issues facing the transition from benefits to self-employment for women

Looking first at the benefit system:

- **The low level of earnings disregard** is a strong disincentive for anyone wishing to test trade whilst being on benefits as well as discouraging savings to be built up which could be vital to creating a future safety net for volatile income as well as investment in the business. Bryson and White (1997) showed that this low level of earning disregard entirely removed any short-term incentive to develop a business whilst claiming and also discouraged people from even starting.

The amount of money that you can receive in addition to benefit income has not increased for more than 25 years for individuals and only slightly for lone parents and does not provide an incentive for anyone wanting to set up a business particularly if you are ineligible for a programme. It means that someone contemplating self-employment from benefits

cannot easily generate or keep useful levels of savings towards establishing their enterprise whilst keeping the benefit safety net. This is a highly significant point given that the majority of those beginning new ventures use personal funding to support the process and enhance credibility with formal funding agencies (Storey, 1994). This rule also means that the new business is particularly vulnerable to any short-term volatility in the market or the loss of one key customer or just one bad debt since they have few, if any, resources to fall back on.

- **Covering childcare costs** remains a barrier in the transition to self-employment. New Deal programmes currently do not typically provide assistance with childcare costs and in-work benefits only cover up to 70 per cent.
- **The need for flexible working hours** Having to work for over 16 hours at a business to qualify for in-work benefits is hugely problematic for women with caring responsibilities. Self-employment is nearly always assumed to be full-time work and therefore you have to claim tax credits rather than Income Support (although this is accessible in limited cases). Equally the upper limit of 16 hours work when claiming benefits does not easily allow a gradual move into self-employment. Also the variable income of self-employment, and the need for flexible working hours, may mean having to move in and out of in-work tax credits and out-of-work benefits in future but this is difficult because of the different criteria, bureaucracy and delays in claiming. Metcalf (2000) argues that this situation may well act as a disincentive to moving into self-employment just as it creates problems for casual employment.
- **Inflexibility of tax credit calculations** which are calculated on previous yearly income or projected income if you are coming off benefits. But given how volatile self-employment is this means that the individual has an uncertain income and the tax credit does not allow for this. Working tax credits need to be able to take into account the volatility and inconsistency of self-employment income, including swift and responsive re-assessments. Additionally, any savings will affect eligibility for in-work benefits even if these reserves are maintained or drawn upon specifically for business support purposes.
- **Difficulties with delays in housing rent support** While there are housing and council tax run-ons, once these have finished, the individual has to either pay for rent from wages or apply again for reduced Housing Benefit support. This application can take time. Additionally there can also be delays with the run-ons.
- **Inability of the benefit system to cope with fluctuating income levels** The benefit system is complex and time-consuming to re-enter if self-employment fails or income levels drop to an unsustainable level. Additionally, there is rarely Income Support for someone who is self-employed and the benefit system is unable to easily accommodate sporadic income from, say, temporary employment or self-employment. All of these issues can be major disincentives to attempting the risky prospect of self-employment.
- **Losing secondary benefits** Receiving tax credits means sharply reduced entitlement to benefits including free prescriptions, dental and optical care. You also lose

entitlement to free school meals. This sudden loss of secondary benefits, as well as housing costs, can be a great burden.

- **Losing mortgage support** When you move into self-employment you lose help with your mortgage. If you have a mortgage, and your business fails, there is a nine-month wait from claiming benefits to being eligible for any support. This is a significant deterrent to starting a business if you feel that, if it fails, you may lose your home.

The example below shows the way in which concerns over mortgage repayments can deter people from even considering self-employment.

Ms Deakin is single without children and has received JSA for the past 2 years. She is part of New Deal 25+ and has a business plan for a packaging business. She is a homeowner with a mortgage taken out after October 1995.

Ms Deakin completes a test trading period of six months, during which she continues to claim JSA, housing costs and council tax benefit. She is eligible for a discretionary grant of £300 to buy office equipment. After the six months, however, the business struggles and Ms Deakin claims tax credits on the basis of low earnings. She accumulates small arrears on her mortgage. Ms Deakin abandons her business venture just under a year later: she is aware that if it fails after that time, she will have to go through a nine-month waiting period for mortgage costs and could lose her home as a result.

With regard to the New Deal and WBLA:

- **Restricted eligibility** You are only eligible for New Deal 25+ if you have been unemployed for over 18 months and for those wishing to work at least 16 hours per week. It is known that the longer the period of unemployment experienced, the more problematic it becomes to re-enter economic activity as claimants become familiarised to a life without waged work and lose confidence (Taylor, 1997). Corry (1987) found that 78 per cent of those unemployed for up to three months survived two years after starting compared with only 57 per cent for over a year. Current rules mean that people wishing to start a business after a period of inactivity would have to wait 18 months before accessing support from the New Deal unless support was available from other sources. Attempting to start a business without support could be very difficult for those without resources and access to advice and support.
- **The difficulty of the 16 hours rule** This effectively rules out tentatively testing the business idea to assess the risk and also it prevents the use of self-employment as a flexible option which can be matched to household needs – term time working, for example.
- **Short test trading period** The 26 week period of New Deal 25+ (and three months for Enterprise Rehearsal) is far too short to gauge the potential success of any enterprise and to support many to a point at which they are viable. Cowling (1998) found that 80 per cent of people who stop trading will do so in the period 18–24 months after start-up and that an income bridge of up to at least 52 weeks would enable many

more people to start and maintain viable businesses before returning to benefits. Given that women tend to take longer to start-up their business (can exceed 12-18 months (DTI, 2003)), the period of protected benefits might need to be even greater than this. A survey by Bevan (2000) found that 21 per cent of those joining WEETU's peer group lending circle were unemployed for under six months and 56 per cent, just over six months. Expecting a new firm to be fully viable after 26 weeks is overly optimistic; given that claimants must relinquish benefits after this period, it makes the self-employment option very risky.

- **Restricted access to funds** During this period of test trading, the individual cannot access generated business income; this is held in a separate account managed by an advisor. Any profit can only be used for business purposes, not as income or savings which again, may make the new firm and its owner more vulnerable to any period of future volatility or personal emergencies.
- **There is no test trading period under New Deal for Lone Parents** although participants have a range of benefit 'run-ons'.

Overall, the movement from benefits involves going from a stable to an unstable income. Losing a range of benefits at the same time can make this a highly unattractive option. Indeed, evidence from 167 women joining a programme run by Women's Employment, Enterprise and Training Unit (WEETU) in Norwich found that the benefit system was the main barrier to them launching their business (Bevan, 2000).

There has also been criticism of the way in which these government programmes do not link appropriately with advice and support available from Business Links and other sources (Weaver, 2002). There is considerable anecdotal evidence that Job Centre staff are ill-informed regarding support and advice for those seeking to engage with self-employment. This may be a lack of training but is also because the system of job placement targets make self-employment a less attractive option for them.

Whilst it is clear that there are a great many interrelated issues that require further attention and review, one key message coming through the analysis is that there appears to be a need for a longer period of benefit support or 'income bridge'. Internationally, there are examples of where this is happening in practice. The following examples are taken from a paper on existing income bridge/benefit waiver models (WEETU, 2000). They show several initiatives and benefit models that allow for longer supported benefit periods.

Netherlands

Benefit can be paid for up to 24 months of initial trading subject to six monthly reviews. The first 12 months of benefit are treated as an interest free loan. When the profit and loss accounts and tax returns are available for the first year, the situation is reviewed and either the recipient repays some of the benefit, if the business has been successful, or receives extra money if the income has been lower than forecast.

Eire

For the first 12 months of self-employment, unemployment assistance is paid or Lone Parent Allowance. At the end of this period, people transfer to the 'back to work allowance' scheme and receive 75 per cent of their benefit entitlement in the second year of their business; 50 per cent in the third; and 25 per cent in the fourth.

Illinois, USA

For those people who meet the entry qualifications, they can keep benefits payments, and entitlements to medical and childcare support, for up to two years as they develop their business. All of the earnings made have to be invested back into the business and a monthly report has to be made on business expenses and income. Up to about \$5000 (£3000) can be built up as business assets. If any money is withdrawn from the business, then welfare benefits payments are reduced by \$1 for every \$3 withdrawn and if business drawings exceed the benefit ceiling then recipients have to leave the programme.

Previous UK schemes show that longer periods of support were correlated with some good success rates. The Enterprise Allowance Scheme in the 80s which provided a subsidy for 12 months showed survival rates similar to those of all businesses (Gavron *et al.*, 1998). 87 per cent were still trading after one year. The number of growth businesses was also the same as for the mainstream business sector. An analysis of subsequent Business Start-up Schemes (BSUS) by Marc Cowling, in that report, showed that various combinations of grant and wages were provided for six months to one year, and some longer, with good survival rates. A survival related bonus seemed to encourage people to persevere through the critical 18-month period. He also found that this was a relatively cheap way of creating jobs at about £1700 net per job (including administration charges). This figure is supported by Storey (1994) who found that the costs per person removed from registered unemployment in the Enterprise Allowance Scheme, even taking into account deadweight and displacement of 50 per cent, were £2000 which he believed to be remarkably low.

The conclusions of *The Entrepreneurial Society* (Gavron *et al.*, 1998) were that there was a need to create flexible support for would-be entrepreneurs that could mix loan and grant as appropriate. There is a great deal of difference between someone with no savings setting up a business and requiring a long period of guaranteed income and a redundant manager with a large hand-out and many contacts. There is also a need to include good advice and support, continuing well after the start-up period.

A more recent report by the PIU (now Cabinet Office Strategy Unit) concluded that existing support for the unemployed was inadequate and that this related to a financing gap which needed to be met by government or government facilitated loans (PIU, 2002). Whilst they noted that many unemployed people were wary of a loan instead of an income bridge there was interest in access to loans at an appropriate stage. The report concluded that it may be appropriate to consider loans as an alternative, or as an option, in meeting requests for an extended test trading period.

It also appears that the lack of co-ordination between in-work tax credits and out-of-work benefits acts as a significant disincentive to self-employment and creates huge bureaucratic burdens and delays in processing and payment which could lead to significant hardship. It would make sense, as suggested by Metcalf (2000) that benefits support a smooth transition and allow for fluctuations in income and hours across the rigid divide between JSA and tax credits by finding a way to create a seamless and responsive mechanism of support.

4. Two surveys of women and support agencies on making the transition from unemployment to self-employment

In order to unpick some of these issues and further understand the barriers facing women in making the transition from unemployment to self-employment, two surveys were conducted in 2001 by WEETU and Community Links. The women were clients of WEETU in Norfolk and Streetcred in London's East end (Bevan, 2001; Community Links, 2001). One was drawn from a sample of women who were benefit-dependent and who were either considering, or had recently entered, self-employment and the other was focused on those who work with the self-employed in a variety of support initiatives.

Views from women

Fifty-four women completed questionnaires, about half of whom were considering self-employment and half had just begun being self-employed. The group included lone parents, carers, and people with disabilities or health problems. For those considering self-employment, the main problems encountered were worrying about loss of benefit, concern about low business income, not having a business plan and childcare availability and costs. They were also worried about developing business skills and a lack of start-up funding (Table 4.1).

The main problems for those who were already engaged in self-employment (Table 4.2) were: childcare, funding, the impacts of losing benefits and low business income. The respondents also noted that losing housing benefit and council tax would have the most impact.

When offered some options for how long they felt that the newly self-employed should continue to receive benefits – three months, six months, one or two years – those who had not yet entered self-employment were more conservative in their estimates than their counterparts already trading. From those considering self-employment, 28 per cent indicated six months, 44 per cent twelve months and 28 per cent suggested two years. Those already trading believed that longer periods of support were necessary: 63 percent felt at least twelve months extended benefit was necessary with the remaining 37 per cent suggesting that up to two years support was essential. The differences between the two groups most likely arise from the experience of actually trading and the difficulties encountered in doing so.

The survey also looked more deeply at some of the barriers identified above through interviews. One respondent drew

Table 4.1 Problems raised for those considering self-employment.

| Problem | N | % |
|-----------------------------------|----|----|
| Business plan not ready | 15 | 53 |
| Concern about low business income | 14 | 50 |
| Worry about lost of benefit | 14 | 50 |
| Childcare availability/costs | 13 | 48 |
| Lack of start-up funding | 10 | 38 |
| Need to develop business skills | 10 | 38 |

attention to the problems of being a lone parent and running her firm, "with 3 primary school age children, it is very hard to attend structured courses to help". The reference to being in a "no-win" situation was made by a number of people. Another woman who was planning to start a new firm within the next six months noted:

"I was until recently, on benefit and could not forward my business due to lack of funds. No help from the benefit authorities. Also, could not provide any help towards training I could do with to help me gain clients. AND, more importantly, I would lose my benefit if I did do the training – so quite detrimental situation – Catch 22. So I had to get a job! (which is too low paid to support myself!)"

And another commented:

"I don't think the benefit system is helpful at all for those trying to escape it. I was about to start my business, supported by my partner for the initial stages... and then he lost his job and had to sign on – he signs for us both (a rule which they are changing so I will have to go and sign on too and lie and pretend I am searching for work in order not to have benefits withdrawn) – the truth is that I'm waiting to work on my business – I cannot apply for 'enterprise rehearsal' for six months and any money I'd earn, which initially would 100 per cent be put back into the business would simple be deducted from our benefit (PLUS the appalling amount of PAPERWORK involved in claiming and self-employment makes it a full-time job simply to fill (them) in). Thus I can't build up my business and save for the things I need like a computer. Loan payments are also not allowed as a business expense so you are left in a Catch 22 situation. My only way out is to hold off starting my business until my partner has a job, this puts considerable strain on the relationship and is bought about by the conditions of the benefit system – you end up trading in cash."

These are only a couple of examples from many which illustrate the problems these women face; another respondent wrote at great length how she took a part-time job to support her self-employment as a writer. Despite evidence from the Inland Revenue and her PAYE pay slips, the benefit authority will not accept that she is undertaking these activities so will not approve her job seekers grant and have delayed paying a child

Table 4.2 – Problems for those already engaged with self-employment.

| Problem | N | % |
|-----------------------------------|----|----|
| Low business income | 17 | 61 |
| Impact of losing benefit | 16 | 58 |
| Childcare availability/costs | 11 | 41 |
| Lack of adequate start-up funding | 9 | 34 |

maintenance bonus. From her detailed account she remarks that the whole process was:

"nerve wracking and in fact, it made me feel exhausted, frustrated, angry and very worried ... it is one hell of a gamble."

Overall, the information provided in this small survey supports the idea that the transition from benefit dependency to self-employment is one beset by problems and is a very high-risk option with the risks being even higher for those with caring responsibilities and dependents.

Views from support providers

A survey was also undertaken to find out the views of those working with such women as business advisors and community activists plus academics with a specialist interest in the area and others actively engaged with this issue. The respondents were delegates at a Social Enterprise Conference and a Community Development Finance Conference, both held in 2001. They identified issues such as benefit deprivation, the short test trading period, childcare issues and problems re-accessing benefit as very common or common and also rated these as clear priorities for policy action. Given the investment which has been made into start up advice and training via both Business Link and Phoenix Fund initiatives, it is perhaps not too surprising that this issue was ranked very slightly lower than most others.

When asked the question:

"What if the Prime Minister invited you to No. 10 tomorrow and asked, 'what if you could do anything you wanted to enhance the way we currently support enterprise?', what would you say?"

A representative sample of comments were:

"assess the benefits trap"

"enable people to develop enterprises whilst on welfare benefit"

"pour money into nursery education"

"establish a system whereby benefit entitlement can be counted into business support/risk capital for the first two years of the business."

In order to reduce the risks to self-employment for unemployed women and to increase the number who might consider taking on this option if well supported, there is a clear need for a range of changes to current policies.

5. Conclusions and policy recommendations

This report shows that the transition for the unemployed from benefits to self-employment is highly risky and made more so by the benefit system which does not support the flexibilities required. Women appear to face further barriers due to their relatively fewer skills and access to resources as well as limitations on the time that they can give to self-employment if they have other commitments.

The current benefit system and programmes set up to support individuals in this transition need to be reformed in order to reduce the high risk to people, particularly women, wishing to become self-employed and to reflect the complexities of people's working and non-working lives and needs.

In making the transition from unemployment to self-employment, women are trading a small but relatively stable benefit income for the risky option of self-employment where their gender already has a negative impact. They are doing so in an environment where support is limited and the safety net fragile. Should the enterprise fail to generate sufficient income, even in the short term, to meet household expenses, the problems of reaccessing the benefit system and the consequent potential accrual of debt, makes this prospect positively catastrophic as the repercussions extend beyond that of the individual to her dependents. Moreover, accessing and anticipating childcare needs and costs are also difficult particularly with the likelihood of no real safety net to fall back upon when business income fluctuates.

Given all these difficulties it is perhaps unsurprising that some people will make use of the informal economy. It is also important to recognise that the informal economy not only provides sources of income for women but is a valuable way in which social ties are created in a local area. As a result, a heavy-handed approach to discouraging women from informal activity could destroy its contribution to maintaining critical social fabric, particularly in disadvantaged areas.

In order to address these issues, there is a need to consider how to make the benefit system and support programmes more flexible to deal with the realities of complex working patterns and needs and create a system which supports people for the appropriate length of time. In this way more people, particularly women, may make use of government programmes and set up viable businesses.

Whilst the whole benefit system and its support for self-employment would benefit from a thorough review, here are several key changes that could be considered as part of that process:

- **Increase the earnings disregard in line with inflation** Over 40 per cent of women choose to start businesses on a part-time basis, but the benefit system does not allow for this. The earnings disregard, which is the amount of earnings benefit recipients can retain in addition to benefit income, has not increased for more than 25 years for individuals and only marginally for lone parents. This provides no incentive for those who wish to start a business in a cautious and tentative manner from benefits, as many women choose to do.
- **Lower the eligibility period for entry onto the self-employment option of the New Deal 25+ from 18 months to, for example, 6 months** This would enable more people to get the appropriate support they need at a more relevant time, increase take-up and result in more viable businesses.
- **Consider flexible universal income bridges of at least 12 but preferably 18 months and even up to 2 years** This is particularly important for women's businesses, which are characterised in general as having a longer incubation period. It is also particularly important for those with caring responsibilities, who are predominantly women, where the risk of relinquishing secure income after a relatively short period of self-employment is likely to present an unacceptable level of risk. At present, only New Deal and Work Based Learning for Adults support income bridges or 'test trading' of six and three months respectively. There is a need to review the appropriate lengths of this support and relative cost to the Treasury and consider creating universal income bridges from unemployment to self-employment of at least 12 months. There could also be consideration of a graduated reduction of benefits over time as the business becomes more robust and established as seen in the Republic of Ireland. There should ideally be a much more flexible system that works with the needs of individuals and combines grants and loans in the most appropriate combination and for the appropriate length of time (with reviews).
- **Find a way to merge in and out-of-work benefits for the unemployed moving into self-employment** At present the disincentives of the earnings disregard as well as the 16 hour working limit rule on benefits combine to discourage the start-up, and development, of a business. In-work tax credits are somewhat more flexible but there is no easy transition between them depending on need. Given the highly flexible nature of women's self-employment needs as well as the variability of self-employment income, a more coherent benefit system linking in-work tax credits and out-of-work benefits would prove the best response to many interrelated issues.
- **Develop asset-based strategies** Women's businesses are disadvantaged by financial undercapitalisation. An enlightened welfare-to-work strategy may be able to actively address this issue by enabling start-up businesses to test trade, either full-time during an extended test-trading period or part-time through an enhanced benefits disregard, with additional income retained in a savings account for investment in the business or as an additional 'back to work bonus'. In the United States such initiatives have been further incentivised through the development of Individual Development Accounts, where the level of savings is matched by 100 per cent or 200 per cent, after a specified regular period of saving.
- **Increased assistance with child-care costs** It is paradoxical that those seeking work or seeking to develop a business cannot access childcare during this time when clearly, they need to be free to engage with potential opportunities presented at short notice. New Deal programmes currently do not typically provide assistance with childcare costs for those following the self-employment route, and when businesses make the transition to in-work benefits only 70 per cent of childcare costs are covered by the Working Tax Credits. This significant cost can present an insurmountable barrier to low-income people starting businesses. Assistance with childcare costs is a prerequisite for women-friendly business support

and it is recommended that unemployment to self-employment programmes provide assistance for full and part-time start-ups and that there is a significantly higher percentage of support for childcare costs during the first year in business.

- **Reconsider tax credit calculations** In-work tax credits are clearly tailored for the employee as they are calculated on prior or future forecasts of income and hours worked. It is very difficult for the self-employed to accurately present this information as incomes are uncertain so a short fall is a real possibility. Given the volatility of self-employed income, this can lead to serious situations if the income does not reach the level predicted. Tax credits can be reassessed at any time during the year – however, there are delays in assessment which can cause great hardship.
- **Back to work bonuses** It would appear that being self employed leads to difficulties in claiming such bonuses as there is confusion regarding incomes and statements of hours worked. Self-employment needs to be fully recognised as legitimate, formal work which deserves the same degree of support and credibility as waged labour.
- **Job centre advisors** There is clearly a need for training and revision of targets in order to ensure that Job Centre staff promote self-employment as an option to unemployed people and are appropriately trained to deal with offering initial advice on options.
- **Self-employment support** Once in a support programme for self-employment, it is essential that those providing advice and information are sensitive to client needs (for example, can make appointments to fit in with caring arrangements), are professionals, and are clearly aware of local priorities and needs. Unemployed or non-waged women are likely to lack confidence and will benefit from programmes with in-built long-term peer support, such as micro-credit. A relationship with a mentor can also provide invaluable support over the long term.

The act of starting a business is often either part of a broader life change or provokes reassessment for many women of their other roles. Some women-only time within a business support programme usually provides a forum where women feel able to share and discuss those broader concerns. Metcalf (2000) also notes that self-screening through training and preparing a business plan can help to reduce the number of people who start unprepared and would create unviable businesses.

Other actions business support providers can take to make their services more accessible and appropriate to low-income women are:

- Provide an integrated welfare benefits advice service.
- Arrange to have a regular information desk at the local Job Centre Plus to ensure that both clients and Job Centre staff are fully informed about self-employment as an option.
- Develop an outreach service by working in partnership with community organisations and provide support services at a range of locations.

- **Informal economy** Careful consideration needs to be given to the manner in which the informal economy integrates with formal activity particularly where women are concerned. A much closer examination and analysis of how to integrate formal and informal self-employment undertaken by women in particular, is necessary before any definitive policy is applied to this particular issue.

However, there are dangers in promoting too much support for self-employment. The key concern is that of displacement of existing enterprises since, for example, a subsidised firm may be able to displace a marginal enterprise initially and then, once the subsidy is removed, become displaced by its own successor in the system. This is neither efficient nor desirable so a useful and viable system of support and subsidy must be strategically linked with appropriate informed, local, professional advice for those considering self-employment to judge local needs and opportunities.

The other problem for self-employment initiatives, and a key issue for the Treasury, is that of deadweight, the fact that some people would have gone ahead without the support. We know that eight per cent of people on Job Seekers Allowance go into self-employment compared with the relatively few in New Deal. If an extended income bridge of 12 to 18 months was to be considered and the eligibility time dropped to 6 months, then some people will be receiving support they may not need. On the other hand, it is clear from this report that many women see the benefit system as one of the biggest barriers and are also put-off by the risk. Equally, businesses started after less time on benefits tend to survive longer. Many are not eligible for New Deal and would not and could not wait the full 18 months. This either means they would try to go ahead without this support or would just give up.

In the US, programmes that were concentrated on the newly unemployed have in fact found low levels of deadweight (Metcalf, 1998). Another way to decrease deadweight is to target initiatives, but it is probably true that targeting information and marketing onto groups that are under-represented is clearly productive. Metcalf reports that apparently there was an increase in the proportion of women on the Enterprise Allowance Scheme from 15 per cent at the start to 39 per cent in 1989 as a result of increased promotion.

This is a difficult issue and needs more research into the possibilities for making the test trade period flexible rather than uniform, responding to individual need, and combining with loans if appropriate. Given the relatively low cost of these programmes and the relatively high success rates in creating employment (when done appropriately) it appears to be worth the effort.

Supporting successful self-employment requires the acceptance of uncertain incomes and thus, differing degrees of support; the need to offer individuals control of their incomes; to trust them to make appropriate declarations to the tax and benefit authorities; allow them to determine investments for their businesses; and to make spending decisions. Moreover, in the case of women in particular, greater freedom over where and when work takes place is also essential if sustainable enterprises are to be developed. There would seem to be an area of clear tension here between the punitive/supervisory benefit system and the freedom and autonomy required to develop and sustain self-employment. If the government does wish to establish a 'level playing field' for the benefit-dependent who wish to engage with self-employment whether male or female, there a number of practical, ethical and philosophical issues to address first.

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