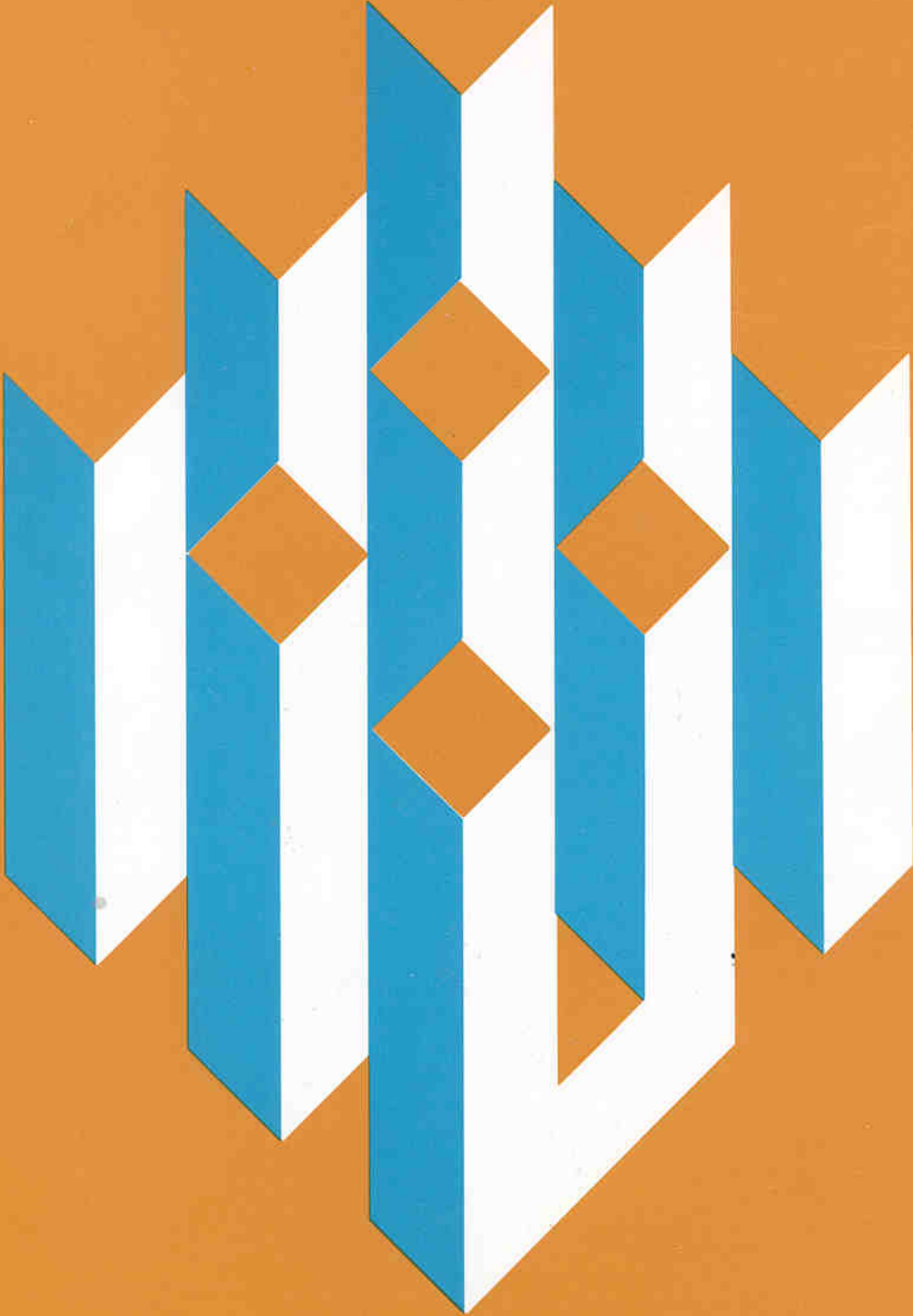


# Self Employment Programs for Unemployed Workers



Unemployment Insurance  
Occasional Paper 92-2

U.S. Department of Labor  
Employment and Training Administration



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U.S. Department of Labor  
Lynn Martin, Secretary

Employment and Training Administration  
Roberts T. Jones  
Assistant Secretary of Labor

Unemployment Insurance Service  
Mary Ann Wyrsh, Director

1992

The editor of this compilation of studies is Stephen A. Wandner. The authors of the individual papers are: Stephen A. Wandner and Jon C. Messenger, U.S. Department of Labor; Terry R. Johnson and Janice J. Leonard, Battelle Human Affairs Research Centers; Jacob M. Benus, Michelle L. Wood, Christopher J. Napierala, Abt Associates Inc., and Terry R. Johnson, Battelle; and Douglas Scott, U.S. Department of Labor. The material in this document does not necessarily represent the official position or policy of the U.S. Department of Labor.

Self-Employment Programs for  
Unemployed Workers

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This publication consists of four papers prepared by research contractors and Department of Labor staff. The contract research reflected in chapters 2 and 3 was financed by the Employment and Training Administration of the U.S. Department of Labor. The editor of this publication is Stephen A. Wandner. Since research conducted by Department staff or by contractors conducting research and evaluation projects under government sponsorship are encouraged to express their own judgement freely, this publication does not necessarily represent the official opinion or policy of the U.S. Department of Labor.

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During the process of planning, designing and implementing the American self-employment experiments, we have depended on the knowledge and efforts of a great number of people.

At the outset, we knew that the impetus for these programs came from the 17 industrialized nations which have self-employment programs for the unemployed, and we looked to them for guidance. Due to the Department, we were fortunate to have access to the expertise and wisdom of Ann Heald of the German Marshall Fund, who gave us guidance. The German Marshall Fund of the United States also provided a grant to the Interstate Conference of Employment Security Agencies to fund a study tour to the Great Britain, France and Sweden to observe their self-employment programs. Participants in the experiments--State, Federal and research contractor staff--got a chance to see three programs in action.

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## INTRODUCTION

### I. Background

The U.S. Department of Labor has been conducting two self-employment demonstration projects to test the feasibility of implementing self-employment programs for unemployed workers in the United States. This publication presents information about these projects and background information about self-employment in general and about self-employment programs for unemployed workers.

This publication brings together four papers dealing with self-employment for the unemployed. Two reports are presented on the progress of experiments that the U.S. Department of Labor has been operating in the States of Washington and Massachusetts. Some background is provided on self-employment as an employment option for individuals establishing microenterprises, in general, and, more particularly, as alternative for the unemployed. A summary is presented of existing self-employment programs for unemployed workers in Western industrial countries.

### II. Microenterprise as an Employment Option

"Microenterprise", or self-employment, is an important source of employment and growth to the U.S. economy. Microenterprises are typically sole proprietorships with one or a few employees, including the owner-operator. Microenterprises need to be distinguished from "small businesses" which the Small Business Administration (SBA) defines alternately as firms with 100 or 500 or less employees.

While there has been recognition that businesses of 100 or 500 employees or less have been an important generator of American jobs and economic growth in the 1980's, more recently research has demonstrated the importance of microenterprises. A 1990 national survey by the National Federation of Independent Business (NFIB) indicates that new businesses tend to be very small, with about 50 percent of new startups having 2 employees or less; and nearly half of the startups occurred with capitalization of \$20,000 or less. The number of microenterprises has been growing rapidly, and by 1985, 9.1 percent of non-agricultural workers were engaged in self-employment. Small business have a surprisingly high survival rate over time; an SBA study found that three-quarters of small business survive for two years, while the NFIB study--using a different methodology--found that the same proportion survived for three years.

At present, American public policy deals primarily with larger small business firms. Federal and state programs tend to focus on firms at the upper range of firms with employment of 100 or 500 or less. This orientation appears to stem largely from concern about



small business as a generator of economic development rather than as a source of new employment. Efforts to encourage the formation or movement of larger business is considered to be more cost effective than dealing with many more microenterprises when pursuing such economic development goals.

### III. Self-Employment Programs in the Industrial Nations

Self-employment programs for the unemployed began in 1979 in France. By the mid-1980's there were programs in 17 countries belonging to the Organization for Economic Cooperation and Development (OECD). The primary purpose of these programs is to expand employment opportunities by having unemployed workers create their own jobs.

Programs exist in: Australia, Belgium, Canada, Denmark, Finland, France, Germany, Great Britain, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, and Sweden. The first thing to note is that such programs exist in nearly all Western industrial nations. These programs tend to be used by a small portion of the unemployed, generally less than 5 percent of eligible unemployed workers. However, these programs can have a relatively large impact on new business formation. At its peak, the French program accounted for between 20 and 25 percent of new business formation, while the percentage was about 20 percent in Great Britain in 1987.

The programs have two components: 1) financial assistance, called "self-employment allowances" and 2) self-employment training, counseling and support services. While the level of self-employment services varies among countries and is sometime unevenly provided within countries, the distinguishing characteristic of the programs is the self-employment allowance mechanism.

Two models have emerged from the first two countries developing self-employment programs. Each of the other programs in the industrial nations follows one of these approaches. One is the "French Model", which consist of lump-sum self-employment allowances which are designed to provide partial capitalization of microenterprises. The other is the "British Model", under which periodic payments are provided as a form of income support while unemployed workers develop and operate their new microenterprises. In addition to France, Luxembourg, Norway, Portugal, Spain, and Sweden follow their lump-sum payment approach. The periodic payment method is used by Australia, Belgium, Canada, Denmark, Finland, Great Britain, Greece, Ireland, Italy, the Netherlands and Germany.

### IV. The U.S. Experiments

#### A. Background

The U.S. Department of Labor is conducting a series of five experiments which provide reemployment assistance to unemployment insurance recipients who are dislocated workers. The goals of these projects have been:

- \* Identification and Referral: Profile and identify dislocated workers in the unemployment insurance local offices and refer these workers to reemployment assistance providers.

- \* Early Intervention: Intervene early in the spell of unemployment of worker to provide reemployment assistance in timely manner.

- \* Program-Linked Services: Link the unemployment insurance and reemployment service providers to create a single seamless delivery system for dislocated workers, providing effective and efficient reemployment assistance. This includes a project communications system between participating organizations that provides a feedback system about workers' receipt of reemployment assistance.

The reemployment assistance provided by these experiments consist of:

- \* Job Search Assistance
- \* Training
- \* Relocational Assistance
- \* Reemployment Bonuses: Payments to unemployed workers who accelerate their return to productive, new employment.
- \* Self-Employment Allowances and Business Support Services

Secretary of Labor William Brock decided to proceed with these unemployment insurance (UI) experiments in 1985. The Department of Labor contracted with the State of New Jersey to conduct a multi-service (job search assistance, training, relocation assistance and reemployment bonuses) experiment in September 1985, using existing Departmental research funds.

At the same time the Department requested additional research funds to conduct two additional experiments. The Department received these funds as part of the Fiscal Year 1987 Federal budget, and initiated two additional reemployment bonus experiments, in the States of Pennsylvania and Washington.

#### B. Launching the Self-Employment Experiments

In February 1987, the Department decided to fund an experiment testing self-employment as a reemployment option for unemployed workers. After conducting a competitive selection process, the Department signed a cooperative agreement with the State of Washington in September 1987 to conduct this experiment.

In December 1987, the Omnibus Budget Reconciliation Act of 1987 was

enacted. It included Section 9152, sponsored by Congressman Ron Wyden, which required the Secretary of Labor to conduct self-employment experiments for a period of three years in up to three States. The Department launched a competitive selection process and chose the States of Massachusetts, Minnesota, and Oregon to conduct these projects, signing cooperative agreements with them in September 1988.

The design of the self-employment projects was conducted as a joint effort by the four participating States, the Department of Labor, and a research contractor. The design process began with a study tour to Great Britain, France and Sweden to examine in detail their self-employment programs for the unemployed. This study tour was sponsored by the German Marshall Fund of the United States.

The design process was completed in 1989, assisted by a panel of outside experts--consisting of practitioners and researchers. In the case of the project mandated by Section 9152, the final design met with concern by the three participating States about a provision of the law which required that the States pay any "excess costs"--based on the possibility that self-employment allowances might exceed the cost of unemployment insurance benefits which would have been paid in the absence of the experiments--from state general revenue sources into their own UI trust fund account. Concern about this provision caused Minnesota and Oregon to withdraw from participation; only Massachusetts implemented the design. It should be noted that, to date, no excess costs have materialized during the operation of the Massachusetts experiment. (As of August 25, 1991, after two years of operation, Massachusetts experienced negative excess costs of \$101,105; that is, operating the experiment had actually saved their UI trust fund account \$101,105 compared to the cost it would have encountered in the absence of the experiment.)

### C. Washington Self-Employment Demonstration Project

The Washington self-employment project followed the French model, providing lump-sum self-employment allowances as well as business training and counseling. To qualify to receive the lump-sum payment workers needed to complete five milestones: completion of a series of training seminars; development of a business plan; setting up a business bank account; satisfying all governmental licensing requirements; and obtaining adequate financing for the planned business.

The project operated from September 1989 through March 1991. Altogether, 44,456 UI claimants were invited to participate in the project. Only 7.1 percent, or 3,160, of invited claimants attended an orientation session. Then 61 percent of orientation attendees, or 1,936 submitted a project application. Random assignment of the valid applications resulted in the assignment of 1506 individuals, 755 into the treatment group and 752 into the control group.

Thus 3.4 percent (1506 of 44,456) of initial invitees reached the point of random assignment. Finally, 60 percent of treatment group members started their own business, indicating an overall participation rate of about 2 percent.

Participants who attained all required milestones and started a business received lump-sum self-employment payments averaging \$4,282, ranging from \$561 up to \$7,380. Recipients tended to be more male, white, middle-aged and better educated than most UI claimants. They set up businesses primarily in the service industry (53%), but with a surprising large number of businesses in manufacturing (14%), and smaller numbers in retail trade (12%) and construction (9 %).

(Note that the above data comes from Chapters 1 and 2, which represent data covering the same time periods.)

#### D. Massachusetts Self-Employment Demonstration Project

The Massachusetts self-employment project follows the British Model, providing periodic payments to project participants. Participants can receive up to 24 weeks of self-employment allowances while planning and operating a small business. This is in comparison to the regular UI program in Massachusetts which pays up to 30 weeks of benefits (most States pay only a maximum of 26 weeks of benefits). However, UI claimants working to start a business would not typically qualify for UI benefits.

The Massachusetts project requires that participants attend an initial training seminar, a series of training workshops and counseling sessions. To receive self-employment allowances, participants must also work full time at starting their own business.

Data are now available on enrollment in the project for the first two of a total of three years of operation. Other data are available through September 1991. (Data presented here comes from Chapter 1 rather than from Chapter 3--the Massachusetts Interim Report, because the interim report cut off project data as of July 1990.

Statistics for the first two years of project operations--from the project's automated tracking system--indicate that 26,170 UI recipients were invited to attend a project orientation session. Of this group, 3.9 percent, or 1,012, of invitees attended the sessions. Then 63 percent of session attendees submitted a project application. From valid applications, 263 claimants were randomly selected into the treatment groups and 258 into the control group. This represents a total of 2.0 percent of the original invitees.

It is not yet possible to know what percent of invitees set up businesses, because individuals who were assigned to the treatment

group in the second year are still establishing businesses. For the first year, 43 of 105 treatment enrollees--or 40 percent--set up their own businesses. (These data are based on project counseling records and include both actual and some planned business starts.) For the second year the comparable figure is 55 percent--87 of 158 treatment group members--but this percentage will increase in the coming months because some people are still in the project. Overall, for all invitees, somewhere between one and two percent are likely to start businesses.

For the first year, over half of businesses were established in the service industry, with another 20 percent in retail trade. As in Washington State, participants tended to be more white, male, middle-aged and better educated than other UI recipients. They also came predominantly from professional, managerial and technical occupations (55 percent).

#### E. Some Early Conclusions

While we will not have any impact or benefit-cost analysis available until after follow-up surveys are completed in 1993, a number of early conclusions can be reached:

- \* **Small Target Population:** Like self-employment programs in the other industrial nations, self-employment as a reemployment option will be suitable for a small proportion of UI recipients--under five percent of the UI claimant population.

- \* **Businesses Established:** Like the experience of other nations, businesses tend to be established in the service sector. An exception is when countries target particular industries; e.g., Sweden targets manufacturing.

- \* **Demographics:** Also like the experience in other nations, the participants are likely to be more male, white, middle-aged, and better educated than most UI claimants. However, unlike many of these programs, women represent a substantial portion of all participants (30-35 percent). Among occupations, the professional-technical-managerial occupations are heavily represented.

At this time we have no knowledge about the income and profitability of the new businesses started by demonstration project participants. However, based on telephone surveys in both States and income tax data from the Washington Department of Revenue, we should have good information provided in the final evaluation report.

#### F. Project Reports, Media Response and the Future

Interim reports have been completed on both the Washington and

Massachusetts projects. Secretary of Labor Lynn Martin has sent a copy of the Massachusetts Interim Report to the Congress. The reports appear below as chapters 2 and 3. A final evaluation report on both projects from the research contractors, Abt Associates and Battelle Institute is due to the Department, in late 1993.

There has been widespread interest in the self-employment projects, both from the perspective of self-employment as a reemployment option and as a means of moving the UI system beyond just income maintenance and on to facilitating reemployment. Many articles have been written about the projects. For example, the New York Times ran an article on the Massachusetts project on September 19, 1991 and a front-page article on the Washington project on May 16, 1990. In August of this year, Business Week featured the projects in an article, "Making Unemployment Funds Work Overtime." During 1990, the Washington project was featured by ABC and CBS national evening news, NBC's Today show, and PBS' MacNeil-Lehrer show.

#### V. The Remainder of This Publication

This publication is divided into four chapters consisting of four papers dealing with self-employment for unemployed workers and the self-employment experiments. The first chapter presents an overview of microenterprise as an employment option; a review of the Western European experience with self-employment programs for the unemployed; the two U.S. self-employment demonstration projects; and policy analysis of this issue as a policy option in the United States. This chapter was being presented at the 13th Annual Research Conference of the Association of Public Policy Analysis and Management. The second chapter is an interim report on the Massachusetts self-employment project. It has been sent to the Congress by Secretary of Labor Lynn Martin, in accordance with Section 9152 of the Omnibus Budget Reconciliation Act of 1987. Chapter three is an interim report for the Washington self-employment project. The last chapter is a summary of the experience of the seventeen OECD-member countries who currently have self-employment programs for the unemployed. It relies heavily on research work done by the OECD.

Steve Wandner  
November 1991

**FROM UNEMPLOYED TO SELF-EMPLOYED:**

**SELF-EMPLOYMENT AS A REEMPLOYMENT OPTION IN THE UNITED STATES**

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## I. INTRODUCTION

The idea of owning one's own business is deeply rooted in the American consciousness. The allure of striking out on their own to start a business--of being their own boss and controlling their own destiny--is a vision that holds a great deal of appeal for many Americans. What American has not, at one time or another, entertained an idea that they thought could form the basis of a business and perhaps even make them rich? In fact, the appeal of business ownership is so strong in the United States that owning one's own business has often been called the "American Dream."

While starting a business is an appealing idea for many Americans, it is not an option that has traditionally been given much consideration in U.S. government policies to facilitate the reemployment of unemployed workers. While there are many possible explanations for this situation, perhaps one of the most significant reasons is that starting a business venture--even a "small" business--has often been considered to require greater financial resources and/or managerial expertise than unemployed workers are likely to have at their disposal. This perception has been reinforced by traditional U.S. definitions of "small" business: under those definitions, businesses with up to 50, 100, or even 500 employees are considered to be "small" businesses. It seems unlikely that many unemployed workers would have access to sufficient capital or would possess sufficient managerial expertise to start businesses of this size.

In the last few years, however, the definition of small business has been undergoing a fairly radical transformation in the United States. The increasing numbers and importance of "small", small businesses--often called "microbusinesses"--have begun to change accepted notions about what constitutes a "business" and thus the financial and managerial prerequisites necessary for getting into business for one's self.

Microbusinesses are typically sole proprietorships with one or a few employees, including the owner-operator. Unlike corporations, including most traditional small businesses, microbusinesses are created primarily for the purpose of providing remunerative employment for the owner-operators, although these businesses may provide jobs for other workers as well. The entrepreneurs who create, own, and operate these new microbusiness ventures work for themselves, and thus are "self-employed." The term "self-employed" describes the owner-operator's employment status--that is, an employee of their own, (usually) unincorporated business.



Given the new reality of microbusinesses, the idea of using self-employment as a tool for promoting the reemployment of unemployed workers has begun to appear more viable. Several Western European countries have been operating programs that assist unemployed workers to create their own jobs--to become self-employed--by starting microbusiness ventures. These self-employment programs, which have attracted the interest of U.S. policymakers from across the political spectrum, point to the potential of promoting entrepreneurship among the unemployed and offer models for how such programs might be structured in the United States.

This paper will explore self-employment as an alternative option for promoting the reemployment of unemployed workers through the creation of microbusiness ventures. The remainder of this paper will proceed in the following order. Section II will briefly review the Western European experience with self-employment programs for the unemployed, focusing on programs in Great Britain and France. In Section III, the phenomenon of entrepreneurship is discussed in the context of the U.S. economic and social environment. Section IV discusses the U.S. Government's role in assisting small business, with a focus on the emerging self-employment option in U.S. employment policy. Alternative target populations that might be served by an ongoing self-employment program are reviewed in Section V. Section VI reviews the U.S. Department of Labor's efforts to test the self-employment option for unemployed workers: The Unemployment Insurance Self-Employment Demonstration Projects. Finally, Section VII looks at the future prospects for the self-employment option in the United States.

## II. THE EUROPEAN EXPERIENCE WITH SELF-EMPLOYMENT PROGRAMS

### Overview: Self-Employment Programs in Western Europe

Over the past decade, many Western European nations have been actively experimenting with self-employment as an alternative option for the reemployment of unemployed workers. Belgium, Denmark, Finland, France, Great Britain, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, and Sweden have all implemented self-employment programs targeted to the unemployed.<sup>1</sup> Outside Europe, self-employment programs have also been implemented in both Australia and Canada.

Although each self-employment program has its own set of goals and objectives, the overarching purpose of these programs is to promote both self-employment and microbusiness creation by unemployed workers. In general, European self-employment programs are targeted on individuals who are eligible for income support payments through national unemployment insurance programs. However, some programs also include individuals who are long-term unemployed and/or who may be receiving other forms of government-financed income support, such as social welfare benefits.

Most of these self-employment programs provide unemployed workers with some combination of financial assistance and supportive services designed to assist them in planning, establishing, and operating their businesses. The financial assistance provided in European self-employment programs is of two distinct types. The first type of financial assistance, lump-sum payments, provides participants with an amount, equal to all or part of the funds remaining in their entitlement to unemployment benefits, in a one-time payment. This type of assistance is generally designed to provide participants with the funds required for initial capitalization of their microbusiness. The second type of financial assistance is periodic payments. Periodic payments are weekly or biweekly payments--typically made in lieu of regular unemployment benefits--that provide participants with a continuing income stream while they are in the early stages of planning and operating their businesses. These payments may last for a period of up to one year.

In addition to financial assistance provided by the program, most of the European programs also provide participants with a package of supportive services that are designed to assist them in developing their business ventures. However, the packages of business services available to participants vary widely among countries (some programs do not provide such services at all). These business services include the following types of assistance: business counseling, entrepreneurial training, technical assistance, exemptions from certain business taxes

and legal requirements (e.g., an exemption from social security contributions in France), and preferential access to business loans and grants from sources outside the program.<sup>2</sup>

### Two Program Models: Great Britain and France

The two largest European self-employment programs are those in Great Britain and France, and these programs provide two alternative models of how a self-employment program for unemployed workers might be structured. The French Chomeurs Createurs ("Unemployed Entrepreneurs") program provides participants with a self-employment allowance in a single lump-sum payment ranging from a minimum of 10,750 francs (about \$2,150) to a maximum of 43,000 francs (about \$8,600) for business start-up capital.<sup>3</sup> The amount of the lump-sum payment varies by individual depending on the length of their previous employment and how long they have been unemployed. In contrast, the British program, the Enterprise Allowance Scheme, provides participants with a weekly self-employment allowance payment of (originally 40 pounds, or approximately \$76), in place of their regular unemployment benefits.<sup>4</sup> This weekly payment continues for a year while participants are developing and operating their businesses. (The British program recently introduced a number of significant changes in program design, including more flexible benefit amounts, new training arrangements, and new management structures.)

Both the French and the British self-employment programs provide participants with some additional supportive services, although such assistance is fairly limited. The French Chomeurs Createurs program has relied almost exclusively on existing service providers, such as local Boutiques de Gestion ("management shops"), to provide business counseling and entrepreneurial training to program participants. This reliance on existing services means that there tend to be wide variations in the type and quality of services available to participants depending on the particular locality. To address this situation, the French program introduced a management advice voucher, which can be used both in the public management shops or with private advisors to obtain business counseling, accounting, and other professional services at substantially reduced rates.<sup>5</sup>

The British Enterprise Allowance Scheme has also relied primarily on existing service providers, and the types and quality of available services also tend to vary by locality. One service available to all program participants was free business counseling (up to three individual sessions), which was originally provided by a national agency, the Small Firms Service. The British program also includes a one-day "awareness" session that provides potential participants with basic information about the steps involved in starting a business. However, since the Small Firms Service actually provided very little counseling to participants, the overall level of business assistance was minimal. In an attempt to

enhance available business assistance, the British program funded the creation of more than 300 local enterprise agencies (LEAs), which provide participants with business training, counseling, and technical assistance. The British also tried piloting "Enterprise Clubs" and "Enterprise Evenings," regular meetings of participants to provide more intensive counseling and access to a peer support network of fellow entrepreneurs.<sup>6</sup> (It does not appear that these peer support meetings were ever adopted nationwide).

Both the French and British programs have enrolled large numbers of participants (although these enrollments have declined somewhat in recent years) and assisted them in becoming and remaining self-employed. Chomeurs Createurs enrolled 72,000 participants in 1986, its peak enrollment year to date, and enrolled an estimated 55,000 participants in 1989.<sup>7</sup> The Enterprise Allowance Scheme exceeded 100,000 participants in 1987 and 1988, declining to an estimated 80,000 participants in 1989.<sup>8</sup> These figures amount to between 2.5 and 4.5 percent of the unemployed workers in each country.<sup>9</sup> Approximately 53 percent of participants in the French program and 57 percent of British participants were still in business three years after enrollment in a self-employment program.<sup>10</sup>

Finally, both self-employment programs appear to have had a substantial impact on economic activity and employment generation. As of 1988, the French program accounted for between 20 and 25 percent of all new businesses started in France.<sup>11</sup> At its peak enrollment level in 1987, the British program accounted for approximately 20 percent of new business starts in that country.<sup>12</sup> Both programs also appear to have generated a substantial number of jobs, primarily in the form of self-employment for the new business owners. For example, the British program created a total of 114 jobs for every 100 new businesses that survive for at least one year.<sup>13</sup> It should be noted, however, that these figures represent gross impacts; little information is available on the net impacts of these self-employment programs.

#### The Western European Influence on U.S. Perspectives

The experience of the Western European countries with self-employment programs for the unemployed has attracted considerable interest in the United States in the last several years. In June 1987, the National Governors' Association and the Corporation for Enterprise Development (CfED), a non-profit group based in Washington, D.C., convened a national conference on self-employment, reflecting the attention that was then beginning to focus on self-employment programs for the unemployed. This conference featured presentors from the British, French, and Canadian self-employment programs, who spoke about the experiences with self-employment in their countries. Potential target groups for self-employment programs in the U.S.--ranging from Unemployment Insurance (UI) recipients to dislocated workers to welfare recipients--were also discussed at the conference.

The German Marshall Fund of the United States also played an important role in disseminating information about the Western European experience with self-employment programs for the unemployed. The German Marshall Fund sponsored three trips to Western Europe that provided U.S. policymakers and program operators with first-hand exposure to European self-employment programs. The first of these three trips, in 1984, looked at a range of employment and training issues from a broad policy perspective, including the self-employment option. The second trip, in 1987, focused specifically on self-employment policies and programs, including how these programs might be transferred to the U.S. environment. The third trip, in 1988, focused on the nuts and bolts of implementing self-employment programs for the unemployed, including onsite visits to local offices to observe program activities and talk with program staff and participants.

Responding to this interest, the U.S. Department of Labor (DOL) sponsored a study examining the feasibility of self-employment as an option for assisting a number of different target groups. This study, known as FIRMSTART, was carried out by the States of Massachusetts, Michigan, and New Jersey, with assistance from the Corporation for Enterprise Development. The FIRMSTART study examined model self-employment programs from Western Europe, explored policy and program design issues involved in developing self-employment programs in the United States, and attempted to identify barriers to transferring Western European program models to the U.S. environment.<sup>14</sup>

Thus, the experiences of Western European countries with self-employment programs for the unemployed have acted as a catalyst to spark interest in self-employment as an alternative option for the reemployment of unemployed workers in the United States. However, even prior to this occurrence, the U.S. had already been quite supportive of small business and this support has recently been growing further. In the next section, we will explore the self-employment option in the context of the economic and social environment of the United States.

### III. THE SELF-EMPLOYMENT OPTION IN THE U.S. ENVIRONMENT

#### Overview: The American Emphasis on Individual Initiative

The United States has had a long and robust history of encouraging individual initiative and recognizing individual achievements. The nation began as a society of small farmers, artisans, and shopkeepers, where individuals were expected to be self-supporting. If people were not satisfied with their standard of living, they had the option of moving westward to seek their fortune on the expanding frontier, where the opportunities seemed limited only by one's own abilities and willingness to work.

With the coming of the Industrial Revolution, the emphasis on individual initiative came with it into the business world. The idea that individuals, through hard work and personal sacrifice, could rise from poverty to become "Captains of Industry" became deeply rooted in American culture and society. The Horatio Alger "rags to riches" stories popular in the early 1900's are a testament to Americans' belief in the power of individual initiative.

Although tempered somewhat by the experience of the Great Depression and the social "safety net" that it spawned, the traditional American emphasis on self-reliance and individual initiative remains strong today. In this environment, starting a business is typically viewed in a very positive light. According to a national survey, over 90 percent of American adults would approve of their children going into business for themselves.<sup>15</sup> In fact, entrepreneurship has often been glamorized in the United States, with a substantial amount of media attention devoted to successful business owners. This situation may have reached its zenith in the 1980's, when successful entrepreneurs such as Donald Trump and Steve Jobs frequently were cited as national symbols of individual achievement.

#### The U.S. Economy and Self-Employment in the 1980's

During the 1980's, the U.S. economy enjoyed a long period of uninterrupted economic growth. Following the 1982-83 recession, U.S. Gross National Product (GNP) grew an average of between 3 and 4 percent per year through 1989. Inflation remained under control during the economic expansion, averaging between 4 and 5 percent over the remainder of the decade. Unemployment rates, which peaked at over 10 percent in early 1983, remained at nearly 7 percent through 1986, but declined markedly thereafter to stabilize at just over 5 percent by 1988.

In this environment, self-employment increased significantly during the 1980's. According to the U.S. Small Business Administration (SBA), the number of self-employed workers in

the U.S. rose from 5.99 million individuals in 1981 to 6.46 million in 1985.<sup>16</sup> In 1985, 9.1 percent of all non-agricultural workers were engaged in self-employment.<sup>17</sup> This figure, however, does not include those individuals who work full-time in wage and salary employment, but own their own businesses on the side. For example, data from a 1983 Census Bureau survey indicates that 1.9 percent of employed individuals also owned their own side businesses during that year; the Current Population Survey (CPS) put this figure at 3.0 percent for the same year.<sup>18</sup>

Another way of measuring self-employment is to look at data on sole proprietorships. Since most of the microbusinesses started by self-employed individuals are formed as sole proprietorships, data on these businesses provides a rough indication of the magnitude of growth in business ventures owned and operated by the self-employed. According to SBA, the number of nonfarm sole proprietorships rose from 9.3 million to 13.8 million between 1981 and 1989--an increase of 48.4 percent.<sup>19</sup>

During the 1980's, the vast majority of the microbusinesses owned by self-employed individuals were in the large and expanding service sector of the economy, where costs for the initial capitalization of the business tend to be relatively low. According to a 1986 SBA report, 42.7 percent of the self-employed had businesses in the services industry, 21.3 percent were in retail trade, and 7.0 percent were in finance, insurance, and real estate. Self-employment was also strong in the construction industry, which accounted for 15.3 percent of all businesses owned by the self-employed.<sup>20</sup>

#### Entrepreneurial "Spirit": New Business Formation and Survival

The United States possesses a dynamic economy, with new businesses constantly being born, growing, declining and dying. According to Dun and Bradstreet, a primary source of U.S. business data, between 1985 and 1987 about 240,000 business starts and 60,000 business failures occurred each year.<sup>21</sup> To fully understand the self-employment option in the U.S. context, it is helpful to have some knowledge of how new businesses are formed, the characteristics of those businesses, and their chances of survival over time.

A 1990 national survey of 2,994 new businesses by the National Federation of Independent Business (NFIB) sheds some light on how new businesses are formed. (On average, the firms surveyed in this study had been in business less than one year at the time of the initial survey). Most of these new businesses were in the service sector, primarily in the retail trade (46 percent) and services (19 percent) industries. Most of these businesses (64 percent) had been started by the current owner, although a substantial minority (30 percent) purchased an

existing business. These new businesses also tended to be very small on average: about 50 percent of them started operations with two employees or less, and only 10 percent began with ten or more employees.<sup>22</sup>

Most of the new businesses in the NFIB survey started with very little capital investment; nearly half were capitalized with \$20,000 or less. The primary source of startup capital for those new businesses is the owner's personal resources; 75 percent of owners used their savings to finance at least part of their business startup costs and 25 percent financed all startup costs themselves. Other sources of startup capital were financial institutions, which provided some capital to 45 percent of new businesses, and the owner's friends and relatives, who provided some capital for 31 percent of new businesses.<sup>23</sup>

The new business owners surveyed appear to have made up for that low initial financial investment with human capital provided by themselves and their families. For one thing, new business owners tended to have more education and training than the general population; 58 percent of new owners had at least some college education and 57 percent had some vocational or professional training. For another, new owners tended to have previous managerial or supervisory experience: 81 percent reported having such experience and 26 percent had previously owned another business.<sup>24</sup> In addition, most of the new owners (53 percent) worked more than 60 hours per week in the business and about half of them reported that there were unpaid family members working for the business as well.<sup>25</sup>

Contrary to popular belief, new businesses tend to survive for substantial periods of time. Data from SBA's Small Business Data Base indicates that 76.3 percent of all businesses were still operating two years after the business was founded and 48.3 percent of them were still in operation after four years in business.<sup>26</sup> The survival rates from the NFIB survey are even higher: 77 percent of the new businesses surveyed were still operating after three years.<sup>27</sup> (It should be noted that, since the average NFIB survey respondent had been in business for 11 months at the time of the initial survey, these results may not include some businesses failures that occurred prior to that time).

However, as the NFIB study notes, "survival was not synonymous with growth."<sup>28</sup> Only 37 percent of those businesses generated additional jobs during the three-year period, and only 11 percent of the surviving businesses were identified as "growth firms." (The NFIB study defined "growth firms" as businesses that increased their employment by 50 percent or more, with a minimum increase of four employees).<sup>29</sup> Nevertheless, while most of the new businesses did not generate additional jobs over the three-year period, well over half of the surviving firms reported increased assets in their second and third years of business operations.<sup>30</sup>



## Small Business Contributions to the U.S. Economy

The contributions of small business to the American economy are substantial and continue to grow. Small businesses have been major contributors to economic growth, both in terms of the generation of wealth and the creation of new jobs. According to SBA, one-half of all of the non-agricultural gross product originating (GPO) in the U.S. comes from small businesses (GPO measures "gross output by sources located within a country's borders").<sup>31</sup> In terms of the economic contribution of microbusinesses in particular, available data is very limited; however, SBA data on the earnings of sole proprietorships (which, as described above, can serve as a rough proxy for microbusinesses) provide some indication of the magnitude of this contribution: nonfarm sole proprietorship earnings doubled from \$160.2 billion in 1980 to \$324 billion in 1988.<sup>32</sup> In 1989, as U.S. economic growth slowed and corporate profits actually declined by 8.3 percent, nonfarm proprietorship earnings still increased by 6.2 percent during the year.<sup>33</sup>

Small businesses have made a particularly strong contribution to the economy in terms of job creation--particularly the smallest firms. Small businesses that had fewer than 20 employees increased their total employment by 38.7 percent between 1980 and 1986, nearly triple the average of 13.0 percent for all businesses during the same period.<sup>34</sup> And even these figures may understate the true contribution of microbusinesses to job growth. According to a study by David Birch of the Massachusetts Institute of Technology, a recognized expert in small business research, businesses with less than 20 employees were responsible for 88 percent of the net jobs created in the United States between 1981 and 1985.<sup>35</sup>

Clearly, small businesses in general--and microbusinesses in particular--have made an impressive contribution to economic growth and job creation in the United States over the last decade. This contribution has attracted the attention of government policymakers from two different perspectives--those policymakers whose primary interest is in promoting economic development and also those who are primarily concerned about generating employment. In the next section, we will explore the implications of these two perspectives on the government's role in promoting self-employment.

#### IV. THE GOVERNMENT'S ROLE IN PROMOTING SELF-EMPLOYMENT

##### Overview: The U.S. Tradition of Small Business Assistance

Given the contribution of small businesses to economic growth and job creation in the United States, it is not surprising that there have been substantial efforts made by Federal, State, and local governments to encourage the formation and growth of small business ventures. The Federal role in supporting small business dates back to at least 1953, when the U.S. Small Business Administration (SBA) was formed. Since that time, the SBA has spawned several different organizations with a variety of programs designed to assist small business. SBA supported the creation of a national network of State Small Business Development Centers (SBDCs)--cooperative ventures among SBA, the States, and colleges and universities--which provide business training, business counseling, and hands-on technical assistance to small business owners. The Service Corps of Retired Executives (SCORE) is a national volunteer organization that works closely with SBA and many State SBDCs; SCORE links small business owners with retired businesspersons who can provide them with expertise on specific business issues and problems. The SBA also has guaranteed loan programs and programs targeted to the needs of specific groups, such as minorities and women.<sup>36</sup>

For the most part, government assistance to small business has traditionally been focused on larger firms within the small business sector. A good illustration of this point is the "small business" definitions used by the SBA. SBA's Office of Advocacy uses two standard definitions of small businesses: (1) firms with under 100 employees, or (2) firms with under 500 employees; which definition is actually applied depends on the specific industry being studied.<sup>37</sup> Both of those definitions, however, provide a clear indication that what are considered to be "small" businesses can actually be quite large compared to microbusinesses.

While there may be a number of reasons for this traditional focus on larger firms within the category of "small business", perhaps the primary reason is that government assistance to small businesses has typically been designed to promote economic development. For most of the twentieth century, it has been a commonly accepted notion that large corporations are the primary source of economic growth and job creation. By focusing the limited amount of available assistance on larger business start-ups and existing small businesses with greater potential for growth, the Federal Government could expect to maximize its impact on both overall economic growth and job creation and minimize its transaction costs. (The costs associated with processing loan applications, for example, are the same regardless of the size of the business). States and localities have also traditionally focused their economic

development efforts on larger businesses, primarily in the form of tax and other incentives for firms that agree to relocate to or expand their facilities in a particular geographic area.

### Changing Perceptions of Small Business

Over the last decade or so, however, public perceptions of small business and its contribution to the U.S. economy have changed rather dramatically. A good deal of the current interest in small businesses, particularly microbusinesses, can be traced back to a landmark study, The Job Generation Process, by David Birch of MIT. This study found that more than three-quarters of the net new jobs in the U.S. were created by firms with less than 20 employees.<sup>38</sup> This rather startling finding directly challenged the widely-held belief that large corporations were the primary source of new jobs. Since that time, Birch's results and methodology have been hotly debated, and there is still little agreement on specific microbusiness job creation figures. Nevertheless, there does appear to be general agreement on one point: small businesses have become the primary source of job growth in the U.S.

This new focus on microbusinesses has, in turn, led to some relatively dramatic changes in both the perception and the reality of what is necessary to start a business with a reasonable chance of success. A number of factors act to minimize the financial investment and managerial expertise required to start a microbusiness. The start-up capital required for a microbusiness venture is far less than that considered necessary for traditional small businesses; as we saw in Section III, 50 percent of all new businesses in the NFIB survey started with an initial capital investment of \$20,000 or less. A major reason for these low start-up costs is that microbusinesses are often run out of the owner's home, and therefore, these "home-based" businesses tend to have low overhead costs. Many microbusinesses also have no paid employees other than the owner-operator, and thus none of the additional recordkeeping or taxes associated with them. Finally, since microbusiness ventures are typically sole proprietorships, the legal and accounting requirements associated with operating such businesses are fairly modest (and certainly much less than similar requirements for an incorporated business).

### A New Focus: Self-Employment as a Reemployment Tool

The recognition of both the contribution of microbusinesses to the creation of employment opportunities and the relatively modest financial and managerial requirements of self-employment have generated interest among U.S. policymakers in using self-employment as a tool for assisting unemployed workers to return to productive employment. The purpose of a government program to promote self-employment as a reemployment option would be to help unemployed workers to create their own jobs by starting their own microbusinesses.

Interest in self-employment as a reemployment option has arisen from a variety of sources. One important source has been the the European experience with self-employment programs for the unemployed, which was reviewed earlier in this paper. Another is the recognition that one likely target group for such a program, dislocated workers (workers who have been permanently laid off from their previous jobs due to structural economic changes in an industry), are already using self-employment as a means of returning to work. According to a January 1988 BLS survey of dislocated workers, approximately 7 percent of those dislocated workers who had become reemployed were self-employed on a full-time basis.<sup>39</sup> This situation indicates that there may be significant potential for using self-employment to assist at least some portion of the unemployed in returning to productive employment.

In recent years, State and local governments have initiated several programs designed to provide self-employment training and support to assist disadvantaged individuals. The U.S. Department of Labor (DOL) has also funded self-employment assistance for dislocated workers through the Job Training Partnership Act (JTPA); in 1986, for example, 8 of the 90 dislocated worker projects funded from the Secretary of Labor's Title III reserve account included an entrepreneurial training component.<sup>40</sup> These programs are typically small in scale and targeted to specific communities and/or populations (e.g., dislocated workers). Unlike more traditional small business programs, the purpose of these programs is, first and foremost, to promote the reemployment of unemployed individuals through self-employment.

The interest in self-employment programs for the unemployed has also spawned several demonstration projects designed to test the self-employment option for various target populations. In September 1987, the U.S. Department of Labor initiated a research demonstration project in the State of Washington to test the cost-effectiveness of a self-employment option for unemployed workers who are UI recipients. This project was designed to test a self-employment program that provides unemployed workers with a one-time, lump-sum payment for initial capitalization and start-up of new business ventures, similar to the French Chomeurs Createurs program.

In December 1987, the Congress enacted legislation, Section 9152 of the Omnibus Budget Reconciliation Act of 1987 ("Demonstration Program to Provide Self-Employment Allowances to Eligible Individuals"), that authorized the Department of Labor to proceed with self-employment demonstration projects in additional States. In accordance with this legislation, DOL has proceeded with a second self-employment demonstration project in the State of Massachusetts targeted towards UI recipients who are likely to exhaust their UI benefits and become long-term unemployed. The Massachusetts Project was

designed to test a self-employment program that provides unemployed workers with a series of periodic (biweekly) payments to provide an income stream during while they are in the early stages of business development and operations, similar to the British Enterprise Allowance Scheme program.

Taken together, the demonstration projects in Washington State and Massachusetts comprise a major DOL research initiative--the Unemployment Insurance Self-Employment Demonstration--that is designed to empirically test the self-employment option for unemployed workers. This initiative is discussed in detail in Section V.

In addition to the DOL-sponsored demonstration projects, the Corporation for Enterprise Development is coordinating a third demonstration project, called the Self-Employment Investment Demonstration. This demonstration is also testing the self-employment option, but for a different target population: recipients of social welfare benefits in the Aid to Families with Dependent Children (AFDC) program. Under this demonstration, regular welfare requirements are being waived to allow participants to continue collecting AFDC payments, Medicaid, and possibly also Food Stamps. Participants in this project will also receive substantial business development services (e.g., training) and personal support services (e.g., child care), as well as access to seed loans for capitalizing the new business. The Self-Employment Investment Demonstration is being conducted in five States: Iowa, Maryland, Michigan, Minnesota, and Mississippi.<sup>41</sup>

As we have seen, the idea of self-employment as a reemployment option for unemployed workers has attracted considerable interest and attention from Federal and State policymakers across the country. However, an important question is: Which populations could benefit most from the availability of the self-employment option? The next section reviews possible target populations for a government-sponsored self-employment assistance program.

## V. ALTERNATIVE TARGET POPULATIONS: WHO SHOULD BE SERVED?

Thus far, this paper has focused on self-employment as an option for unemployed workers in general. However, there are several specific target populations, including both the unemployed and individuals who are currently out of the labor force, for whom self-employment might be a viable employment option. While it is not our purpose to get into an extensive discussion of the pros and cons of targeting self-employment assistance to each of these particular groups, this section will briefly review the range of potential target populations that seem most likely to benefit from the availability of a self-employment option.

A wide range of groups have been identified as possible target populations for a self-employment program. While a self-employment option could potentially benefit a wide range of groups, the following populations appear to be the most likely candidates for a self-employment assistance program: Unemployment Insurance recipients, dislocated workers, older workers, Aid to Families with Dependent Children (AFDC) recipients, and "at-risk" youth. Each of these groups is discussed below.

One possible target population for the self-employment option is Unemployment Insurance (UI) recipients. UI recipients are unemployed workers who possess a significant amount of work experience, which qualifies them to receive Unemployment Insurance benefits. New entrants and reentrants into the labor force or individuals who have had short-term jobs are not likely to be UI recipients. For UI recipients, self-employment can serve as an alternative route to reemployment. UI recipients appear to be particularly promising group for the self-employment option, primarily due to their previous work experience. An SBA study has determined that work experience is a critical factor in entering self-employment; individuals who have been working longer are more likely to have both the experience and assets necessary to go into self-employment.<sup>42</sup>

Another potential target population for the self-employment option is dislocated workers. Dislocated workers are individuals who have been permanently separated from their previous jobs due to structural economic changes in a particular industry or firm. Typically, these workers have lost their jobs as a result of plant closings, mass layoffs, or similar actions. Like UI recipients, dislocated workers tend to have substantial previous work experience. In fact, the vast majority of dislocated workers are UI recipients; according to a Bureau of Labor Statistics (BLS) survey, 81 percent of those dislocated workers still unemployed after five weeks received UI benefits during their spell of unemployment.<sup>43</sup> Due to their substantial work experience, dislocated workers also seem to be particularly strong candidates for self-employment. There also appears to be a substantial degree of interest in self-employment among

dislocated workers: as mentioned earlier, about 7 percent of those dislocated workers that were reemployed by the time of the BLS survey were engaged in self-employment on a full-time basis.

Older workers represent a third potential target population for the self-employment option. Older workers are typically defined as persons age 55 and over, and, in this case, who are also in need of employment assistance. (It should be noted here that different agencies use different age criteria to determine who is defined as an "older worker.") Studies have generally indicated that older workers are less likely to start new businesses than their middle-aged counterparts; for example, only 11 percent of all businesses in the NFIB study were owned by workers age 50 compared to 63 percent for individuals between 30 and 49 years old.<sup>44</sup> At the same time, however, the NFIB study also indicated that owner age is positively related to business survival: business owned by older individuals were more likely to survive.<sup>45</sup> Older workers also tend to have substantial employment experience, which (as described above) is an important asset for self-employment.

A fourth potential target population for the self-employment option are AFDC recipients. AFDC recipients are adults who are enrolled in the Aid to Families with Dependent Children (AFDC) program, a social welfare program that provides income support and other assistance to disadvantaged families. The goal of providing a self-employment option for AFDC recipients would be to promote self-sufficiency through self-employment. This may be difficult since, while adult AFDC recipients have an average of 10.8 years of formal education, the majority are not high school graduates and over one-fourth have no work experience.<sup>46</sup> This lack of education and work experience, plus some AFDC program regulations (e.g., those that require reduction in AFDC benefits based on AFDC recipients' earnings), constitute significant barriers to self-employment for this population. Nevertheless, according to the FIRMSTART study, about 18,000 AFDC recipients are already engaged in self-employment.<sup>47</sup> To overcome these and other barriers to self-employment among AFDC recipients will require a program design that provides substantial support and is sensitive to the special needs of this target population.

"At-risk" youth are a fifth potential target population for the self-employment option. For the purposes of this discussion, at-risk youth are defined as "youth in poor communities and from poor families who are not doing well in school or who have dropped out and whose behavior and/or background serve as predictors for dependency."<sup>48</sup> The age range used to define this group (like the age range used to define older workers) varies, although it typically encompasses individuals who are between 16 and 25 years old. For at-risk youth, self-employment represents an alternative route into the work force, and, in some cases, a legitimate alternative to the underground economy. However, the age, education, and work experience

factors that work in favor of some of the other groups all work against this population. Like programs for AFDC recipients, a program offering the self-employment option to at-risk youth will need to take into account the special needs of this population.

The five potential target populations for a self-employment assistance program discussed in this section are by no means an exhaustive list of groups that could potentially benefit from the availability of the self-employment option with government support. However, the five populations discussed in this paper appear to have generated the greatest interest among policymakers to date.

In order to determine whether self-employment is a viable option for these target populations, it is first necessary to test program options for providing self-employment assistance to these populations. In the next section, we turn our attention to two research demonstration projects that are currently testing self-employment as a reemployment option for the unemployed: the Unemployment Insurance Self-Employment Demonstration projects.



## VI. TESTING THE SELF-EMPLOYMENT OPTION: THE UNEMPLOYMENT INSURANCE SELF-EMPLOYMENT DEMONSTRATION PROJECTS

### Overview

The Unemployment Insurance (UI) Self-Employment Demonstration is a research demonstration initiative designed to test the viability of self-employment as a reemployment option for unemployed workers. The UI Self-Employment Demonstration is testing the provision of self-employment allowance payments--which provide unemployed workers with business capital based on their entitlement to unemployment benefits--for the first time in the United States. These experimental projects, which are being implemented in the States of Washington and Massachusetts, will determine the cost-effectiveness of providing self-employment assistance to interested UI recipients to help them start their own microbusiness ventures.<sup>49</sup>

The UI Self-Employment Demonstration was initiated by the U.S. Department of Labor (DOL) in September 1987 with the selection of Washington State as the site of the demonstration project, and the funding of a cooperative agreement between DOL and the State. In December 1987, the Congress enacted legislation, Section 9152 of the Omnibus Budget Reconciliation Act of 1987, that authorized DOL to proceed with UI self-employment demonstration projects in additional States. In accordance with this legislation, DOL has proceeded with a second self-employment project in the Commonwealth of Massachusetts.

The UI Self-Employment Demonstration projects are providing interested claimants with self-employment assistance, including both financial assistance--termed "self-employment allowance" payments--and also business development services, such as entrepreneurial training, business counseling, and technical assistance. The demonstration projects feature two different experimental designs testing two distinct types of self-employment allowances: (1) lump-sum payments, equal to the total amount of the worker's remaining UI benefits, to help with initial capitalization of the business, and (2) biweekly payments, equal to the claimant's regular UI benefit check, to provide individuals with supplementary income during the initial period of business planning and operations.

The UI Self-Employment Demonstration projects are both designed to serve unemployed workers who are UI recipients. However, the two projects are targeted on somewhat different groups of UI recipients. The Washington Project is designed to serve a broad population of UI recipients, excluding only those individuals who have immediate prospects for returning to work. The evaluation of the Washington Project will also look at policy-relevant UI recipient subpopulations, including dislocated workers and older workers.

The Massachusetts Project, on the other hand, is targeted more narrowly. In accordance with the authorizing legislation for this demonstration, the Massachusetts Project is designed to serve a subpopulation of UI recipients who are determined to be likely to exhaust their UI benefit entitlement. Typically, these are individuals who fit the mold of dislocated workers: they are permanently separated from their previous jobs.

The UI Self-Employment Demonstration projects are research projects that use "experimental" designs. That is, targeted UI recipients identified by the project are assigned at random by a computer to a group that receives demonstration services (the "treatment" group) and a comparison group that does not receive the demonstration services (the "control" group). The purpose of using this random assignment process is to ensure that any differences between the "test" and "control" groups are the result of the service option being tested and are not caused by outside (unrelated) events. The differences between these two groups on any outcome variable of interest (e.g., earnings) are then used to measure the net impact of the demonstration on participants for the project evaluation.

The remainder of this chapter will review the designs for the Washington and Massachusetts demonstrations; early results from each project; the evaluation design that will be used to evaluate those two projects; and how the evaluation results will feed into the process of developing U.S. policy regarding a self-employment option for unemployed workers.

#### The Washington Self-Employment Demonstration Project

The Washington Self-Employment Demonstration Project, known as "The SEED Project," is the first of two projects being conducted under the UI Self-Employment Demonstration. This demonstration project is testing the provision of financial assistance plus business development services to unemployed workers to assist them in starting their own microbusinesses. In terms of financial assistance, the Washington Project has been testing the provision of lump-sum, self-employment payments to project participants to provide them with seed capital for business startup.

The Washington Self-Employment Demonstration Project is a cooperative effort involving the U.S. Department of Labor, the Washington Employment Security Department, and the Business Assistance Center of the Washington Department of Trade and Economic Development. The project is currently operating in six sites around the State: Vancouver, Everett, Olympia, Seattle, Wenatchee, and Yakima.

The Washington Project is a research demonstration based on an experimental design with random assignment of interested, eligible claimants to a treatment group, which receives demonstration self-employment assistance, and a control group, which does not. In order to be eligible to participate in the

Washington Project, an individual had to meet the following criteria: be an unemployed worker eligible to receive UI benefits in the State; be filing a new UI claim (i.e., they were not unemployed in the previous 12 months); have no immediate prospects for wage and salary employment (they are not subject to recall by their pre-layoff employer or placement by their union); and be 18 years of age or older.

Individuals who meet the basic eligibility criteria for the demonstration are sent a letter inviting them to attend a short orientation session (called an "Awareness Day"). This session provides claimants who express an initial interest in self-employment with information about the project and about the pros and cons of self-employment. Individuals who attend the session and are still interested in pursuing self-employment on a full-time basis are invited to submit an application to participate in the project. These applications are then reviewed by the Washington Employment Security Department for timeliness, completeness, and to make certain that the individual has a clear business idea.

Individuals who attend their scheduled orientation session and submit a timely, complete application form are eligible for random assignment to the treatment and control groups. These individuals who are randomly selected into the treatment group become project participants and receive demonstration self-employment assistance. This assistance includes both self-employment allowance payments and services designed to assist them in developing and establishing their new business.

As soon as individuals are selected into the treatment group, the UI program requirement that they search for wage and salary employment is waived, and these participants may begin working on self-employment activities. Within two weeks of selection, participants are required to attend a self-employment training seminar on the fundamental issues involved in starting a business. The one-week seminar consists of four separate courses, or "modules," covering the following topics: business planning and feasibility, marketing, finance and accounting, and organization and management. At the beginning of the first training module, the trainer informs participants of their rights and responsibilities as a demonstration participant, and claimants sign a participation agreement which spells out the conditions required for participation in the project.

Following the training seminar, a business development counselor is assigned to work with each participant throughout the process of planning and establishing their business. The business development counselors, who also conduct the training modules, provide participants with additional services designed to assist them in developing and operating their business. These services include: individual business counseling; assistance in developing a business plan; monthly meetings of

an "Entrepreneur Club", which provides additional training and peer support; and hands-on technical assistance in solving specific problems related to their business. Participants may request additional counseling or other services at any time at no cost to them.

Demonstration participants also receive financial assistance in the form of self-employment allowance payments. In the Washington Project, participants will receive weekly UI benefit payments while attending training and working on starting their businesses. Participants who meet all established goals for business startup--called business "milestones"--will receive a one-time lump-sum self-employment payment equal to the amount remaining in their UI benefit entitlement (an average of \$4,200 per claimant, up to as much as \$7,400). This structure provides participants with a strong incentive to complete their business start-up preparations as rapidly as possible, since the amount of the lump-sum payment is determined by the amount remaining in their UI benefit entitlement. The funds from the lump-sum payment may be used either for business start-up capital and/or to meet their basic living expenses during the start-up period.

In order to qualify for a lump-sum payment, participants must meet the following five milestones: (1) complete the four training modules; (2) develop an acceptable business plan; (3) set up a business bank account; (4) satisfy all Federal, State, and local licensing requirements; and (5) obtain adequate financing for the proposed business (based on the financial requirements for the business outlined in the business plan). Attainment of these milestones is determined by the participant's business development counselor based on a formal review, using guidelines set forth in the operational procedures manual for the demonstration. If the business development counselor determines that all milestones have been met, they sign a form certifying that the participants are eligible to receive a lump-sum payment, and send this forward to the State central office. The State central office then checks the participant's records, and, if appropriate, authorizes the lump-sum payment.

Participants continue to receive counseling technical assistance after business startup, depending on their individual needs. Then, about two months after the lump-sum payment has been made, the business development counselor will conduct a formal review of the status of the participant's business operations. This review is designed to identify any areas where the participant may need additional assistance, as well as to provide information for the project evaluation.<sup>50</sup>

## Washington Project: Process Results

The Washington Self-Employment Demonstration Project began operations on a pilot basis in one local site, Vancouver, in September 1989, and began operations in five additional sites in February 1990. Enrollment of participants into the demonstration project ended in October 1990, and project operations ended in March 1991. In total, 755 claimants were selected into the treatment group over the life of the demonstration, with a roughly equal number of claimants selected into the control group.

While it is too early to determine the experimental impacts of the Washington demonstration, process data on the demonstration is available on the automated management information system developed for the project. The automated system, called the Participant Tracking System, provides information on the flow of claimants through key demonstration activities, the characteristics of demonstration participants (e.g., age, race, sex, educational level, etc.), and information about their business idea and the status of their business operations.

Project operations for the Washington SEED Project have now been completed. Based on data from the automated Participant Tracking System (PTS) developed for the project, current statistics on the flow of claimants through project intake activities, leading up to random assignment, are as follows:

- o 42,350 UI claimants were sent a letter inviting them to attend a project orientation session;
- o 3,167 of those invited claimants attended an orientation session;
- o 1,932 claimants submitted a project application; and
- o 755 claimants were randomly selected into the treatment group and 752 claimants were randomly selected into the control group (427 claimants who submitted applications were not eligible for selection for various reasons).

As the above statistics indicate, only 7.5 percent of all claimants invited to participate in the project have expressed an initial interest in self-employment by attending an orientation session. However, 61 percent of those claimants who attended an orientation session submitted an application to participate in the demonstration, and 78 percent of claimants who submitted a project application were eligible for random assignment. Overall, 3.6 percent of all invited claimants were randomly assigned into the treatment and control groups.

A total of 755 claimants were randomly assigned into the treatment group during the life of the demonstration. In terms of their demographic characteristics, treatment group members

were predominantly white (92 percent); male (67 percent); middle-aged (39.5 years of age on average). In general, project participants had some education beyond high school (an average of 13.8 years of formal education), and often had been in professional, technical, or managerial occupations (37 percent). These statistics are quite comparable to those of the French and British self-employment programs, although the participation rates for women are somewhat higher in the Washington Project than in those programs. For example, in the French program, program participants were 78 percent male and 22 percent female, and 82 percent of participants were between 25 and 49 years of age.<sup>51</sup>

UI recipients assigned to the treatment group become demonstration participants and are eligible to receive the self-employment assistance provided by the demonstration project. Based on data from the automated system, receipt of self-employment assistance by project participants was as follows:

- o 630 project participants (claimants who were selected into the treatment group) attended all four of the business training modules;
- o 1,613 counseling sessions were held with participants --about 2.5 counseling activities for each active participant--providing them with a total of 1,130 hours of business counseling and technical assistance; and
- o 464 participants attended entrepreneur club meetings, an average of less than one meeting per participant.

Over the entire period of demonstration operations, a total of 450 participants received lump-sum payments to start their businesses; this means that about 60 percent of all treatment group members actually started their own businesses. These lump-sum, self-employment payments averaged \$4,282 per person, ranging from a low of \$561 to a high of \$7,380. The total amount of lump-sum payments made to eligible participants was \$1,905,280.

The small businesses started by project participants were primarily in the following industries: Services (53.5 percent), Manufacturing (13.1 percent), Retail Trade (12.3 percent), Construction (8.0 percent) and Wholesale Trade (5.8 percent). The surprising finding in terms of the types of businesses is the relatively large number of (mostly) small-scale manufacturing businesses started by participants. Typical service businesses started by participants include computers and software development, accounting and bookkeeping services, residential building maintenance and janitorial services, auto repair, food service, and day care. Typical manufacturing businesses started include clothing, commercial printing, and furniture/wood products.

## Massachusetts Self-Employment Demonstration Project

The Massachusetts Self-Employment Demonstration Project, known as "The Enterprise Project" is the second of two projects being conducted under the UI Self-Employment Demonstration. Like the Washington Project, this demonstration project is testing the provision of financial assistance plus business development services to unemployed workers to assist them in starting their own microbusinesses. The type of financial assistance being tested in Massachusetts is periodic (biweekly) payments, which are designed to provide participants with income-support while they are planning and establishing their businesses.

The Massachusetts Project is a cooperative effort involving the U.S. Department of Labor, the Massachusetts Department of Employment and Training, the Massachusetts Office of Business Development, and several local business development agencies. This demonstration project will operate for three years, with five- to nine-month enrollment periods each year. The Massachusetts demonstration began its first year of operations in May 1990, and the enrollment of eligible claimants into the demonstration ended in October 1990.

The Massachusetts demonstration began its second year of operations in April 1991. The Massachusetts demonstration is now operational in seven sites around the State: Greenfield, Lowell, Milford, New Bedford, Roxbury (Boston), Springfield, and Woburn. (Milford replaced Gloucester as a demonstration site for the second year of project operations.) Second-year enrollments of eligible claimants into the demonstration ended in September 1991, although project operations will continue through early next year.

The Massachusetts Self-Employment Demonstration Project is based on an experimental design with random assignment of interested, eligible claimants to a treatment group, which receives demonstration self-employment assistance, and a control group, which does not. To be eligible to participate in the Massachusetts Project, an individual must meet the following criteria: be an unemployed worker eligible to receive UI benefits in the State; be filing a new UI claim; be permanently separated from their previous job (they are not subject to recall by their pre-layoff employer); be 18 years of age or older; and be determined to be likely to exhaust their entitlement for UI benefits.

Like the Washington Project, individuals in the Massachusetts Project who meet the basic eligibility criteria for the demonstration are sent a letter inviting them to attend a short orientation session (called an "Information Session"). This session provides claimants who express an initial interest in self-employment with information about the project and also about the pros and cons of being self-employed. Individuals who attend the session and are still interested in pursuing self-employment on a full-time basis are invited to submit an application to participate in the demonstration. These

applications are then reviewed by an application review committee, consisting of State staff and business experts, for timeliness, completeness, and to make certain that the individual has a clear business idea that is a full-time, year-round venture that is legal, allowable under project rules, and suitable for public funding. (Certain types of businesses are not permitted--e.g., businesses that do not meet licensing, bonding, zoning, or similar requirements, businesses where the participant is a partner in name only, etc.)

Individuals who attend an orientation session and submit an acceptable application are eligible for random assignment into the treatment and control groups. Those individuals who are randomly selected into the treatment group become project participants and are eligible to receive the self-employment assistance provided by the demonstration.

As soon as individuals are selected into the treatment group, they are required to contact a State local office staffperson to set up an enrollment interview. The enrollment interview is a one-on-one meeting with a local representative designed to inform participants of their rights and responsibilities under the demonstration project. At the interview, claimants sign a participation agreement which explains the conditions required for participation in the project. Once they have signed the agreement, the UI program requirement that they search for wage and salary employment is waived, and these participants may begin working on self-employment activities full-time.

Within two weeks of selection, participants are required to attend an intensive half-day training seminar (called an "Enterprise Seminar") on the fundamental issues involved in starting a business (e.g., marketing, management, finances, etc.). Following the training seminar, a business development counselor is assigned to work with each participant throughout the process of planning and establishing their new business. Participants are required to attend an initial, one-on-one business counseling session with their business counselor within two weeks after the training seminar to discuss their business idea, assess their progress, and begin developing a business plan suited to their own individual needs (a formal business plan is not required for the project.) Participants may request additional counseling sessions and hands-on technical assistance in solving specific problems related to their business at any time at no cost to them.

Participants are also required to attend a series of six training workshops (called "Enterprise Workshops") which are designed to provide them with additional training and peer support. These six two-hour workshops are focused on specific topics relating to starting a new business. These topics are as follows: cash flow projections and financial statements; financing; marketing; legal issues and insurance; bookkeeping and taxes; and personal effectiveness and selling. Business counselors and outside speakers who are experts in a specific topic area provide the instruction at these six workshops.



Demonstration participants in Massachusetts also receive financial assistance in the form of self-employment allowance payments. Participants in the Massachusetts Project receive biweekly self-employment allowance payments, equal to their regular UI benefits, for a period of up to 24 weeks while they are planning and establishing their new business. In order to continue receiving these payments, participants must meet all demonstration requirements for continuing eligibility. These requirements are as follows: (1) work full-time at starting their own business; (2) attend the introductory business training seminar; (3) attend the required initial counseling session with their business counselor; and (4) attend each of the six business training workshops.

In addition to self-employment allowances, participants in need of additional business start-up capital may also be able to qualify to receive small business loans from a private bank, Shawmut Bank, N.A. Project participants who want to apply for a Shawmut Bank loan are required to work with their business counselor to complete a loan application form and prepare a detailed business plan. Once an application has been approved by the participant's business counselor, the application can then be submitted directly to Shawmut Bank.<sup>52</sup>

#### Massachusetts Project: First- and Second-Year Process Results

The Massachusetts Project is currently in its second year of operations in seven demonstration sites. Project intake activities for the second year have been completed. Based on data from the project's automated system, combined first- and second- year statistics on participation in project intake activities, leading up to random assignment, were as follows:

- o 26,170 UI recipients were sent a letter inviting them to attend a project orientation session;
- o 1,012 of those invited UI claimants attended an orientation session;
- o 638 UI claimants submitted a project application; and
- o 263 claimants have been randomly selected into the treatment group, and 258 claimants have been randomly assigned into the control group (116 claimants who submitted applications were ineligible for selection for various reasons, e.g., their application was late).

As the above statistics indicate, only 3.9 percent of all UI recipients invited to participate in the Massachusetts Project expressed an initial interest in the self-employment demonstration by attending an orientation session. However, 63 percent of those claimants who attended an orientation session decided to submit an application to participate in the demonstration, and 82 percent of those claimants who submitted

an application were eligible for random assignment. Overall, 2.0 percent of all invited claimants were eligible for random assignment into the treatment and control groups. (Note: Not all claimants who received an invitation letter were actually eligible for the demonstration--i.e., individuals who have a definite date of recall to their last employer are excluded because they have an existing job attachment. It appears that the proportion of individuals attending a demonstration orientation session is slightly higher among those claimants who were not job attached.)

As noted earlier, a total of 263 claimants have been randomly assigned into the treatment group through the end of the second year of project enrollments. In terms of their demographic profile, UI claimants in the treatment group were predominantly white (89 percent), male (68 percent), and middle-aged (the average age of participants was 40 years old). Similar to Washington State, Massachusetts participants typically had some formal education beyond high school (an average of 14 years of education). Massachusetts Project participants come predominantly from professional, managerial, and technical occupations (55 percent), although production and labor occupations also accounted for a significant share of the total (22 percent). These participation figures are similar both to those in the Washington Project and to those in the French and British self-employment programs.

UI recipients assigned to the treatment group become project participants and are eligible to receive the self-employment assistance provided by the demonstration project. Based on data from the automated tracking system developed for the demonstration, combined first- and second-year statistics on the receipt of self-employment assistance by project participants were as follows (through September 30, 1991):

- o 236 participants had attended an enrollment interview, signed a participation agreement, and began receiving their biweekly self-employment allowance payments;
- o 242 participants had attended the introductory training seminar on basic business start-up issues;
- o 757 individual counseling sessions had been held, providing participants with a total of 1,145 hours of business counseling and technical assistance; and
- o A total of 62 participants during the first year of project operations received biweekly self-employment payments averaging \$529 each for the full 24 weeks that those payments were available; in the second year of operations, 101 participants were receiving biweekly self-employment payments averaging \$541 each.

Final statistics from the first year of project operations indicated that 43 out of the 105 UI recipients selected into the treatment group planned to start their own businesses. The vast majority of planned business starts by first-year project participants were in the Services industry. Typical businesses included accounting and bookkeeping, business and consulting services, personal services, and small retail stores.

Thus far in the second year of project operations, 87 out of the 158 individuals selected into the treatment group planned to start their own microbusinesses. Taken together, first- and second-year figures indicate that about 50 percent of all eligible claimants are likely to have started businesses.

(Note: These figures are based on business establishment data from project counseling records; some planned business starts may not have actually occurred, and any business starts after participants stopped receiving counseling would not be reflected in these statistics. Definitive information on the number and type of businesses started by project participants will be available from follow-up surveys conducted by the research contractor for the demonstration, Abt Associates).

The Massachusetts demonstration will continue operations for a period of three years, with enrollment periods of five to nine months per year. Current plans call for the selection of a total of 500 claimants into the treatment group over the three years of project operations, and for the selection of an equal number of claimants into the control group.

### Evaluation Design

The UI Self-Employment Demonstration Projects will be evaluated based on the experimental research designs established for the Washington and Massachusetts Projects. The evaluation design for the self-employment projects has three major components: (1) a comprehensive process analysis; (2) an analysis of demonstration impacts; and (3) a benefit-cost analysis.

The process analysis for the evaluation of the UI Self-Employment Demonstration projects is designed to determine how demonstration operations were conducted in the local sites. The process analysis provides important contextual information for the impact analysis, since the process analysis will provide information on the extent to which the projects were implemented as planned; what deviations from the plan were observed; and how those deviations affected project operations. The process analysis will be based primarily on two types of data: (1) observational data from monitoring visits to the demonstration sites by project staff, including data from interviews with local project staff and participants, and (2) data on participant characteristics, attendance at project events, and receipt of services and financial assistance from the automated Participant Tracking System.

The impact analysis for the UI Self-Employment Demonstration will determine the impacts of the demonstration treatment package--both self-employment allowances and business development services--on a broad range of outcomes. These outcomes include participant earnings and assets (including the value of the business venture), participant employment stability, business formation and survival rates among participants, the duration of participants' unemployment spells, job creation, receipt of UI benefits and other transfer payments, etc. The impacts of the demonstration projects will be measured by comparing the differences between the treatment group (participants) and the control group (non-participants) on each outcome variable. Because these two groups were selected at random, any differences between these groups can be attributed to the demonstration project with a known statistical level of certainty. Data for the impact analysis will be collected in two waves of follow-up telephone surveys of treatment and control group members one and two years after their participation in the demonstration and from government records of UI benefits and other transfer payments.

The third and final component of the UI Self-Employment Demonstration evaluation is the benefit-cost analysis. The benefit-cost analysis is designed to determine the overall cost-effectiveness of the demonstration to different groups that are of policy interest. The benefit-cost analysis will set up a framework for categorizing, and, to the extent feasible, quantifying the benefits and costs resulting from the impacts of the demonstration. The benefit-cost analysis will determine the cost-effectiveness of the self-employment demonstration projects from the following perspectives: project participants; the Department of Labor; the Federal Government in general; and society as a whole. Data for the benefit-cost analysis will be collected from a variety of sources, including the follow-up surveys and Federal and State government records.

#### Role of Demonstration Projects in the Policy Development Process

The final evaluation results from the UI Self-Employment Demonstration projects in Washington State and Massachusetts will play an important role in shaping the direction of Federal policy regarding self-employment as a reemployment option for unemployed workers. The results of the final evaluation will provide a substantial body of evidence regarding the viability and cost-effectiveness of the self-employment option for both the UI claimant population and other target populations of interest to policymakers, such as dislocated workers and older workers. It also seems likely that the Self-Employment Investment Demonstration may play a similar role in determining the viability of the self-employment option for other potential target populations (i.e., AFDC recipients, which may include subpopulations of at-risk youth).

In that role, the self-employment projects are one in a series of demonstration projects that are exploring alternative ways of using Unemployment Insurance to assist unemployed workers in their return to work. These demonstration projects have been testing a variety of reemployment service options for serving targeted UI recipients. These options include the following: enhanced versions of currently available services, such as job search assistance and relocation allowances; systematic referral to job training services available through JTPA dislocated worker programs and business development services provided by State and local economic development agencies; and new ideas, such as "reemployment bonuses," which are monetary incentives for intensified work search and rapid return to work, and self-employment allowances (which were discussed in detail earlier in this section).<sup>53</sup>

Thus, the self-employment option is one possible component of an active labor market policy designed to (1) identify UI recipients who are in need of reemployment assistance early in their unemployment spell, and (2) provide them with appropriate services to facilitate their return to productive employment. Determining whether or not self-employment is an appropriate option for such individuals, however, is the purpose of the final evaluation of the UI Self-Employment Demonstration. Some of the important questions that the evaluation should help to answer include the following:

- o What is the level of interest in the self-employment option among unemployed workers who are UI recipients? Which UI recipient subpopulations are most interested in self-employment?
- o Does the package of self-employment assistance provided in the demonstration projects have a positive overall impact on project participants?
- o For which target population(s) does self-employment have the greatest impact?
- o Is self-employment a cost-effective reemployment option? If so, from whose perspective(s) is it cost-effective--project participants, the Unemployment Insurance program, the U.S. Department of Labor, the Federal Government, and/or society as a whole?

Evidence from the final evaluation regarding these and other important questions, will, in turn, feed into the Federal policy development process. If the results of the UI Self-Employment Demonstration warrant consideration of potential changes in Federal policies regarding self-employment as an option for unemployed workers, appropriate administrative changes and/or legislation will need to be considered. The future prospects for the self-employment option, including some possible policy changes that might be considered, are discussed in Section VII.

## VII. FUTURE PROSPECTS FOR THE SELF-EMPLOYMENT OPTION

The future prospects for self-employment as a reemployment option for unemployed workers will depend a great deal on the final results of the UI Self-Employment Demonstration projects in Washington State and Massachusetts. If these demonstration projects show that self-employment is a viable and cost-effective option for UI recipients or other policy-relevant target populations, then appropriate Federal Government policy changes will need to be considered. This section will briefly explore the future prospects for the self-employment option in U.S. policy, including policy and/or program changes that could be considered depending upon the final results of the UI Self-Employment Demonstration projects.

The level of interest in the self-employment option among unemployed workers constitutes a threshold question regarding whether or not self-employment constitutes a potentially viable reemployment option for for unemployed workers in the U.S. The number of unemployed workers who are seriously interested in pursuing self-employment will determine the potential scope of any program to provide the unemployed with self-employment assistance. Based on the results of the Washington and Massachusetts Projects thus far, it appears that the potential target population for a self-employment assistance program for unemployed workers is between 2 and 4 percent of targeted UI recipients. These figures are consistent with the experience of the French and British self-employment programs, which (as noted in Section II) serve between 2.5 and 4.5 percent of unemployed workers annually in each country.<sup>54</sup> Thus, it appears that the self-employment option would meet that basic threshold test as a potentially viable reemployment option for a small portion of the unemployed.

While the level of interest in the self-employment option among unemployed workers means that self-employment may be a potentially viable reemployment option for some portion of the unemployed, it does not necessarily follow that the government should provide unemployed workers with self-employment assistance. It may be that unemployed workers could start their own businesses and do just as well without additional assistance, as many of the dislocated workers in the Bureau of Labor Statistics' survey apparently did. The final evaluation of the UI Self-Employment Demonstration will determine whether or not the self-employment assistance provided by demonstration projects had a significant positive impact on participants on a wide range of outcomes (e.g., earnings, employment, assets, etc.) and which target population(s) benefited the most from that self-employment assistance.

It is also possible that the benefits associated with self-employment may not outweigh the costs of providing the self-employment assistance necessary to produce those gains. As discussed in Section VI, the final evaluation will also determine whether or not self-employment is a cost-effective reemployment option from several different perspectives, including those of project participants, the Department of Labor, the entire U.S. Government, and society as a whole.

If the UI Self-Employment Demonstration projects show that self-employment is a viable and cost-effective reemployment option for UI recipients or other policy-relevant target populations, then appropriate Federal policy changes would need to be considered. One important issue in designing a self-employment option for unemployed workers would be whether to provide lump-sum payments or periodic self-employment allowance payments to targeted UI recipients. Perhaps the simplest (and least costly) payment approach would be to provide a work search waiver to UI recipients who are interested in pursuing self-employment and allow them to continue collecting payments while they are working full-time on self-employment activities; this is the basic approach that is being tested in the Massachusetts demonstration. Obviously, implementing a lump-sum payment approach, such as that used in the Washington demonstration, would be far more complex. The amount of such a self-employment payment could be related to the individual's UI benefit entitlement, could be some specified flat amount, or could be related to the amount needed for the business based on the individual's business plan. Which financial approach would be used--lump-sum payments or periodic payments--would likely depend on which is the most cost-effective.

The source(s) of funds for the self-employment allowance payments would be another important issue in designing a self-employment option for unemployed workers. Potential sources of funding for such payments could include Federal and State general revenue funds, receipts from special State taxes, and UI Trust Fund monies. The source(s) of funding used for self-employment allowance payments would probably depend on where the benefits of self-employment assistance accrue: the broader the impacts of this assistance, the broader the funding source that would be appropriate; the narrower the impact, the narrower the funding source.

A final set of issues involves the business development services provided to unemployed workers interested in pursuing the self-employment option. What types of business development services do these workers need? Should they be provided with structured services tailored specifically to their needs or simply referred to existing business training and counseling programs? The answers to these and other questions regarding business development services will likely depend not only on

the impacts and cost-effectiveness of various service options, but also--at least in the short-term--on what services are available in particular States and localities and the sources of funding that can be used to supplement those services where necessary. Over the long-term, of course, business development services could be adapted to the specific needs of unemployed workers interested in starting their own microbusinesses.

In conclusion, preliminary results from the UI Self-Employment Demonstration projects in Washington State and Massachusetts indicate that, while self-employment is suitable only for a small portion of unemployed workers in the United States, self-employment may indeed be a viable option for those individuals. The final evaluation of the UI Self-Employment Demonstration, which will be completed in 1993, will provide a more complete picture of the viability and cost-effectiveness of self-employment as a reemployment option for unemployed workers in the United States.



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# REPORT

Washington State  
Self-Employment and  
Enterprise Development  
(SEED) Demonstration

Interim Report

Implementation and  
Process Analysis

August 1991

Prepared by:

Terry R. Johnson  
Janice J. Leonard



**WASHINGTON STATE SELF-EMPLOYMENT  
AND ENTERPRISE DEVELOPMENT (SEED) DEMONSTRATION**

**Interim Report**

**IMPLEMENTATION AND PROCESS ANALYSIS**

August 1991

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## EXECUTIVE SUMMARY

The Washington State Self-Employment and Enterprise Development (SEED) Demonstration was the first federally-sponsored self-employment demonstration program for unemployed workers in the United States. The primary purpose of the SEED Demonstration was to determine the viability of self-employment as a reemployment option for unemployed workers. The demonstration was designed to test the effectiveness of providing a combination of business assistance services and self-employment allowances to Unemployment Insurance (UI) claimants early in their unemployment spell to provide the technical and financial assistance needed to launch a successful business venture. The business support services included 20 hours of business training, counseling and peer support services as needed. The financial services included a work search waiver, periodic payments equal to the UI weekly benefit amount, and a lump-sum payment equal to the remaining entitlement for those who achieved all project milestone requirements.

The demonstration was implemented on a pilot basis in one site in September 1989, and was then implemented in five additional sites in February 1990. Sample intake activities continued through September 1990, with business support services available to demonstration participants through March 1991. During the demonstration period, the Washington economy was extremely strong and relatively insulated from the recession that affected other states. The SEED sites included both urban and rural areas of the state, some of which had pockets of relatively high unemployment rates.

A total of 42,350 UI claimants without immediate job prospects were invited to attend an orientation meeting (Awareness Day) to obtain information about SEED so they could make informed decisions about whether to apply to the program. The intake processes, based on a self-screening philosophy, resulted in identifying a group of new claimants without immediate job prospects who were sufficiently interested in self-employment to attend the information session and apply to the SEED program. Eligible applicants were randomly assigned to a treatment group, which was offered all demonstration business startup services and financial services, or to a control group, which continued to receive regular UI benefits and services. A total of 755 applicants were randomly assigned to the treatment group and served through SEED and 752 were assigned to the control group.

The evaluation of the SEED Demonstration consists of three components: (1) an implementation and process analysis, (2) an impact analysis, and (3) a benefit-cost analysis. This interim report describes our findings concerning the implementation and operations of the SEED Demonstration based on information available through March 1991 (the end of the provision of business support services). This report provides a valuable context for interpreting the results of the impact and benefit-cost analyses that will be conducted in 1992-1993.

The main findings from the implementation and process analysis are briefly summarized below:

- The SEED recruitment and intake processes were implemented as planned and met the goal of early intervention. The complete intake process resulted in individuals, on average, being randomly assigned within 4 weeks from their effective date of claim. This enabled treatment group members to receive



business training services within about 5.5 weeks after their effective date of claim, on average.

- The self-screening approach followed worked well and indicated that self-employment is of interest to a relatively small sub-group of claimants. About 4 percent of UI recipients without immediate job prospects applied to SEED. These individuals tended to be older, more educated, more likely to be in professional, managerial or technical occupations and had higher UI entitlements. In addition, many had a working spouse and substantial assets to draw on when starting the business.
- The interest in self-employment was greater in urban areas with low unemployment rates than in rural areas with relatively high unemployment rates. It is not possible at this time to determine whether the difference in interest was primarily due to the employment conditions or to the urban/rural nature of the area.
- The business support services were generally provided as planned. Of particular importance, the business training modules appear to have been conducted consistently so that treatment group members in all six sites were provided with the same basic framework for starting a new business. In addition, there was a consistent emphasis across sites in helping claimants develop a business plan. For the most part, it appears that participants received relatively little business support services other than what was provided by their business development specialist through the demonstration.
- In contrast to the consistency of counseling services, there appear to have been differences across sites in the milestone review process and, in particular, in the criteria used to determine the adequacy of the business plan. As a result, treatment group members in some sites received their (larger) lump-sum payments earlier in the claim than treatment group members in other sites. Overall, approximately 60 percent of the treatment group achieved the five milestones and received a lump-sum payment and the average time to receipt of lump-sum payment was 7.8 weeks.
- The majority of businesses (53.5 percent) established through SEED were in the services sector. However, a substantial number of businesses were in manufacturing, construction and retail trade. Moreover, it appears that some of these businesses have hired other workers, even in the very short-term after business startup.

In interpreting how these findings apply to the replicability of SEED, it is important to keep in mind the design of SEED and the context in which the SEED program operated. Specifically, the results from the implementation and process analysis lead to the following preliminary conclusions about replicability:

- The SEED Demonstration was implemented at a time when the Washington State economy was very strong, and quite insulated from the recession that was affecting other states. Moreover, claimants in sites with more vibrant economies tended to be more interested in the self-employment option, whereas in rural areas with weaker economies the interest level was much

less. The overall strength of the state's economy could have implications for the replicability of the findings to other areas.

- The SEED design included a lump-sum payment to simulate a cash-out policy for UI payments. It is not clear at this time how much of the interest in the program was due to the availability of the lump-sum payment or how feasible it would be to include lump-sum payments in an ongoing national program.
- For evaluation purposes, the SEED design imposed a common schedule of key activities across sites of widely varying claims loads. It is quite likely that an ongoing program would offer services less often in rural areas than they were offered in SEED, which might hamper the ability of the program to meet the early intervention goal and lessen program impacts.
- The self-screening approach to identify targeted claimants without immediate job prospects and who were interested in self-employment generally worked quite well and could be adapted to other settings. However, the exclusive reliance on the temporary-layoff indicator in the UI system resulted in including a sizeable sub-group of claimants in SEED who were expecting to return to their former employer. If the impact results for this sub-group are small, future programs might consider screening-out individuals who are job-attached based on answers to questions in the application concerning employer recall.
- The SEED Demonstration relied on extensive centralized control of many key functions and a participant tracking system. To the extent that such resources would not be available for an ongoing program, the impacts may also be different.

In evaluating the impact of SEED it will be important to take into account the context in which the program operated and the lessons learned from the implementation and process analysis. Efforts will also be made to identify those features that may be readily replicated in an ongoing program and features that can not. These issues will be addressed in the final impact report for the SEED Demonstration scheduled for June 1993.

## 1. INTRODUCTION

The Unemployment Insurance (UI) system was designed to provide temporary income support to involuntarily unemployed individuals while they search for work. Over the past several years, the U.S. Department of Labor (DOL) has initiated several demonstration programs to test alternative ways of using UI funds to promote the rapid reemployment of unemployed workers. Although the specific features of the programs tested vary considerably, most share three common elements: (1) the provision of intensive reemployment services; (2) an emphasis on providing assistance early in the claimant's unemployment spell (i.e., early intervention); and (3) incentives and services designed to assist claimants find reemployment in conventional wage and salary jobs.

More recently, DOL has become interested in an alternative reemployment strategy that has been tried in a number of European countries and elsewhere with apparent success: assistance to unemployed workers to develop their own business enterprises. To better understand the efficacy and the potential of such a strategy, DOL initiated the first federally-sponsored self-employment demonstration program in Washington State.<sup>1</sup> The Washington Self-Employment and Enterprise Development (SEED) Demonstration was designed to test the effectiveness of a combination of business assistance services and self-employment allowances to provide the technical and financial assistance needed to launch a successful business venture. The primary purpose of the SEED Demonstration was to determine the viability of self-employment as a reemployment option for unemployed workers. Although the self-employment focus of SEED differs from that of DOL's other

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<sup>1</sup>Subsequently, DOL initiated a second self-employment demonstration program in Massachusetts, the Massachusetts Enterprise Project. For a description of the early implementation experiences of that demonstration, see Benus, Jacob M., Michelle L. Wood, Christopher J. Napierala, and Terry R. Johnson, Massachusetts UI Self-Employment Demonstration: Interim Report to Congress, April 1991.

demonstrations, it maintains DOL's early intervention strategy and includes intensive reemployment services.

The SEED Demonstration was initiated on a pilot basis in one site beginning in September 1989 and was then implemented in five additional sites in February 1990.<sup>2</sup> Sample intake activities continued through early September 1990, with business support services available to demonstration participants through March 1991.

To allow rigorous evaluation of program effectiveness, the SEED Demonstration used a classical experimental design with random assignment of eligible claimants interested in starting their own businesses to the demonstration program (i.e., treatment group) or to a control group. Using this design, the impacts of the program can be measured directly by the difference in outcomes between the treatment and control groups. A total of 755 new claimants were enrolled in SEED in the six sites and offered demonstration services; 752 new claimants who applied to SEED were assigned to the control group.

The evaluation of the SEED Demonstration represents the first comprehensive analysis of providing self-employment training and financial assistance to unemployed workers interested in starting their own businesses. The evaluation consists of three main components: (1) an implementation and process analysis, (2) an impact analysis, and (3) a benefit-cost analysis. In this interim report we present our findings on the implementation and operations of the SEED Demonstration based on information available through the end of the provision of business support services (i.e., through March 1991). This report will provide a valuable context for interpreting the results of the impact and benefit-cost analyses that will be conducted in 1992-1993.

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<sup>2</sup>The results of the pilot test and suggested modifications for the full demonstration are described in Johnson, Terry R., Jacob M. Benus, and Janice J. Leonard, Washington State Self-Employment and Enterprise Development (SEED) Demonstration: Summary of Pilot Experiences and Recommendations, December 1989. Because the changes that were implemented during the full demonstration were relatively minor, the process analysis described in this report also includes pilot study participants.

The implementation and process analysis has four broad objectives. These include (1) documenting and assessing the actual operational procedures used to implement and administer the SEED Demonstration, (2) documenting the services provided to SEED participants and assessing whether they were provided as planned, (3) examining participation in SEED and in specific demonstration services, and (4) investigating the replicability of the SEED program. The information in this report provides policymakers with a detailed understanding of the self-employment demonstration implemented in Washington State. However, it is important to recognize the preliminary nature of the results, as not all of the information sources that could shed light on these issues were available at the time this report was being prepared.<sup>3</sup>

The results of the implementation and process analysis report are based on four sources of information. The primary source of claimant characteristics and service participation data was the automated Participant Tracking System (PTS) developed by DOL to monitor demonstration activities. The PTS also included information on experiences with the UI system and early business startup experiences. Second, periodic visits were made to each site to observe activities and discuss issues with local staff. Third, participants in the business training sessions completed brief evaluation forms summarizing their impressions of the training sessions. Finally, discussions held with State SEED staff concerning the implementation and operations of key program elements have been incorporated into this report.

The remainder of the report is organized as follows. Chapter 2 presents details of the experimental and operational design of the SEED Demonstration. The experimental design includes the entire recruitment and intake process, random assignment, the program

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<sup>3</sup>Of particular importance, information from participants about the program and the strengths and weaknesses of specific demonstration services -- to be obtained through follow-up surveys -- has yet to be collected. Such information will be incorporated in subsequent reports.

services component, the financial component and site selection. We then describe the details of the operational design of the demonstration, including administrative, organizational, staffing and training issues. The data systems developed for the demonstration are also briefly described.

The next three chapters address experiences in selecting the experimental and control samples and in providing demonstration services to the experimental group. Chapter 3 describes the flow of claimants from recruitment through application review and treatment/control assignment, and provides findings concerning take-up rates and the types of claimants interested in self-employment. We also provide information on the comparability of the treatment and control groups. Chapter 4 documents the demonstration services that participants received and the timing of those services. Chapter 5 presents our findings -- based on extensive monitoring of demonstration services and operations -- on whether the services were provided as planned, and the consistency of demonstration services across sites.

Chapter 6 provides preliminary descriptive information on relevant short-term outcomes. Specifically, we describe the businesses established by treatment group members who completed the program services and present very short-term information on experiences in operating their businesses. We also present summary information on receipt of UI benefits by both treatment and control group members. Although these short-term outcome results are quite interesting, it is important to recognize that they are based on preliminary and incomplete data, and that we do not yet have comparable data on business startup experiences for control group members. As such, one should be careful not to interpret the short-term outcome results as measures of the impacts of the program.

Finally, Chapter 7 summarizes the main findings of the implementation and process analysis and offers some concluding remarks about the replicability of the SEED program in other settings.

## 2. SEED EXPERIMENTAL AND OPERATIONAL DESIGN

The SEED Demonstration was designed to test the effectiveness of using UI funds to assist unemployed workers in developing and starting their own businesses. To meet this objective, an experimental design was developed that called for recruiting new claimants interested in pursuing self-employment at the beginning of their unemployment spell, and assigning eligible applicants to a treatment group that was offered business startup services and financial assistance or to a control group that received normal UI services. The research design also specified the frequency with which key demonstration activities were to be conducted and developed procedures for selecting six sites in which to implement the demonstration. In this chapter we provide additional details concerning each of these aspects of the experimental design of the SEED Demonstration.<sup>4</sup>

A successful experimental design must also be accompanied by an administratively feasible operational plan. This involves issues related to program administration, organization, staffing and training, and a data system to support and document demonstration activities. Following the description of the experimental design, we describe the operational design for the SEED Demonstration.

### Experimental Design

#### Demonstration Intake

The process of developing an appropriate experimental sample of SEED Demonstration participants from the universe of UI claimants involved four steps. The demonstration intake process began with the targeting of those UI claimants who were of

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<sup>4</sup>A more detailed description of the design of the SEED Demonstration is presented in Orr, Larry L., Terry R. Johnson, Mark Montgomery and Marie Hojnacki, Design of the Washington Self-Employment and Enterprise Development (SEED) Demonstration, June 1989.

most interest to the designers of self-employment policy. The second step was the recruitment of those targeted claimants who were interested in participating in the demonstration. The third step was the screening out of certain individuals from among those targeted claimants who applied to the demonstration. The resulting group of eligible applicants was then divided into a treatment group and a control group using random assignment. Exhibit 2.1 illustrates this four-step process and below we provide additional details concerning how each of these elements was incorporated into the demonstration design.

**Targeting.** In making decisions about which types of claimants would be invited to participate in the demonstration, we were guided by several factors. For example, objectives of the SEED Demonstration were to offer the self-employment option as early as feasible in an individual's unemployment spell and to as broad a population as possible. At the same time, however, it was recognized that the program was not intended to serve the entire population of UI claimants in the selected sites and that there were good reasons to exclude certain claimant subgroups either because of operational or legal reasons or because they had immediate job prospects.

Based on these considerations, it was decided to target the SEED Demonstration on new UI claimants, with the following exclusions:

- Persons filing interstate claims;
- Persons filing claims backdated more than 14 days;
- Claimants who were employer-attached (i.e., on standby) or who were full-referral union members; and
- Claimants under 18 years of age.<sup>5</sup>

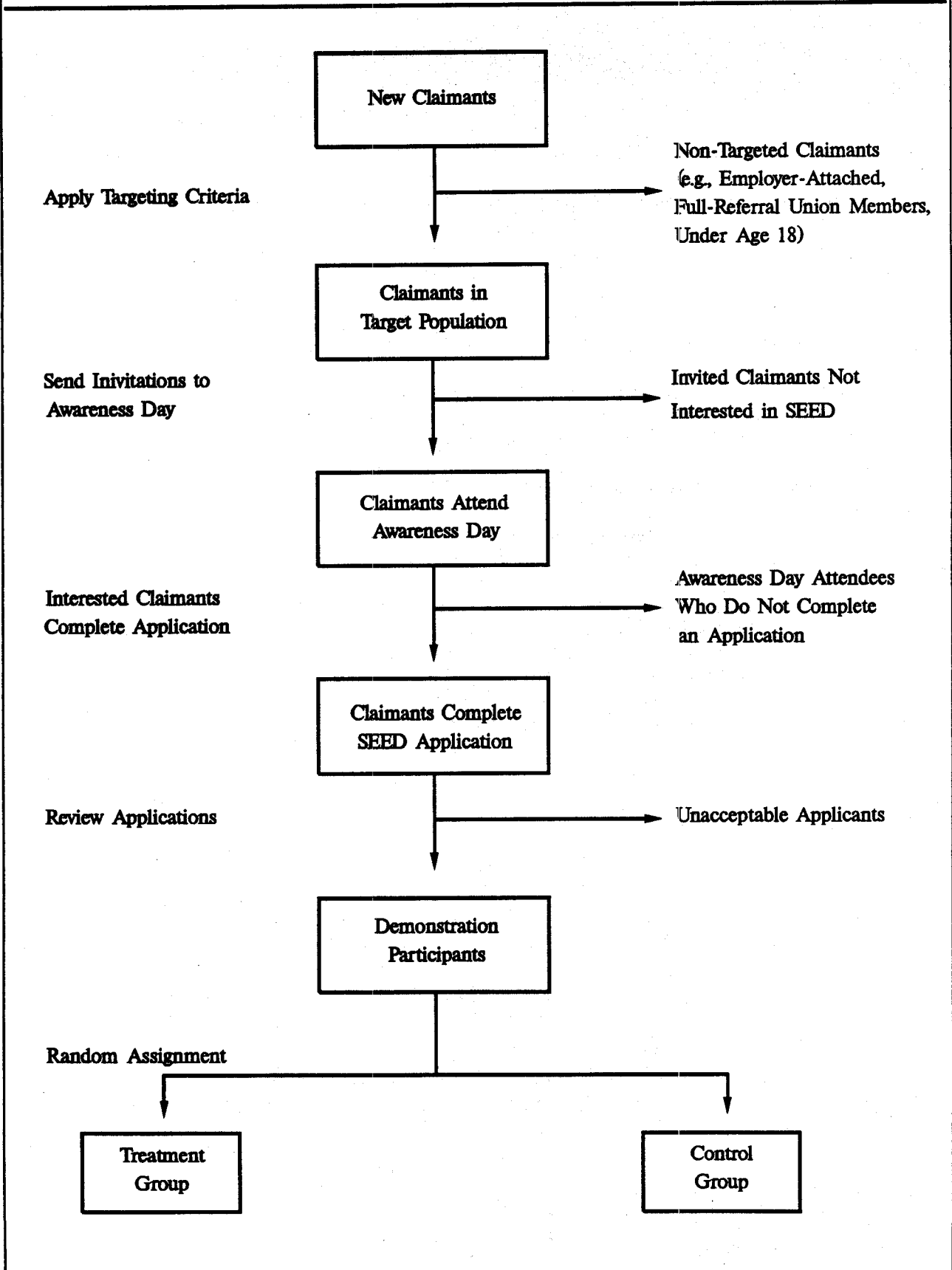
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<sup>5</sup>During the pilot study, ex-military claimants without additional qualifying wages were also excluded from the target group. However, such claimants were included in the target group during the demonstration.



# Exhibit 2.1

## SEED Intake and Assignment Process



In addition, claimants who were not monetarily and nonmonetarily eligible for UI benefits at the time of random assignment were excluded from the demonstration.<sup>6</sup>

The rationale for these exclusions was as follows. Interstate claimants were excluded because they could not receive demonstration services and the business startups would likely occur in other states. Individuals with backdated claims were excluded to meet the early intervention goals of the demonstration and to be able to offer the maximum lump-sum payment to capitalize the business. Employer-attached claimants and full-referral union members were excluded because of the relatively high likelihood that they would return to wage and salary employment in a short time and providing services to them would be an inefficient use of demonstration resources. Finally, persons under age 18 were excluded because they lack the legal authority to sign binding agreements, an ability necessary to the conduct of most types of business.

**Recruitment.** The next step in the SEED intake process involved recruiting those claimants interested in self-employment into the demonstration. The recruitment process comprised three elements:

- An invitation letter;
- An orientation meeting (referred to as "Awareness Day"); and
- The submission of a SEED application package.

Below we briefly describe how each of these elements were incorporated into the SEED recruitment process.

The first step identified targeted claimants and informed them of the availability of the SEED Demonstration program. To accomplish this, a personalized letter was generated by the State UI mainframe computer and sent to new claimants who met the

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<sup>6</sup>It should be noted, however, that individuals with a temporary nonmonetary issue stop and those whose final monetary determination had not been made were deferred from the random assignment pool for up to 36 days after the claimant's effective date of claim.

targeting criteria.<sup>7</sup> The invitation letter was sent within a few days after the claim was filed. The letter invited claimants to attend an Awareness Day meeting where they could find out more about the SEED program.

The purpose of the Awareness Day meeting was to provide interested claimants with information about the demonstration so they could make informed decisions about whether to apply to the program. As such, the Awareness Day meeting provided claimants with some basic information about the risks and rewards of self-employment and covered the key features of the SEED program. This included participation requirements, random assignment, and the business support services and financial assistance that would be provided to selected participants. The Awareness Day meeting was scheduled to last approximately 30-45 minutes; it included the presentation of two videos covering these issues and provided claimants with an opportunity to ask questions about the program.

At the end of the Awareness Day meeting, SEED application packets were provided to interested attendees and instructions for filling out the application were given. The SEED application packet was designed to serve three primary functions:

- To facilitate self-screening through a self-assessment questionnaire;
- To obtain the informed consent of potential participants; and
- To obtain valuable baseline information and additional contact information on potential participants.

Those invited claimants who did not attend Awareness Day or did not complete the application package were excluded from the demonstration. Invited claimants who attended Awareness Day, and who submitted the application packet in a timely manner (within seven days) were potentially eligible for the demonstration, provided their proposed business met certain requirements. This brings us to the issue of screening.

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<sup>7</sup>By using personalized letters as the mechanism to inform claimants of the demonstration, we could adjust the fraction of the target population invited to participate and thus better control the flow of demonstration applicants.

**Screening.** The primary form of screening used to obtain participants for the SEED Demonstration was self-screening. There was much discussion during the design phase regarding the desirability of active screening and potential personal characteristics on which to screen. The self-screening approach used in SEED reflected the difficulty in identifying personal traits that were good predictors of business success and the philosophy that an ongoing Federal program would not use active screening. This self-screening began at the invitation to attend Awareness Day, where individuals who chose not to attend were ineligible for the program. The SEED application also served a self-screening function as it included a number of self-assessment questions and questions about assets and debts that may affect an individual's decision to apply to the program.

In addition to this self-screening, the only active screening that was performed involved reviewing the application to make sure that the proposed business idea was legal in the state and that the business met certain project requirements designed to ensure that the claimant was in day-to-day control of the business and was making a full-time commitment to starting a business.<sup>8</sup> It should be emphasized that no screening was done based on any judgment about the merits of the business idea itself.

**Random Assignment.** In designing the SEED Demonstration, careful consideration was paid to the evaluation requirements of the demonstration. The chief feature incorporated into the demonstration design specifically to enhance the evaluation component was the random assignment of eligible applicants to either the treatment group, which was offered all demonstration services and was eligible to receive self-employment allowances, or to a control group, which received regular UI payments and services but no demonstration services or allowances. To be eligible for random assignment, the claimant must have received an invitation letter, attended Awareness Day, submitted a complete and

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<sup>8</sup>In addition, multi-level (pyramid) marketing schemes were not allowed in the demonstration. Franchises were allowed as acceptable businesses, provided they met the other conditions.

timely application, proposed a valid business idea, and been monetarily and nonmonetarily eligible to receive UI benefits. The random assignment program -- based on a random number generator -- was applied once a week to the pool of eligible applicants.

In large samples, the random assignment process should create two groups of claimants that are otherwise similar, except that one is eligible for demonstration services and the other is not. Using this experimental design, the impact of the SEED Demonstration may be estimated by the difference in outcomes between the treatment and control groups.

### **Program Components**

The claimants who were randomly assigned to the treatment group were offered three inter-related program services:

1. Business startup services to provide training and technical assistance in self-employment;
2. A waiver of the UI work search requirement; and
3. Self-employment allowances and a lump-sum payment (to those who met specific milestones), to help with living expenses and other business startup costs.

Below we describe these three components of the SEED program.

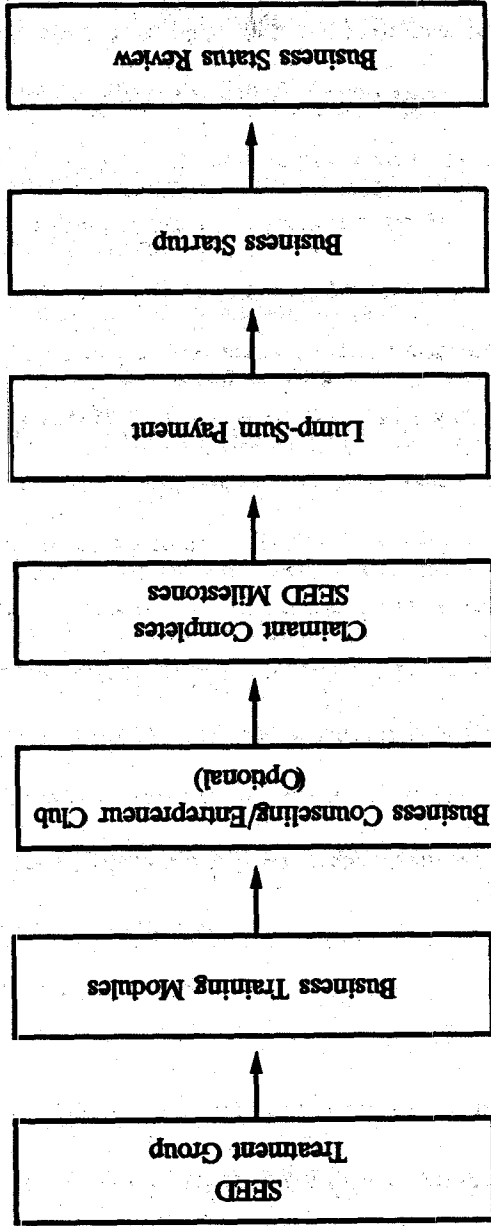
**Business Startup Services.** As indicated in Exhibit 2.2, the business startup assistance component of SEED consisted of a variety of services, including:

- Intensive classroom training;
- Individual counseling to help develop a business plan and other counseling services; and
- Peer group support through an Entrepreneur Club.

The design of the program incorporated substantial flexibility in providing participants with as much or as little business startup assistance as they required. Some participants needed intensive education and training, as well as ongoing support while developing their

Business Startup Services

Exhibit 2.2



business plan. Others with experience in operating a business or with specific skills (e.g., marketing, accounting) needed a fraction of these services. The design of the program accommodated both types of participants.

The first component of the business startup assistance was self-employment training. Within one-to-two weeks after random assignment, treatment group members were scheduled to attend a set of four business training modules covering the following topics:

- Business feasibility;
- Marketing;
- Finance and accounting; and
- Organization and management.

In total, approximately 20 hours of classroom time were spent covering these topics over four days during roughly a one-week period. Attendance at the first module was required, in part to ensure the signing of the participation agreement. Although eligibility for the lump-sum payment required attendance at subsequent modules as well, business development specialists had the authority to waive attendance in cases where the participant demonstrated specific expertise.

The training modules introduced claimants to the need for developing a comprehensive business plan. Individualized business plans were then developed by participants with the assistance of their business development specialist. Additional assistance in developing a business plan was offered through the Entrepreneur Club meetings which were held on a monthly basis. These meetings provided participants with peer support and advice throughout their demonstration participation.

In the demonstration, the business development specialists served the role of case managers. To ensure that these specialists had a proactive role in this process, it was required that they attempt to contact all participants at least once during the first few weeks after the training modules to discuss progress and offer counseling assistance. In

addition to providing ongoing counseling, the role of the business development specialist included reviewing each participant's progress in achieving the five program milestones required to receive a lump-sum payment:

- Complete the training modules;
- Develop an acceptable business plan;
- Set up a business bank account;
- Satisfy all licensing requirements; and
- Obtain adequate financing.

The demonstration design included a "milestone review" interview conducted by the business development specialist to determine if all milestones were attained, as well as to identify any areas where additional assistance was required.

After business startup, the business development specialist continued to provide counseling and technical assistance on an as-needed basis. Approximately two months following receipt of the lump-sum payment, a business status review was conducted. This review provided the business development specialist with an opportunity to determine whether additional assistance was required.

Work Search Waiver. To provide participants in the SEED Demonstration a stream of income during the business planning period, claimants received regular periodic self-employment allowance payments equal to their UI Weekly Benefit Amount (WBA). While receiving these payments, participants had their UI work search requirement waived.<sup>9</sup> This waiver freed SEED participants to pursue their business plans rather than actively search for employment (as normally required for UI recipients).

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<sup>9</sup>The basis for this waiver is the general provision that claimants participating in Commissioner Approved Training (CAT) are not required to search actively for wage and salary employment and cannot be disqualified for refusing to accept suitable work. The training and counseling offered by SEED qualified as CAT.



The initial duration of these periodic payments and the work search requirement waiver was set at 10 weeks, or sooner if the participant achieved the milestones for receiving the lump-sum payment. A couple of weeks before the waiver was to expire, treatment group members who had not met all milestones were sent a letter instructing them to contact their business development specialist for an End of Waiver Period Review. The purpose of the End of Waiver Period Review was to assess the progress of SEED participants in achieving the five milestones and to determine whether the work search waiver should be extended. The business development specialist could extend the waiver (for up to a few weeks) if the participant was judged to be making satisfactory progress on business startup activities. If the waiver was not extended, however, participants would either have to meet the work search requirement (and other UI eligibility requirements), or stop receiving UI benefits.

**Lump-Sum Payment.** In addition to the bi-weekly UI payments received while engaged in business startup activities, treatment group members were eligible for a lump-sum payment at the time they completed the five milestones. Once the business development specialist verified that the claimant had met all five milestones, SEED Unit staff certified eligibility for the lump-sum payment and the PTS calculated the amount of payment equal to the participant's remaining UI entitlement at that time. The remaining entitlement at any point in the claim is the maximum benefits payable less the amount of UI benefits already paid out in the form of bi-weekly payments. As such, the amount of the lump-sum payment depended on the participant's UI entitlement, as well as the time taken to achieve the milestones.

Although the lump-sum payment component of the SEED Demonstration was intended to simulate a cash-out of UI benefits, it was not strictly possible to test a cash-out policy. This was because UI is an entitlement program that can not be denied for demonstration purposes. Operationally, this meant that participants could return to the

regular UI program after receiving their lump-sum payment, and draw the remainder of their UI entitlement in the form of bi-weekly payments provided they met the normal UI eligibility requirements, including the work search requirement.<sup>10</sup> Because most treatment group members who receive a lump-sum payment are likely to be committed to self-employment, we did not expect many of these claimants to return to UI and collect their remaining entitlement. Our experiences to date concerning this issue are described in Chapter 6.

### **Frequency of Key Demonstration Activities**

An important component of the SEED experimental design was the schedule for key demonstration activities across sites. The three key activities included Awareness Day meetings, random assignment and the business training modules. In making decisions concerning the frequency with which these activities would be conducted, we were faced with balancing the objectives of early intervention with the concern that the activities not be held so often as to be an inefficient use of demonstration resources. Another consideration was consistency of demonstration activities across sites.

Based on these considerations, it was ultimately decided to use a common frequency of activities across all sites. Specifically, in each site, Awareness Day meetings were conducted bi-weekly (every other Friday); random assignment was conducted weekly (each Thursday); and the business training modules were offered bi-weekly (typically Thursday and Friday of one week and Monday and Tuesday of the following week).<sup>11</sup> Given this

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<sup>10</sup>Because the lump-sum payments were paid out of Federal research funds -- not State UI funds -- they did not affect a participant's UI net balance available.

<sup>11</sup>During the early part of the pilot study in Vancouver, Awareness Day meetings were held weekly.

schedule of activities, the typical sequence of events for a targeted new claimant was as follows:

- File initial claim and receive invitation to Awareness Day (Week 1)
- Attend Awareness Day meeting (Week 2-3)
- Submit SEED application packet (Week 3-4)
- Random assignment (Week 4-5)
- Attend business training modules (Week 5-6).

This sequence of events meets the early intervention objective of the demonstration and provides for comparability of key elements of the treatment across sites.

### **Site Selection**

The selection of demonstration sites was a critical factor in determining the generalizability of the demonstration findings to a broader (e.g., statewide) population. To enhance the generalizability of the results, it was important that the sites selected yield a representative sample of the State UI claimant population. In addition, the sites had to provide a sufficient number of SEED participants to allow precise estimation of demonstration impacts and be consistent with the demonstration budget constraint and field constraints on implementation of the demonstration. Below we briefly outline the procedures used to select the six sites for the demonstration and then provide additional information on the characteristics of each site.

As described in detail in our design report (Orr et. al., 1989), we used a purposive site selection method -- based on an index of representativeness -- to select a set of sites that best represented the state population of UI claimants. The index incorporated information on several claimant and site characteristics that were thought to be important determinants of the outcome of a self-employment demonstration. The claimant characteristics included age, education, race/ethnicity and industry of most recent employer. The index also took

into account site factors such as the insured unemployment rate, population size, average monthly wage, region of the state, and number of business service providers. We used this index to measure the extent to which different combinations of sites were able to provide a representative sample of the state population of UI claimants.

The site-selection methodology was applied to 13 potential demonstration sites that represented groups of 32 counties throughout the state.<sup>12</sup> We analyzed the results for combinations of 4, 5, 6, and 7 sites. It was ultimately decided to implement the SEED Demonstration in the following six sites, representing 18 counties and 19 (of the 31) Job Service Centers:

- Vancouver (5 counties, 3 Job Service Centers)
- Olympia (4 counties, 3 Job Service Centers)
- King County (1 county, 5 Job Service Centers)
- Snohomish County (including Island County, 2 Job Service Centers)
- Wenatchee (3 counties, 2 Job Service Centers)
- Yakima (3 counties, 4 Job Service Centers)

These sites are shown on the map in Figure 2.1. Below we briefly provide additional background information about the six sites and the economy in Washington State at the time the SEED Demonstration operated. Detailed descriptions of each site are provided in Appendix A.

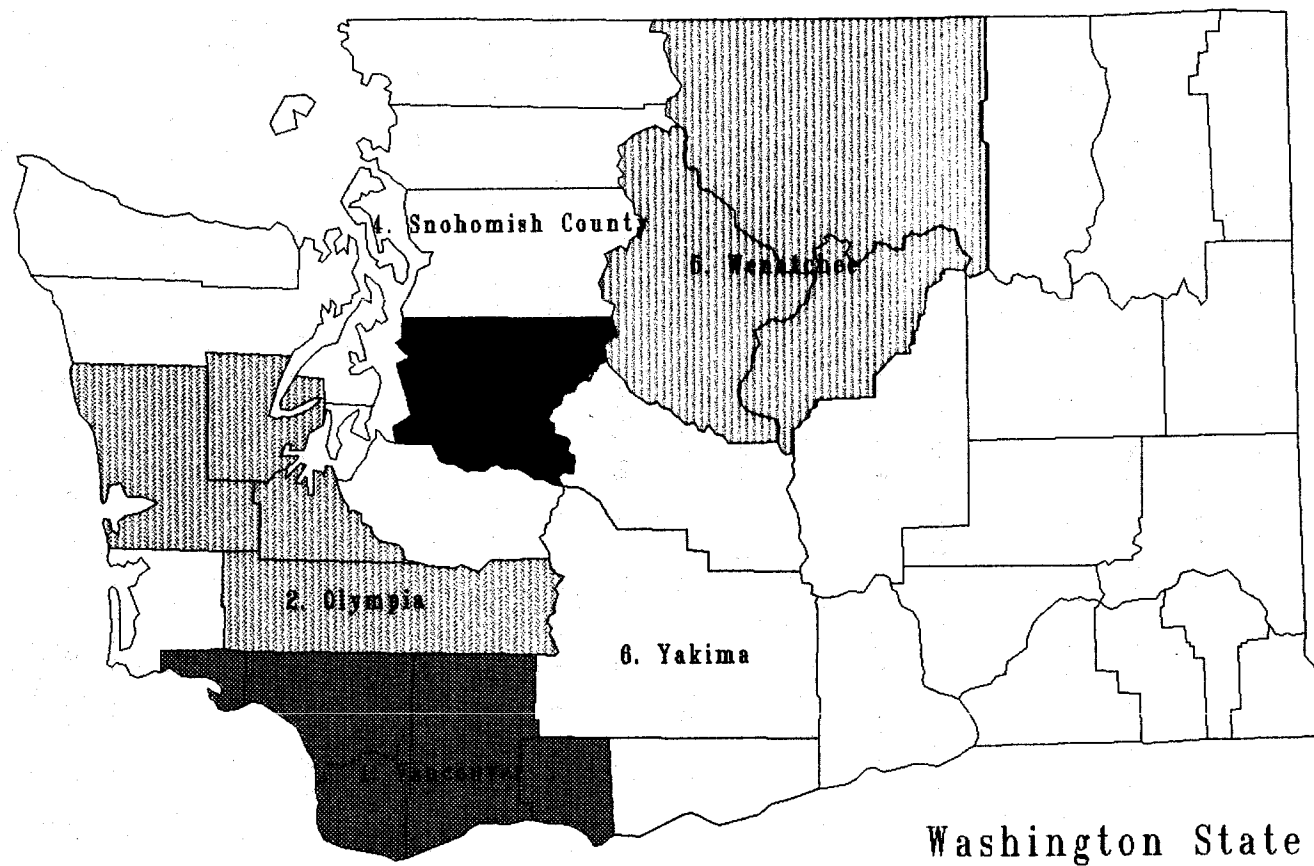
The SEED Demonstration was implemented during a period in which the Washington State economy was quite strong overall and somewhat insulated from the recession that occurred in other parts of the United States. Statewide, the unemployment rate was 6.2

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<sup>12</sup>Benton and Franklin counties were excluded because a major layoff at the Hanford nuclear power site resulted in a large, temporary increase in funds to aid unemployed workers, which made the service environment in this area quite atypical. Five other counties were excluded because their populations were too small to support the demonstration. It should be noted, however, that individuals who lived in these excluded counties were eligible for SEED if they filed their UI claim in one of the Job Service Centers in the six study sites.

Figure 2.1

# SEED DEMONSTRATION SITES



percent in 1989, falling to 4.9 percent in 1990. This economic strength, however, was not uniform throughout all areas of the state. In particular, since the recessions of the early 1980's, the metropolitan areas of the state, particularly the north-south I-5 corridor that runs from Vancouver, Canada, through Seattle and on to Portland, Oregon, have had strong economies and vibrant growth, while many rural and more sparsely populated regions of the state (often dependent on resource-based industries) have continued to experience weak economies and high unemployment rates.

These patterns can be noted in Table 2.1, which indicates somewhat lower average monthly wages and higher unemployment rates for the two most rural sites (Wenatchee and Yakima), while the remaining sites generally fare far better. Although not reported in the table, this economic pattern also holds true within the six sites. For example, the Vancouver and Olympia sites each contain metropolitan counties (Clark and Thurston, respectively) with strong economies, while all the remaining counties in these two sites, except Mason county in the Olympia site, are designated as "distressed areas" of the state.<sup>13</sup>

### **Operational Design**

A successful evaluation design must be accompanied by an administratively feasible operational plan that ensures the demonstration services are provided uniformly across the sites selected according to the design. The requirements for the operational design of the SEED Demonstration included:

- Maximizing, to the extent possible, the consistency with which key demonstration activities were performed;
- Combining staff familiar with operating research projects within the UI system with the expertise of staff who were knowledgeable about business

**Table 2.1**  
**Characteristics of SEED Sites**

Site Characteristics	Site						Statewide
	Vancouver	Olympia	King County	Snohomish County	Wenatchee	Yakima	
Population (1990)	314,580	323,500	1,482,800	509,400	108,700	224,120	4,798,100
Percent of State Population	6.5	6.7	30.9	10.6	2.3	4.7	100.0
Average Monthly Wage (1989) (\$)	1,600	1,578	2,050	1,605	1,578	1,373	1,800
Per Capita Income (1988) (\$)	13,646	13,442	20,624	15,422	14,403	13,154	16,468
Total Number of Employer Units (1989)	7,723	8,268	48,881	10,807	3,659	6,026	128,525
Civilian Labor Force (1989)	167,894	146,850	870,600	253,330	58,200	116,476	2,451,110
Unemployment Rate (1989)	6.7	7.8	4.5	4.8	10.5	11.6	6.2

start-up issues and were skillful in training others to start and operate new businesses;

- Balancing the program consistency with the need to provide program services in six diverse sites located throughout Washington State; and
- Providing services within the context of a classical experimental design, while operating efficiently and within cost constraints.

The unique management and operational requirements of the SEED Demonstration led to a cooperative arrangement between two state agencies -- the Washington State Employment Security Department (ESD) and the Business Assistance Center (BAC) -- to provide staff and management expertise for the administration and operation of the program.<sup>14</sup> Each agency provided key staff members who participated in the demonstration from the design phase through the completion of program services.

A major organizational feature of the SEED Demonstration was management of key elements of the program by a centralized staff. This management function was performed by personnel from the ESD's UI Program Analysis Division. Awareness Day meetings were conducted in each site by local Job Service Center (JSC) staff. Business Development Specialists (BDSs), hired and supervised by BAC staff, provided business support services to program participants. Below we provide additional details concerning the roles and responsibilities of each of these groups.

### **SEED Project Unit**

Personnel from the UI Program Analysis Division staffed the SEED Project Unit.<sup>15</sup> Operating from ESD's central office in Olympia, this small group, consisting of a project

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<sup>14</sup>The Business Assistance Center is a division of the Washington State Department of Trade and Economic Development.

<sup>15</sup>This unit has considerable experience in conducting research projects using experimental design, including a recent work search experiment in Tacoma and a re-employment bonus experiment in many sites throughout the state. This must be kept in mind in assessing the administrative and operational resources required to conduct a demonstration program like SEED.



director, manager and coordinator, had overall responsibility for operations and management of the SEED project. As indicated in Exhibit 2.3, the SEED Project Unit had operational responsibility for many of the key demonstration activities required to manage the SEED Demonstration, including training site staff in program-related procedures, overseeing the targeting and recruitment of claimants, reviewing project applications, running the automated random assignment program and approving lump-sum payments to claimants who completed the five project milestones.

### **Awareness Day Coordinators**

ESD provided the personnel and space to conduct the Awareness Day meetings at one of the local Job Service Centers in each site. Awareness Day meetings were conducted by a JSC staff person who was designated as the Awareness Day Coordinator and assigned to the project for the duration of the demonstration. Each coordinator spent approximately three hours per week on demonstration activities. Each coordinator was assigned a back-up person to substitute in the event s/he was unable to conduct one of the meetings. The coordinators and their back-ups were staff members chosen for this assignment by their managers. All had previous experience conducting employment orientation sessions and were selected for the demonstration on their ability to conduct presentations to large groups. They performed their SEED responsibilities in addition to other regular duties.

The Awareness Day Coordinators and their backups participated in a two-day training session held in Seattle prior to the beginning of the project. Each person received a SEED Demonstration Procedures Manual, which included a section on the roles and responsibilities of the Awareness Day Coordinator and an outline of the Awareness Day meeting. The coordinators' role included:

- Preparing the room for the Awareness Day meeting;
- Taking attendance at the meeting;

## Exhibit 2.3

### SEED Project Unit Responsibilities

#### Training and Monitoring Tasks

Conducted brief training of local JSC office staffs in each site.

Conducted training for all Awareness Day Coordinators and their back-ups and participated in training of all Business Development Specialists.

Monitored Awareness Day meetings and provision of business services.

#### Operational Tasks

Performed data transfers from state UI mainframe computer system to Participant Tracking System (PTS).

Monitored printing of Awareness Day invitation letters from the mainframe computer system.

Informed sites of claimants invited to Awareness Day meetings.

Input Awareness Day attendance into PTS.

Received, reviewed and input SEED applications into the PTS.

Monitored the automated random assignment of SEED applicants on PTS.

Produced and mailed letters to claimants announcing the results of random assignment.

Informed sites of claimants selected and invited to receive business training services.

Answered claimant questions on SEED toll-free telephone number.

Approved issuance of lump-sum payments to claimants completing project milestones.

Performed data transfers from the business services computer system to the PTS.

#### Administrative Tasks

Contracted with local agencies to provide space for provision of business services.

Provided on-going project management assistance to site personnel.

Coordinated project activities with BAC staff.

Resolved policy and operational issues with DOL officials and research team

- Conducting the Awareness Day meeting;
- Passing out applications to interested claimants; and
- Forwarding meeting attendance records to the SEED Project Unit.

As indicated earlier, the Awareness Day meetings were highly structured, with an agenda designed to ensure that each of the claimants invited would hear the same information about the project but would not be given any information about starting a business.<sup>16</sup> Most of the material presented about the SEED program and the potential risks and rewards of self-employment were contained on two video tapes that were shown at each session. Coordinators were trained not to answer questions that were specifically related to starting businesses. They were, however, given a list of answers to commonly asked questions and were further instructed to direct most claimants with questions to the toll-free telephone number for the SEED Project Unit.

#### **Local JSC Office Staff**

With the exception of the Awareness Day Coordinators and their back-ups, the SEED Demonstration imposed no new responsibilities on staff members of the local JSC offices. During an information session on the SEED program, JSC staff were instructed to continue to process claims carefully and in a timely manner to ensure that all new claimants in the target group would have the opportunity to be invited to Awareness Day. They were encouraged to direct inquires about the demonstration to the SEED Project Unit in Olympia through use of the project's toll-free telephone number. Local staff were asked not to encourage interest in the project among claimants since the project could not take volunteers. They were also informed that SEED participants who voluntarily drop from the

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<sup>16</sup>Because the impact evaluation involves a comparison of the outcomes of treatment and control group members, and since the Awareness Day meeting took place prior to random assignment, it was important that no information be provided at this meeting that helped control group members start a business or else the results would be biased. Hence, the restriction on information about starting a business.

project would have their work search requirements reinstated and that procedures for handling those claimants would be the same as for claimants who leave Commissioner Approved Training (CAT).

#### **Business Assistance Center (BAC) Staff**

BAC staff worked with personnel from ESD in planning and implementing the SEED Demonstration, as well as in establishing links with the economic development community in each site. They worked with local business assistance providers such as the Economic Development Councils and the Small Business Development Centers to recruit and hire Business Development Specialists (BDS) for the SEED Demonstration. They developed the curriculum for the business training modules and supported the Business Development Specialists at each site throughout the demonstration by providing training and management support, and supplying the business training materials and forms, and the computers and software that the BDS used to record program services. BAC staff also monitored the BDSs' activities for compliance with the demonstration design.

#### **Business Development Specialists**

The business development specialist resources available to SEED participants varied across the sites to meet the needs of the differing numbers of claimants enrolled. In particular, 0.5 full-time equivalent (FTE) BDS staff were provided in five of the six sites, with 1.5 FTEs in King County. In three of the sites -- Vancouver, King County and Yakima -- two individuals shared the role of BDS; in the other three sites, a single BDS was hired.

Staff hired to provide business services for SEED treatment group members represented a variety of business backgrounds including banking, corporate management, the retail grocery business, small business consulting and investment consulting. Each had knowledge of the local business community and were familiar with the local economies.

Most had previous experience teaching small business seminars or providing consulting services to small businesses. Two were recruited from the Small Business Administration's Senior Core of Retired Executives (SCORE) and one had previously worked with a Small Business Development Center (SBDC).

The BDS staff participated in a three-day training session held in Olympia prior to the start of the demonstration. Each received an Instructor's Guide that included the agenda and curriculum for the business training sessions and a SEED Project Procedures Manual that explained the program operating procedures. Training included an overview of the demonstration design, the roles of the BDSs as instructors for the business training modules and as case managers for the participants, the program requirements participants must meet to qualify for the lump-sum payment, and the records-keeping requirements of the demonstration. The responsibilities of the BDSs are listed in Exhibit 2.4.

#### **Automated Data Systems**

The centralized data system used to support the SEED Demonstration was the Participant Tracking System (PTS) that was developed by the U.S. Department of Labor. The PTS was an on-line database system that provided ongoing information about project participants and services. The PTS used the ORACLE relational data base software package and was run on a DEC MicroVAX II computer at the SEED Project Unit office in Olympia. As described below, the PTS performed numerous functions and was an important component of the demonstration.

ESD's mainframe computer system -- known as BAS -- generated invitation letters to Awareness Day. The letters were based on the targeting criteria and incorporated the Awareness Day scheduling data contained in the PTS. The PTS also generated letters to inform applicants of their selection or non-selection to the project. Data about the claims

## Exhibit 2.4

### Business Development Specialists' Responsibilities

#### Business Training Tasks

Provide up to 20 hours of classroom training in four sessions covering the basic concepts of starting and operating a successful business. These sessions include:

- Feasibility;
- Marketing;
- Finance and accounting; and,
- Organization and management.

#### Business Counseling Tasks

Provide one-on-one business counseling.

Refer participants to other business services providers when needed.

Provide ongoing technical assistance to participants who complete project milestones.

#### Program Requirements Tasks

Obtain a signed participation agreement from each treatment group member who attends the first training module.

Assess and certify participants achieved all of the milestone requirements for receipt of the lump-sum payment including:

- Attend all business modules (or attendance waived);
- Complete a business plan;
- Set up a business bank account;
- Meet all the legal requirements for operating a business in Washington State; and
- Secure adequate financing to start and operate a business.

Conduct End of Waiver Period Reviews for participants not completing program requirements within the 10-week waiver period and assess whether extension should be granted.

Conduct two-month Business Status Reviews for businesses established by SEED participants.

Facilitate the "Entrepreneur Club", a monthly peer support meeting for all SEED participants.

Record all participant activities related to provision of business services and ensure that data are input to the BAC computer system.

status of participants was passed from the BAS mainframe computer to the PTS three times each week to update the PTS system as to the status of the participant's UI claim.

The PTS was also linked to the BAC computer to support data transfer. For example, the PTS electronically transferred data about claimants selected into the treatment group to the BAC computer for use by the business development specialists. At the sites, information on business services provided and administrative data was input to the BAC computer system. Information from the BAC system was telecommunicated to the PTS in a weekly data exchange.

In addition to its linkages to BAS and to the BAC computer to support the demonstration, the PTS maintained project data from applications and other sources and performed a number of specific functions, including:

- Random assignment to treatment and control groups;
- Generated several different types of letters to SEED participants (e.g., results of random assignment, end of waiver notification, two-month business status review notification);
- Calculated the lump-sum payment amount; and
- Produced more than 20 project monitoring and tracking reports.

As such, the PTS supported SEED Demonstration operations and provided valuable information for monitoring and evaluation purposes.

### 3. DEMONSTRATION INTAKE AND ASSIGNMENT EXPERIENCES

As described in Chapter 2, the development of an appropriate experimental sample of SEED Demonstration participants involved several steps. The first step was to identify targeted claimants and invite those interested in self-employment to attend an Awareness Day meeting. Subsequent steps included reviewing project applications, assigning eligible applicants to either a treatment or control group and informing applicants of the results of the process. In this chapter we provide information on the flow of claimants through this demonstration intake process.

The results described in this chapter provide valuable evidence on a number of important issues involved in implementing and evaluating a self-employment program. These issues include the proportion of claimants who are interested in self-employment (i.e., the take-up rate), as well as the types of claimants who are interested in self-employment and served by the SEED Demonstration in the different sites. This information should be helpful to designers of future programs in understanding the implications of implementing a self-employment program in different settings. In addition, information on the comparability of the treatment and control groups provides valuable insights on the success of the experimental design.

To address these issues, we examined quantitative information collected by the Participant Tracking System (PTS) through March 1991.<sup>17</sup> Because the last claimants to be invited to the demonstration filed their claims in September 1990, and all intake activities

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<sup>17</sup>To make the size of the PTS data base more manageable, DOL developed a process that purged records for certain types of claimants on an ongoing basis. For analysis purposes, however, complete records were maintained for all individuals who participated in the first intake activity (i.e., the Awareness Day meeting), as well as for a 10 percent random sample of all new claimants in the demonstration sites.



were completed by October 1990, the results presented below capture the quantitative aspects of the intake process for the entire SEED Demonstration.<sup>18</sup>

The remainder of this chapter is organized as follows. We begin with a description of the results of implementing the claimant targeting criteria and compare the characteristics of targeted and non-targeted claimants. We then present information on the recruitment steps related to participation in Awareness Day meetings and submission of a SEED application. This is followed by a description of the results of the application review and screening steps. We then describe the results of the random assignment process -- including information on the comparability of the treatment and control groups -- and provide additional information on the characteristics of treatment group members and how they differ by site. The chapter concludes with information concerning the number of weeks covered by these intake activities to assess whether the demonstration met its early intervention goal.

### **Target Population**

The SEED Demonstration targeted new UI claimants without immediate job prospects. Operationally, we invited new claimants with the exception of those who were (1) on temporary lay-off (i.e., on standby); (2) full-referral union members; (3) under the age of 18; or (4) the claim was backdated more than two weeks.<sup>19</sup>

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<sup>18</sup>As indicated earlier, the results include data for the relatively few claimants who were part of the pilot study in Vancouver, which began in September 1989, as well as data for the other sites that began operations in February 1990.

<sup>19</sup>In addition, during the pilot study, ex-military persons filing a claim without additional qualifying wages were excluded from the target group. A total of 100 such claimants were excluded in the Vancouver site prior to full implementation of the demonstration.

Beginning with the pilot study, counts were maintained from each BAS run on the number of new claimants who were excluded by reason.<sup>20</sup> During the period from April 1990 through the end of the demonstration, separate counts were maintained by site. According to these data, the primary reason that claimants were excluded from the SEED target population was employer attachment. Of the 20,233 new claimants in the six sites who were excluded from the SEED intake process because they did not meet the targeting criteria, and for whom we have data on the reason for exclusion, 10,179 (or 50.3 percent) were on standby. A total of 5,855 (or 28.9 percent) were excluded due to being a full-referral union member and a somewhat smaller number (3,644 or 18.0 percent) were excluded because they had a backdated claim. Very few claimants (less than 1 percent) were excluded from the SEED target group because they were under age 18.

There were also considerable differences across sites in the reason for exclusion from the target group. For example, there were disproportionately more claimants excluded from the SEED intake process in the Yakima site because they were employer-attached (79 percent) than in any other site. In contrast, only about 22 percent of the new claimants excluded in King County were on standby. Rather, the primary reason for exclusion in King (and Snohomish) County was being a full-referral union member. Specifically, between 46-49 percent of all exclusions in these two sites were due to being a member of a full-referral union.

The next step in the intake process involved sending invitation letters to new claimants in the six sites who met the targeting criteria.<sup>21</sup> After correcting for double-

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<sup>20</sup>Although this information was collected for the entire demonstration period, counts of excluded claimants by reason for all BAS runs in June 1990 could not be located for our use. As a result, the aggregate counts reported in the text in this section likely under-represent the total number of exclusions by about 15 percent, but should not affect the qualitative nature of the findings.

<sup>21</sup>In the Vancouver and Wenatchee sites, all new claimants in the target group were sent invitations to participate in SEED. In the other sites, letters were sent to randomly selected sub-samples of the target group to maintain control of the flow of claimants through the

counting of duplicate letters sent to the same claimant, SEED Unit staff report that BAS sent a total of 42,350 invitation letters to targeted claimants during the intake period.<sup>22</sup>

The distribution of invitation letters by site is as follows:

●	Vancouver	10,199
●	Olympia	4,823
●	King County	11,455
●	Snohomish County	4,020
●	Wenatchee	6,083
●	Yakima	5,770

In Table 3.1 we compare the characteristics of new claimants who were included in the target group and invited to the Awareness Day meeting with the characteristics of those who were excluded from the target group and not invited. These results are based on PTS data for a 10 percent random sample of new claimants who filed for UI benefits in the six sites during the demonstration intake period.<sup>23</sup>

In the first column of Table 3.1, we present data on the background characteristics of claimants targeted for invitation to participate in the demonstration. Data are displayed for four different types of characteristics: demographic, prior work experience, UI entitlement, and site. As this table indicates, 57 percent of the targeted claimants were male and 82 percent were white. The average education was 12 years, with 32 percent having either attended or completed college. The targeted claimants averaged 35 years of age, with about one-fifth being 45 years of age or older.

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demonstration services. Additional information concerning the sub-sampling rates is provided in Chapter 5.

<sup>22</sup>Of these invitation letters, 501 (1.2 percent) were returned to the Employment Security Department as undeliverable. The proportion of undeliverable letters ranged from a low of 0.4 percent in the Olympia site to a high of 1.7 percent in Yakima.

<sup>23</sup>For this analysis, the 10 percent sample corresponds to a sample of all targeted new claims and non-targeted new claims within the range of SSNs in the sites that would have allowed them to be invited to the demonstration at the time they filed their claim.

Table 3.1

## Characteristics of Targeted and Non-Targeted New UI Claimants

Claimant Characteristics	Targeted (Invited to Awareness Day)	Non-Targeted (Not Invited to Awareness Day)	All New Claimants
<b>Demographics</b>			
Percent male	56.6	79.7	61.4
Percent white	82.1	90.8	83.9
Percent high school graduate	44.3	55.6	46.7
Percent some college	21.6	19.2	21.1
Percent college graduate	10.4	3.5	8.9
Mean education (in years)	12.0	11.9	12.0
Percent age $\leq$ 24	17.6	12.6	16.6
Percent age $\geq$ 45	21.2	25.4	22.1
Mean age (in years)	35.4	36.8	35.7
<b>Prior Work Experience</b>			
Percent union hiring hall member	0.0	26.3	5.5
Percent on standby	0.0	54.6	11.5
Percent professional/technical/ managerial occupation	14.9	4.0	12.6
Percent clerical occupation	15.7	4.5	13.3
Percent manufacturing sector	22.4	14.6	20.8
Percent services sector	24.4	27.2	25.0
<b>UI Entitlement</b>			
Mean weekly benefit amount (\$)	144	183	152
Mean maximum benefits payable (\$)	3,734	5,002	4,000
<b>Site</b>			
Percent in Vancouver	24.2	39.3	27.3
Percent in Olympia	11.8	19.5	13.4
Percent in King County	26.4	19.9	25.0
Percent in Snohomish County	10.0	11.4	10.3
Percent in Wenatchee	14.1	2.8	11.7
Percent in Yakima	13.6	7.1	12.2

In terms of prior work experience, about 15 percent of the targeted claimants were most recently in professional, managerial or technical occupations, and nearly 16 percent were in clerical occupations. Over twenty-two percent most recently worked in the manufacturing sector and 24.4 percent worked in the services sector. Consistent with the design, no claimants in the target group were members of a union hiring hall or were on standby.

Table 3.1 also provides data on targeted claimants' UI entitlements. In Washington, claimants are entitled to up to 30 weeks of UI benefits at their weekly benefit amount (WBA). The mean WBA for the group of targeted claimants in these sites was \$144 and the average maximum benefits payable (MBP) was over \$3,700.

In terms of distribution by site, the population of targeted claimants was distributed so that about one-half of the claimants were split between King County and Vancouver, and the other half were fairly equally divided between the four other sites. It should be noted that Vancouver comprises such a relatively large proportion of the overall population of targeted claimants who received invitation letters (despite its relatively small claims load) largely because the pilot study was in Vancouver. It should also be noted that the number of claimants in King County who were selected to receive an invitation was limited by randomly selecting 40-60 percent of the target population. The sub-sampling in King County was implemented to maintain a manageable caseload in this large urban site.

In the second column of Table 3.1 we present the characteristics of non-targeted claimants. As these data indicate, non-targeted claimants were quite different from targeted claimants, and in ways that are expected given the targeting criteria. For example, non-targeted claimants were much more likely to be union members and on standby.<sup>24</sup>

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<sup>24</sup>The reported proportions of claimants in the non-targeted group who were on standby or were full-referral union members represent our best estimates after adjusting the PTS master file for information on the work search indicators at the time the claim was filed. These proportions are quite consistent with the results discussed above.

Non-targeted claimants were also much less likely to be in professional, technical or managerial occupations or in clerical occupations. They were more likely to be male, white and slightly older, and were less likely to have any post-secondary education. In addition, non-targeted claimants had a considerably higher average weekly benefit amount and maximum benefits payable. Thus, it appears that the targeting procedures used by BAS were properly implemented during the demonstration and identified those new claimants without immediate job prospects or union attachment.

### Recruitment and Project Application

The next step in the intake process concerns recruiting targeted claimants for the demonstration. Of the 42,350 targeted new claimants who received an invitation to attend an Awareness Day meeting, 3,167 (7.5 percent) were interested enough in the possibility of participating in the self-employment program to attend the meeting.<sup>25</sup> The take-up rate differed considerably by site as shown below:

●	Vancouver	6.9%
●	Olympia	9.5%
●	King County	8.8%
●	Snohomish County	9.8%
●	Wenatchee	4.6%
●	Yakima	5.6%
	Total	7.5%

The low rates in the Wenatchee and Yakima sites relative to King and Snohomish Counties (and to the Olympia site) may be indicative of a lower interest in self-employment among targeted new UI claimants in rural areas than in urban areas. Alternatively, it may reflect the much higher unemployment rates in these rural areas (described in Chapter 2) and represent claimants' assessments of the prospects for self-employment in such environments.

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<sup>25</sup>If one adjusts for the 501 undelivered applications, this increases the Awareness Day take-up rate only marginally from 7.5 percent to 7.6 percent.

In the first column of Table 3.2 we provide information on the characteristics of the 3,167 targeted claimants who attended Awareness Day meetings. By comparing these data with information given in the first column in Table 3.1, we can infer how the characteristics of Awareness Day meeting attendees differ from the average claimant invited. These results suggest that relative to invited claimants, those who were sufficiently interested in the self-employment option to attend the Awareness Day meeting are:

- More likely to be male (65 percent versus 56 percent);
- More likely to be white (90 percent versus 82 percent);
- More educated (54 percent attended some college versus 32 percent);
- Somewhat older (average age of 39 versus 35);
- Much more likely to have been in a professional, technical or managerial occupation (32 percent versus 15 percent); and
- More likely to have greater pre-claim earnings as evidenced by their higher UI entitlements (mean weekly benefit amount of \$179 versus \$144; mean maximum benefits payable of \$4,863 versus \$3,734).

Thus, this self-screening step resulted in identifying older, more-educated, professionals with somewhat greater UI entitlements.

During the Awareness Day meeting, interested claimants were provided with a SEED application packet. Of the 3,167 targeted claimants who attended the Awareness Day meeting, 1,932 (61 percent) chose to submit a SEED application. Among those who attended Awareness Day, the application rate varied considerably across site, with only King County (67.6 percent) and Snohomish County (64.5 percent) exceeding the overall mean, and ranging to a low of 48.9 percent in Yakima.<sup>26</sup>

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<sup>26</sup>Although we have no detailed information on the reasons for why claimants who attended Awareness Day did not submit applications, limited information from the pilot study suggests that the Awareness Day meeting and the application served a useful self-screening function. Specifically, the reasons given by a small sample of claimants who attended the meeting but did not submit an application were primarily related to lack of adequate capital or concern over whether self-employment was right for their situation.

Table 3.2

**Characteristics of Targeted Claimants Who Attended Awareness Day,  
Submitted Applications, and/or Were Randomly Assigned**

<b>Claimant Characteristics</b>	<b>Attended Awareness Day (N = 3,167)</b>	<b>Submitted Application (N = 1,932)</b>	<b>Randomly Assigned (N = 1,507)</b>
<b>Demographics</b>			
Percent male	65.4	67.5	67.4
Percent white	89.9	91.5	92.1
Percent high school graduate	35.4	33.2	31.5
Percent some college	31.4	32.0	32.9
Percent college graduate	23.1	26.9	28.7
Mean education (in years)	13.3	13.7	13.8
Percent age $\leq$ 24	5.7	4.5	4.0
Percent age $\geq$ 45	28.7	27.3	28.0
Mean age (in years)	39.3	39.3	39.5
<b>Prior Work Experience</b>			
Percent professional/technical/ managerial occupation	32.0	35.1	37.2
Percent clerical occupation	14.2	13.0	13.3
Percent manufacturing sector	24.2	24.2	23.7
Percent services sector	26.9	27.6	28.3
<b>UI Entitlement</b>			
Mean weekly benefit amount (\$)	179	188	197
Mean maximum benefits payable (\$)	4,863	5,156	5,427
<b>Site</b>			
Percent in Vancouver	22.2	21.5	20.4
Percent in Olympia	14.3	13.7	12.5
Percent in King County	32.0	35.5	37.8
Percent in Snohomish County	12.4	13.1	13.3
Percent in Wenatchee	8.9	8.1	7.8
Percent in Yakima	10.2	8.2	8.2



Combining the results of the first two intake steps -- Awareness Day and SEED application -- we find that 4.6 percent of all targeted claimants who received an invitation letter submitted a SEED application. This overall application submission rate varied across site as follows:



These results again confirm that interest in self-employment among targeted UI claimants is much higher in low-unemployment urban areas -- particularly in the greater Seattle areas of King and Snohomish counties -- than in high unemployment rural areas.

In the second column of Table 3.2, we present the characteristics of claimants who submitted a SEED application. The differences noted above between Awareness Day attendees and all targeted claimants were even more strongly apparent in the subset of claimants who submitted applications. For example, relative to all Awareness Day attendees, the subset who submitted a SEED application were somewhat more likely to be in professional, managerial or technical occupations, and also had about five percent higher UI entitlements on average.

### **Application Review and SEED Eligibility**

The next step in the SEED intake process is the review of SEED applications. The applications were reviewed for timeliness (postmarked within seven days of Awareness Day), and for being substantively complete. This review process resulted in rejecting very few applicants at this stage, as the applications were generally quite detailed and of high quality. Specifically, of all applications submitted, only 52 (2.7 percent) were rejected

because they were submitted late, and just 20 (1.0 percent) were rejected because they were not complete.

Among those with valid applications, the only remaining reason for exclusion from the random assignment pool relates to eligibility for UI. In particular, available data indicate that the primary reason for application rejection was nonmonetary ineligibility at the time of random assignment.<sup>27</sup> Specifically, at the time the random assignment program was implemented 285 claimants who submitted applications were determined to be nonmonetarily ineligible for UI benefits. Another 55 applicants were rejected because the claim was not monetarily valid and a few others were rejected because the UI claim was canceled.

Overall, there were some differences by site in the proportion of rejected applications. For example, the rejection rate ranged from a low of 16.7 percent for King County applicants, to a high of 28.4 percent for applicants in the Olympia site. The higher rejection rate in Olympia is primarily due to a greater proportion of applicants being judged to be nonmonetarily ineligible. Except for this difference, however, there are very minor differences across sites in the proportions of applications rejected for different reasons.

#### **Random Assignment and Comparability of Treatment and Control Groups**

Of the 1,932 SEED applications submitted, a total of 1,507 were included in the pool for random assignment. The random assignment pool corresponds to 47.6 percent of all

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<sup>27</sup>The design called for deferring from the random assignment pool -- for up to 36 days after the claimant's effective date of claim -- all applicants whose final monetary determination had not been made and all individuals with a stop payment code of 11 on their claim. A stop code of 11 indicated a temporary nonmonetary issue stop that if resolved within 36 days allowed the claimant to enter a subsequent random assignment pool. Individuals with permanent (or indefinite) payment stops were excluded from the random assignment pool.

individuals who attended Awareness Day and 3.6 percent of all claimants in the target group.

As shown in the third column of Table 3.2, the characteristics of claimants in the random assignment pool is extremely similar to the characteristics of the broader group who submitted SEED applications. The only difference appears to be in terms of UI entitlement, where claimants in the random assignment pool have a somewhat higher WBA and MBP. This is a direct result of the fact that some of the claimants were excluded from random assignment because they were not eligible for UI.

The random assignment program included in the PTS was implemented once each week. Over the course of the demonstration, this program randomly assigned 755 claimants to the treatment group and 752 to the control group. A critical evaluation issue concerns the comparability of the individuals in the two groups. The results in Table 3.3 indicate that the random assignment process was successful in generating two groups that were remarkably similar on all of the standard characteristics collected at the time the claim was filed. Moreover, we also conducted t-tests of differences in means on these characteristics and none of the differences was statistically significant at the .05 level.

#### **Characteristics from the SEED Application**

In addition to the basic individual characteristics data obtained through the UI claims-filing process, information from the SEED application provides a more comprehensive understanding of the backgrounds of individuals served by the SEED Demonstration, as well as useful supplemental data on the extent to which the treatment and control groups are comparable. Selected application information for the treatment and control groups are presented in Table 3.4. In particular, this table provides information on claimant's marital/family status, reason for job separation, assets and liabilities, and prior

Table 3.3

## Characteristics of Treatment and Control Groups

Claimant Characteristics	Treatment Group (N = 755)	Control Group (N = 752)
<b>Demographics</b>		
Percent male	66.5	68.2
Percent white	91.3	92.9
Percent high school graduate	31.5	31.4
Percent some college	32.6	33.2
Percent college graduate	29.5	27.8
Mean education (in years)	13.8	13.8
Percent age $\leq$ 24	4.4	3.6
Percent age $\geq$ 45	27.5	28.4
Mean age (in years)	39.4	39.6
<b>Prior Work Experience</b>		
Percent professional/technical/ managerial occupation	38.9	35.6
Percent clerical occupation	12.2	14.4
Percent manufacturing sector	22.9	24.5
Percent services sector	29.0	27.6
<b>UI Entitlement</b>		
Mean weekly benefit amount (\$)	196	198
Mean maximum benefits payable (\$)	5,395	5,459
<b>Site</b>		
Percent in Vancouver	20.5	20.3
Percent in Olympia	12.5	12.6
Percent in King County	37.9	37.8
Percent in Snohomish County	13.2	13.3
Percent in Wenatchee	7.7	7.8
Percent in Yakima	8.2	8.1

Table 3.4

Additional Characteristics of Treatment and Control Groups from  
SEED Application

Claimant Characteristics	Treatment Group (N = 755)	Control Group (N = 752)
<b>Marital/Family</b>		
Percent married	63.2	66.0
Percent divorced	19.1	16.9
Percent never married	13.9	14.7
Percent separated or widowed	3.7	2.4
Percent spouse working	40.7	45.4
Percent with children less than age 6	22.2	21.6
<b>Reason for Job Separation</b>		
Percent plant/company closure	9.8	9.5
Percent job/contract completion	9.2	8.0
Percent seasonal layoff	5.7	5.4
Percent temporary layoff	18.2	15.5
Percent permanent layoff	23.5	24.9
Percent fired	14.6	14.6
Percent quit	3.2	3.6
Percent other	15.8	18.5
Percent Expect to Return to Work	18.3	16.9
<b>Work/Business Experience</b>		
Mean years of work experience	20.3	20.1
Percent with work experience relevant to business	84.4	84.8
Mean years of work experience relevant to business	8.3	8.4
Percent owned a business previously	36.6	38.3
Percent currently own a business	7.0	9.3

Table 3.4 (continued)

Additional Characteristics of Treatment and Control Groups from SEED Application

Claimant Characteristics	Treatment Group (N = 755)	Control Group (N = 752)
<b>Assets and Liabilities</b>		
Percent homeowner	46.1	48.4
Mean value of home among homeowners (\$)	100,792	104,230
Mean home equity among homeowners (\$)	51,235	55,301
Percent with cash resources	66.0	68.8
Mean value of cash resources among those who have some cash (\$)	11,925	13,015
Percent with major credit cards	56.3	57.8
Percent with consumer debt	71.4	70.3
Mean unpaid balance among those with consumer debt (\$)	6,674	5,586

work and self-employment experience. Such information provides a useful context for interpreting the business support services received by the treatment group.

Before describing the results, it is important to note that the differences between the treatment and control groups in this table were quite small, and none of the differences was statistically significant. Thus, data from the SEED application further support the comparability of the treatment and control groups.

In the first column of Table 3.4 we present selected characteristics from the SEED application for the treatment group. As this table indicates, nearly two-thirds (63 percent) of the claimants in the treatment group were married, 19.1 percent were divorced and 13.9 percent had never been married. Over 40 percent of the treatment group had a working spouse and 22 percent had a child under six years old. Although comparable information is not available for all targeted claimants, data from other studies suggest that the SEED treatment group may be disproportionately more likely to be married and have a working spouse than the typical new targeted claimant.<sup>28</sup> The support of a spouse, and the additional financial resources from a working spouse, are likely to be important in encouraging UI claimants to consider self-employment.

Information concerning reason for job separation indicates that over three-fourths of the treatment group members were permanently separated from their jobs. Although none of the treatment group members were officially put on standby, 18 percent reported on their SEED applications that they were on temporary layoff and another 6 percent reported they were on seasonal layoff. Moreover, 18 percent of the treatment group reported that they expected to be called back to work by their previous employer. Because this

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<sup>28</sup>For example, information obtained from a recent UI demonstration program in Washington State indicated that less than one-half of all new claimants were married and only about one-fourth had a working spouse. See Johnson, Terry R. and Daniel H. Klepinger, Evaluation of the Impacts of the Washington Alternative Work Search Experiment, Unemployment Insurance Occasional Paper 91-4, U.S. Department of Labor, 1991.

potentially suggests a lower commitment to starting a business, it will be important to examine the participation of such claimants in SEED services and their experiences in starting a business.

Information from the SEED application also indicates that treatment group members have extensive prior work experience. For example, the mean work experience is 20 years.<sup>29</sup> Moreover, roughly 85 percent of the treatment group members had prior work experience relevant to the proposed business, with an average of over 8 years of relevant experience. In addition, over one-third (36.6 percent) had previous experience in owning a business and 7 percent indicated they owned a business at the time of SEED application. These data suggest that the self-screening processes yielded a treatment group with extensive work and prior business experience, a small minority of whom were already in business for themselves.

In the final panel of Table 3.4, we provide information on the assets and liabilities of treatment group members. Based on these data, it appears that the average treatment group member potentially has access to substantial financial resources to support starting a business. For example, nearly one-half (46 percent) owned a home, with home equity amounting to over \$50,000. Moreover, two-thirds of the treatment group reported they had some cash resources -- such as savings accounts, checking accounts, money market accounts, stocks, bonds -- and that the average value of those resources was nearly \$12,000. More than one-half (56.3 percent) of the treatment group had a major credit card, which could potentially be used to charge personal or business expenses if necessary. Finally, in terms of liabilities, 71.4 percent currently had some consumer debt, with a mean value of just under \$6,700.

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<sup>29</sup>Work experience is defined as the number of years since age 16 in which the individual worked at least 6 months of the year.



Taken together, the information from the SEED application suggests that treatment group members have extensive work experience and generally have access to quite substantial resources available to support their business development efforts if needed.<sup>30</sup> In addition, information from Table 3.3 indicated that these individuals were eligible for nearly \$200 per week of UI payments for up to a 30-week period, which could generate a significant lump-sum payment if all project milestones were met.

### **Business Ideas**

In addition to the background characteristics of the individuals selected to participate in SEED, an important element that will likely affect certain outcomes of the demonstration (e.g., business development) concerns the types of businesses that individuals intend to establish. As shown in Table 3.5, the majority (53 percent) of the business ideas proposed by treatment group members in their SEED applications were in the service sector. This is the dominant type of business, with at least 40 percent of claimants in all sites proposing service businesses, ranging to a high of nearly 60 percent in King County. Other business types that were proposed with some degree of frequency include retail trade (20 percent), construction (10.5 percent) and manufacturing (8.5 percent).

### **Treatment Group Members by Site**

To get a better understanding of the types of claimants served by the SEED Demonstration across sites, in Table 3.6 we provide information on selected background characteristics of the treatment group members by site. As this table indicates, there are

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<sup>30</sup> Although the treatment group members on average appear to have access to considerable resources, a potential concern was whether a significant number of SEED individuals had very few resources to draw on. To explore this issue, we calculated the proportion of treatment group members who did not have specific combinations of assets. These results indicated that virtually all treatment group members had some assets. For example, only 5.8 percent did not own a home and had no cash resources.

Table 3.5

Types of Businesses Proposed by Treatment Group by Site  
(Percent)

Type of Business	All Treatment Group Members (N = 755)	Site					
		Vancouver (N = 155)	Olympia (N = 94)	King County (N = 286)	Snohomish County (N = 100)	Wenatchee (N = 58)	Yakima (N = 62)
Construction	10.5	8.4	13.8	8.0	14.0	12.1	14.5
Manufacturing	8.5	10.3	8.5	8.0	9.0	8.6	4.8
Transportation/Utilities	1.9	1.9	0.0	2.8	1.0	3.5	0.0
Wholesale Trade	2.8	1.9	2.1	3.9	2.0	3.5	1.6
Retail Trade	20.0	23.9	18.1	16.4	15.0	29.3	29.0
Finance or Real Estate	2.0	2.6	3.2	1.8	2.0	1.7	0.0
Services	53.0	49.7	48.9	58.7	55.0	41.4	48.4
Other	1.3	1.3	5.4	0.4	2.0	0.0	1.7

Table 3.6

## Characteristics of Treatment Group by Site

Claimant Characteristics	All Treatment Group Members (N = 755)	Site					
		Vancouver (N = 155)	Olympia (N = 94)	King County (N = 286)	Snohomish County (N = 100)	Wenatchee (N = 58)	Yakima (N = 62)
<b>Demographics</b>							
Percent male	66.5	69.7	69.1	63.3	67.0	63.8	71.0
Percent white	91.3	95.5	98.9	88.7	92.9	91.4	79.0
Percent high school graduate	31.5	44.5	29.8	21.0	32.0	32.8	48.4
Percent some college	32.6	32.9	36.2	30.8	32.0	36.2	32.3
Percent college graduate	29.5	17.4	24.5	44.4	30.0	12.1	14.5
Mean education (in years)	13.8	13.2	13.6	14.7	13.9	12.6	12.9
Percent age $\leq$ 24	4.4	5.8	9.6	3.8	0.0	1.7	4.8
Percent age $\geq$ 45	27.5	32.3	19.1	27.6	24.0	32.8	29.0
Mean age (in years)	39.4	39.4	37.4	39.6	40.2	40.2	39.2
<b>Prior Work Experience</b>							
Percent professional/technical/managerial occupation	38.9	33.3	36.2	50.9	39.0	15.8	23.0
Percent clerical occupation	12.2	13.1	12.8	11.4	10.0	8.8	19.7
Percent manufacturing sector	22.9	23.8	22.8	25.9	19.6	19.0	16.4
Percent services sector	29.0	28.6	26.1	31.6	34.0	22.4	21.3
<b>UI Entitlement</b>							
Mean weekly benefit amount (\$)	196	193	191	208	205	164	174
Mean maximum benefits payable (\$)	5,395	5,139	5,161	5,913	5,588	4,294	4,726
<b>Marital/Family</b>							
Percent married	63.2	64.3	71.0	54.2	65.0	81.0	71.0
Percent spouse working	40.7	37.2	41.8	36.8	46.9	50.9	45.8
Percent Expect to Return to Work	18.3	18.8	14.0	13.1	9.1	50.9	32.3
<b>Assets</b>							
Percent owned a business previously	36.6	38.8	41.5	33.0	40.8	36.2	34.4
Percent currently own a business	7.0	5.3	6.5	7.1	11.3	5.2	6.6
Percent homeowner	46.1	44.4	56.4	44.0	48.0	43.1	43.5
Mean home equity among homeowners (\$)	51,235	36,483	30,747	70,553	69,236	31,150	27,979
Percent with cash resources	66.0	60.6	58.5	73.3	71.0	53.4	61.3
Mean value of cash resources among those who have some cash (\$)	11,925	7,948	9,115	14,401	18,058	5,342	6,343

considerable differences across sites in the characteristics of SEED treatment group members. The most striking differences appear to be in King County, which served a quite advantaged population, as compared to the Wenatchee and Yakima sites, which served a relatively less advantaged population. Some of the major differences are summarized below:

- Approximately 75 percent of the treatment group in King County had attended (or completed) college, with a mean number of years of schooling completed of nearly 15. This compares to less than 50 percent having attended (or completed) college in Wenatchee or Yakima and an average number of years of schooling of less than 13.
- About one-half of the treatment group members in King County were most recently in professional, technical or managerial occupations as compared to just 15-23 percent in Wenatchee and Yakima.
- Treatment group members in Wenatchee and Yakima were much less likely to have been in the manufacturing or services sectors (38-41 percent) as compared to those in any other site (49-57 percent).
- UI entitlements were considerably higher in King County with a maximum benefits payable that averaged over \$5,900, as compared to about \$4,300-4,700 in the rural areas of Wenatchee and Yakima.
- King County treatment group members were less likely to be married (54.2 percent), particularly as compared to Wenatchee claimants (81 percent).
- Treatment group members in Wenatchee (50.9 percent) and Yakima (32.3 percent) were much more likely to report they expected to be called back to their previous employer than those in other sites.
- Treatment group members in King and Snohomish counties have more assets - in terms of home equity and cash resources -- than claimants in other sites, and particularly relative to those in the two rural sites.

These differences in the characteristics of treatment group members -- in terms of background factors, experience, resources and commitment to self-employment -- will be important to keep in mind in understanding the services received and in interpreting the results of the impact analysis.

### The Timing of Intake Activities

The SEED Demonstration was intended to be an early intervention program. It was anticipated that by recruiting claimants as early as possible in their claim for SEED and by providing services early that the program would serve individuals who most wanted to become self-employed (rather than those who had no other attractive option) and would be able to provide the maximum possible support to individuals during the business startup period. The program was designed to select individuals into the treatment group by the fourth or fifth week of the claim and have treatment group members attend business training modules by the fifth or sixth weeks. In the remainder of this chapter, we present data that show how these timing objectives were achieved in the SEED Demonstration.

Data on the timing of intake activities through assignment to the first service -- business training modules -- are summarized in Table 3.7. This table shows that the intake and recruitment processes occurred as planned. For example, the average length of time from the effective date of claim until Awareness Day was 18 days, or about 2.5 weeks. About 37 percent of the treatment group members attended an Awareness Day within 12 days of their effective date of claim (EDC) and another 47 percent attended Awareness Day 19 days after their EDC. Because a few claimants were re-scheduled for a later Awareness Day and some meetings were postponed because of holidays, a relatively small percentage (15.8 percent) did not attend a meeting until about 4 weeks after their EDC or slightly later. Moreover, there were relatively small differences in timing across sites, except for Wenatchee, which tended to have a somewhat longer time to Awareness Day.

The time from Awareness Day to random assignment took another 11 days on average. Thus, individuals in the treatment group were randomly assigned within 29 days from their EDC on average, or with about 4 weeks in total. Not surprisingly, there was relatively little variation across sites in the time from Awareness Day to random assignment.

Table 3.7

Timing of Intake Activities by Site  
(Percent)

Activity	All Treatment Group Members (N = 755)	Site					
		Vancouver (N = 155)	Olympia (N = 94)	King County (N = 286)	Snohomish County (N = 100)	Wenatchee (N = 58)	Yakima (N = 62)
<b>Effective Date of Claim to Awareness Day</b>							
≤ 12 days	36.9	38.1	42.6	36.0	39.0	25.9	37.1
19 days	47.3	52.9	40.4	47.6	46.0	51.7	40.3
≥ 26 days	15.8	9.0	17.0	16.4	15.0	23.4	22.6
Mean days	17.7	17.1	17.8	17.7	17.4	19.2	18.2
<b>Awareness Day to Random Assignment</b>							
≤ 6 days	29.0	22.6	35.1	32.2	32.0	27.6	21.0
7-13 days	59.1	61.9	56.4	60.5	48.0	60.3	66.1
≥ 14 days	11.9	15.5	8.5	7.3	20.0	12.1	12.9
Mean days	11.1	11.9	10.4	10.7	11.7	10.6	11.8
<b>Random Assignment to First Training Module</b>							
≤ 7 days	53.0	51.6	43.6	52.1	50.0	67.2	66.1
8-14 days	42.4	41.3	52.1	42.3	50.0	31.0	29.0
≥ 15 days	4.6	7.1	4.3	5.6	0.0	1.8	4.9
Mean days	10.2	10.5	10.5	10.2	10.4	9.4	9.4
<b>Mean Days from EDC to First Training Module</b>							
	39.0	39.5	38.7	38.6	39.5	39.2	39.4

Finally, in the bottom panel of Table 3.7 we show the length of time from random assignment to the scheduled date of the first training module. These data indicate that over 95 percent of the claimants were scheduled to attend their first business training module within two weeks of random assignment, with a mean of 10 days.

Taken together, we see that the average time from EDC to the date for the first training module was 39 days, or about 5 and one-half weeks. Thus, it appears that the timing and frequency of key intake and service activities described in Chapter 2 occurred on schedule and helped ensure that the goal of early intervention was achieved. Moreover, the design feature of consistent frequency of activities in all sites resulted in no differences on average in the timing of intake and initial service activities across sites, which will make it easier to understand potential reasons for differences in program impacts across sites.

#### **4. SEED BUSINESS SUPPORT SERVICES AND FINANCIAL ASSISTANCE**

As described in Chapter 2, individuals randomly assigned to the treatment group were offered a number of business support services and financial assistance. The business startup services component included intensive classroom training, assistance in preparing a business plan, individual counseling and peer support groups. The financial assistance included periodic self-employment allowance payments equal to their weekly benefit amount and a work search waiver while they were trying to start a business. Moreover, those who met all program milestones received a lump-sum payment equal to their remaining UI entitlement.

The extent to which SEED treatment group members dropped out or completed the program, the specific services received and differences in these factors across sites are important to understanding the results of the impact analysis. In this chapter, we examine the extent to which treatment group members received various SEED services.

##### **Business Training Modules**

Business startup assistance offered to treatment group members began with business training modules. Instructions for attending a set of four business training modules at a specific location were included in the letter sent to treatment group members informing them of their selection into SEED. As described above, the first training module was held, on average, about 10 days after random assignment. Although attendance at the first module was required -- to ensure the participation agreement was signed -- it was possible for subsequent modules to be waived by the business development specialist (BDS) if the claimant could demonstrate proficiency in the topics covered in these modules. Treatment group members who did not attend the first training module were dropped from the demonstration.



In Table 4.1 we provide information on business training module attendance. Of the 755 claimants in the treatment group, 640 (84.8 percent) attended the first training module. Thus, the dropout rate from the treatment group prior to business training was about 15 percent.<sup>31</sup> The initial commitment to self-employment, as indicated by attendance at the first module, was highest (nearly 88 percent) in King County, and ranged to a low of about 80 percent in the Wenatchee, Yakima and Olympia sites.

Among treatment group members who attended the first business training module, nearly all attended the remaining three modules, and very few waivers were granted. Specifically, the attendance rate (including the waiver) for the other three modules was 98--99 percent overall, with very little variation across sites. The number of claimants whose attendance was waived ranged from 3 for Module 4 to 9 for Module 3, and most of the waivers were given in King County and Vancouver.

In total, only 10 treatment group members attended the first training module and did not complete the other three modules. Taken together with the attendance rate results for the first module, this table indicates that the proportion of treatment group members who completed the set of four training modules ranged from a high of over 87 percent for King County, to 84 percent for Snohomish County and Olympia, and to 76-79 percent for the other three sites. The relatively high dropout rate for claimants in Wenatchee (24.1 percent) is consistent with the high proportion of those claimants who indicated that they expected to be called back to work by their previous employer.

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<sup>31</sup>If the self-screening process had perfectly identified a group of claimants committed to self-employment, the drop-out rate prior to the training modules would have been zero. The 15 percent drop-out rate experienced in SEED was, however, quite reasonable for such a demonstration program.

Table 4.1

Attendance at Business Training Modules by Site  
(Percent)

Business Training Modules	All Treatment Group Members (N = 755)	Site					
		Vancouver (N = 155)	Olympia (N = 94)	King County (N = 286)	Snohomish County (N = 100)	Wenatchee (N = 58)	Yakima (N = 62)
<b>Module 1</b>							
Percent attended	84.8	85.8	80.9	87.8	84.0	79.3	80.6
<b>Module 2 (Among those who attended Module 1)</b>							
Percent attended	98.6	97.7	97.4	98.4	100.0	100.0	100.0
Percent waived	0.8	1.5	0.0	1.2	0.0	0.0	0.0
<b>Module 3 (Among those who attended Module 1)</b>							
Percent attended	97.2	95.5	96.1	98.0	100.0	97.8	94.0
Percent waived	1.4	2.3	0.0	1.6	0.0	0.0	4.0
<b>Module 4 (Among those who attended Module 1)</b>							
Percent attended	98.1	97.0	96.1	99.2	100.0	95.7	98.0
Percent waived	0.5	1.5	0.0	0.4	0.0	0.0	0.0
<b>All Four Modules</b>							
Percent attended/waived	83.4	83.8	77.7	87.4	84.0	75.9	79.0

## **Business Counseling**

In their role as case managers, business development specialists provided assistance to treatment group members in the form of counseling on the preparation of a business plan and on other issues. The intent was for the BDS to take a proactive role and provide individualized counseling and assistance throughout the development of the business plan and business startup. To encourage this proactive role, an objective was established for the BDSs to make at least one follow-up contact with all participants during the first few weeks after the business training modules and prior to the End of the Waiver Period Review.<sup>32</sup>

In Table 4.2, we provide data on the individual counseling sessions recorded by the business development specialists. As this table indicates, there were a total of 1,613 counseling records in the PTS for the 755 treatment group members, or about 2.1 counseling activities per claimant. Among the subset of SEED participants who completed the four training modules, this corresponds to about 2.5 counseling activities per person.

For each counseling session, business development specialists recorded the primary topics of the session and the approximate time spent on each. As this table indicates, the major focus of the individual counseling sessions was on helping treatment group members develop a business plan. Overall, nearly one-half (47.7 percent) of the counseling activities recorded were focused on business plan development assistance.

As indicated near the bottom of the table, 22 percent of the counseling activities concerned either initial contacts (4 percent) -- to deal primarily with participation issues -- or to meet the objective of the one follow-up contact (18 percent).<sup>33</sup> If these contact-only

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<sup>32</sup>This objective was formalized for the full demonstration period based on the results of the pilot study, which suggested that the BDSs were not taking a very proactive role as case managers.

<sup>33</sup>Although the rate of specific follow-up contacts appears to be low in most sites, it must be noted that 91.4 percent of all participants who completed the four training modules either received counseling, participated in an Entrepreneur Club meeting, or were contacted by their business development specialists. Thus, only 8.6 percent of these individuals had no further contact with their BDS.

Table 4.2

Distribution of Counseling Activities by Site  
(Percent)

Counseling Activities	All Counseling Activities (N = 1,613)	Site					
		Vancouver (N = 318)	Olympia (N = 141)	King County (N = 640)	Snohomish County (N = 196)	Wenatchee (N = 193)	Yakima (N = 125)
Starting a New Business	6.3	9.1	13.5	5.3	1.5	4.2	6.4
Business Plan	47.7	68.9	30.5	47.5	44.9	28.5	48.0
Sources of Credit/Financing	1.6	0.6	4.3	2.0	2.0	0.0	0.8
Sales/Advertising/Promotion	5.7	0.6	17.7	1.2	21.9	2.1	8.0
Market Research	1.9	1.3	5.0	1.7	0.5	0.5	5.6
Accounting/Financial Statements	2.4	0.6	1.4	3.9	4.6	0.0	0.8
Initial Contact	4.0	0.0	0.0	4.1	14.8	0.0	8.0
Follow-up Contact	18.0	0.0	7.1	24.7	2.6	52.3	12.8
Miscellaneous	12.4	18.9	20.5	9.6	7.2	12.4	9.6

activities (i.e., sessions at which no counseling actually occurred) were not included, these results indicate that nearly 60 percent of the counseling sessions during which counseling was performed focused on providing business plan assistance.

The results in Table 4.2 indicate that relatively little counseling on special topics was provided, except in so far as it related to the business plan. That is, only 6 percent of the counseling records specifically indicated counseling on the topics of sales, advertising or promotion, and another 6 percent dealt with accounting, market research or financing. In addition, approximately 6 percent of the counseling activities involved the provision of general business startup assistance.

There appear to be considerable differences in the counseling activities across the six demonstration sites. For example, the average number of counseling activities ranged from a low of 1.5 in Olympia to a high of 3.3 in Wenatchee. The high number of counseling activities in Wenatchee is striking, particularly in light of the large proportion of early drop-outs in that site. This is partly due to efforts in maintaining contact with participants and recording many contact-only counseling activities. Specifically, over one-half (52 percent) of the reported counseling activities in Wenatchee were related to the objective of one follow-up contact with each participant, with an average number of contact-only activities of nearly two. This is in strong contrast to the sites of Vancouver, Olympia, and Snohomish County, where very few follow-up contacts-only were recorded.<sup>34</sup>

The other difference across sites that is noteworthy concerns the topic of sales, advertising and promotion. Only two sites -- Olympia and Snohomish -- reported counseling sessions for a significant number of demonstration participants on the topic of sales, advertising and promotion. Specifically, about one-fifth of the counseling activities in

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<sup>34</sup>This could reflect differences across BDSs in the extent to which the contact-only objective was pursued, differences in how counseling activities were recorded across sites, or differences in the extent to which the contacts led to counseling on other topics and that were recorded under those other activities.

these two sites focused on these issues, as compared to only 1-2 percent in most other sites. This difference could reflect differences in the experience and expertise of the BDSs in the sites, or differences in the needs of the claimants served.

Additional information concerning the extent of counseling received by SEED participants is provided in Table 4.3. In this table, we present the distribution of total (actual) counseling hours per treatment group member overall and by site, after excluding all recorded counseling activities that were contact-only. As this table indicates, 70 percent of the treatment group received some counseling, with an overall mean of 1.5 hours.<sup>35</sup> The results also indicate that very few participants received a substantial amount of counseling, with only 19 percent receiving 3 hours or more.

There were, however, considerable differences in the number of counseling hours by site. For example, over 40 percent of the treatment group members in Vancouver received at least 3 hours of counseling, as compared to 2-7 percent in Snohomish County, Olympia or Wenatchee. Overall, it seems that there was relatively little counseling in Olympia, Wenatchee and Snohomish County, with an average of 0.6-0.9 hours per person.

Although not reported in Table 4.3, we also examined the extent to which counseling occurred before and after the business was established. Among those who received a lump-sum payment, the average number of hours of counseling was 2.3. This compares to 0.5 hours of counseling for individuals who did not complete all milestones and receive a lump-sum payment. Treating all counseling as before the lump-sum payment for those who did not get a payment, our results indicate that about 85 percent of the total counseling hours occurred before receipt of the lump-sum payment. Thus, for the most part, it appears that counseling services were minimal after receipt of the lump-sum payment.

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<sup>35</sup>When calculated over the 630 treatment group members who completed all four training modules, the average increases to about 1.8 hours each.

Table 4.3

Distribution of Hours of Business Counseling Per Treatment Group Member by Site  
(Percent)

Total Counseling Hours	All Treatment Group Members (N = 755)	Site					
		Vancouver (N = 155)	Olympia (N = 94)	King County (N = 286)	Snohomish County (N = 100)	Wenatchee (N = 58)	Yakima (N = 62)
None	29.9	32.3	38.3	25.9	23.0	43.1	29.0
.1-.9	17.8	5.8	40.4	8.7	40.0	32.8	4.8
1-1.9	20.8	9.7	17.0	29.0	27.0	12.1	14.5
2-2.9	12.6	9.0	1.1	17.1	8.0	5.2	32.3
3-3.9	8.6	12.9	2.1	12.2	2.0	5.2	4.8
4-4.9	4.4	9.7	1.1	4.6	0.0	1.7	4.8
≥ 5	6.0	20.6	0.0	2.5	0.0	0.0	9.7
Mean hours of counseling	1.5	2.7	0.6	1.6	0.9	0.7	2.0

### Other Business Support Services

In addition to the business training modules, and individualized counseling, the SEED Demonstration included a peer support group in each site and BDSs were to refer participants to other sources of assistance available in the community as needed. Below we briefly describe the extent to which SEED participants received these services.

Beginning in the second or third months of the demonstration -- after a sufficient number of new treatment group members were available -- Entrepreneur Club meetings were scheduled on a monthly basis. Thus, for claimants who were enrolled early in the demonstration it was possible for them to attend up to 12 different meetings, as compared to up to about 6 meetings for those who enrolled late in the demonstration. In Table 4.4 we provide information on attendance at the Entrepreneur Club meetings.

The results in Table 4.4 indicate that the majority of treatment group members did not take advantage of this optional peer-support group. Specifically, nearly two-thirds (64.1 percent) of all treatment group members did not attend any Entrepreneur Club meetings.<sup>36</sup> Moreover, the mean number of meetings attended was .7. This indicates that among those participants who attended at least one meeting, the average number of meetings attended was about two. The attendance at these peer-support meetings was lowest in Vancouver and Wenatchee, and highest in Yakima and Olympia.

Another form of business startup services available was referral to other agencies for assistance as needed. PTS data suggest that very little of this form of assistance occurred during the SEED Demonstration. Specifically, there were only 43 referral service records in the PTS. Moreover, 37 of these records were for the Vancouver site, and the remaining six were for claimants in King and Snohomish counties; there were no referral records for the other three sites. Although the lack of referral records may reflect some

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<sup>36</sup>This corresponds to 57.1 percent of all claimants who completed the four training modules.



Table 4.4

Distribution of Number of Entrepreneur Club Meetings Attended Per Treatment Group Member by Site  
(Percent)

Number of Entrepreneur Club Meetings Attended	All Treatment Group Members (N = 755)	Site					
		Vancouver (N = 155)	Olympia (N = 94)	King County (N = 286)	Snohomiah County (N = 100)	Wenatchee (N = 58)	Yakima (N = 62)
None	64.1	72.9	60.6	62.2	60.0	67.2	59.7
1	17.5	15.5	19.1	20.6	16.0	15.5	9.7
2	8.6	4.5	6.4	7.7	14.0	12.1	14.5
3	4.5	3.2	4.3	4.6	5.0	3.5	8.1
≥ 4	5.3	3.9	9.6	4.9	5.0	1.7	8.1
Mean number of meetings attended	0.7	0.6	0.9	0.7	0.8	0.6	1.0

under-reporting of this activity, it is also likely to partly reflect the lack of other business support services in some of the rural sites. In addition, the small amount of this activity is consistent with the views of some BDSs that participants did not need any assistance other than what they were receiving from SEED. Information from the follow-up surveys may be useful to better understand SEED participants' service needs.

### **Financial Assistance**

In addition to receiving their regular weekly UI benefit amount, SEED treatment group members received two other forms of financial assistance: (1) a waiver of the work-search requirement while working full-time to start a business, and (2) a lump-sum payment equal to the remaining entitlement at the time all five milestones were met. Below we describe SEED Demonstration experiences with these financial assistance elements.

### **Work Search Waiver**

The work search waiver enabled SEED participants to spend full-time in the pursuit of their business startup plans rather than actively search for employment, as is normally required for UI recipients. The duration of the weekly benefit payments and the work search requirement waiver was initially set at 10 weeks. A couple of weeks before the waiver was to expire, treatment group members who had not met all milestones were sent a letter instructing them to contact their BDS for an End of Waiver Period Review.<sup>37</sup>

The purpose of the End of Waiver Period Review was to assess the progress of SEED participants in achieving the five milestones and to determine whether the work search waiver should be extended. Participants who were judged to be close to attaining the milestones were to be granted an extension of a few weeks, the exact length of the extension

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<sup>37</sup>For participants who did not contact the BDS to schedule this review, the BDS initiated the contact and set an appointment.

being at the discretion of the BDS and depending on factors such as the nature of the business being established. In Tables 4.5 and 4.6 we provide information on the waiver review process.

The results in Table 4.5 indicate that only 149 claimants were recorded as having at least one End of Waiver Period Review.<sup>38</sup> These results correspond to the first End of Waiver Period Review and indicate that in Olympia, King County, Snohomish County and Wenatchee these reviews generally occurred about 10 weeks after random assignment as planned. Specifically, only 8 percent of the End of Waiver Period Reviews in King County occurred before 9 weeks, and none of the reviews in the Olympia, Snohomish or Wenatchee sites occurred before 9 weeks. Moreover, a relatively small proportion of these reviews (20-29 percent) occurred after 12 weeks.

In the two remaining sites (Yakima and Vancouver), the results were quite different. In Yakima, there were no End of Waiver Period Reviews recorded during the demonstration. This is largely due to the very high proportion of SEED participants who completed all milestones before Week 10 or had dropped out of the program by that time.

In Vancouver, on the other hand, a substantial number of End of Waiver Period Reviews were reported before Week 6 (38.4 percent) and another 25.4 percent were reported between Weeks 6 and 9. These early meetings in Vancouver, however, were not likely to be comparable to those in other sites. That is, End of Waiver Period Reviews were generally initiated by letters, mailed about Week 8, informing participants to schedule an appointment with their BDS. Since many of the Vancouver meetings were not initiated by these letters, they should not have been recorded as End of Waiver Period Reviews. Most

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<sup>38</sup>Including additional reviews for claimants who had more than one review, the total number of End of Waiver Period Reviews was 204.

Table 4.5

Time to First End of Waiver Period Review by Site  
(Percent)

Time	All With End of Waiver Review (N = 149)	Site					
		Vancouver (N = 86)	Olympia (N = 5)	King County (N = 38)	Snohomish County (N = 8)	Wenatchee (N = 12)	Yakima (N = 0)
≤ 6 Weeks	22.1	38.4	0.0	0.0	0.0	0.0	—
6 - 9 Weeks	16.8	25.6	0.0	7.9	0.0	0.0	—
9 - 12 Weeks	47.7	29.1	80.0	63.2	75.0	100.0	—
≥ 12 Weeks	13.4	7.0	20.0	29.0	25.0	0.0	—

Table 4.6

Results of First End of Waiver Period Review by Site  
(Percent)

Waiver Review Result	All With End of Waiver Review (N = 149)	Site					
		Vancouver (N = 86)	Olympia (N = 5)	King County (N = 38)	Snohomish County (N = 8)	Wenatchee (N = 12)	Yakima (N = 0)
Waiver Extended	48.3	16.3	80.0	94.7	100.0	83.3	—
Waiver Not Extended	2.7	0.0	0.0	5.3	0.0	16.7	—
Approved for Lump Sum	49.0	83.7	20.0	0.0	0.0	0.0	—

likely, the meetings in Vancouver were general discussions about progress rather than End of Waiver Period Reviews.

In summary, while substantial consistency was found across most sites, some variation in End of Waiver Period Reviews did occur. Much of the observed variation, however, was likely due to recording differences rather than real implementation differences.

In Table 4.6 we present the results of the first End of Waiver Period Review. The three possible results were extending the waiver, not extending the waiver (and returning the claimant to the UI system to search for regular employment), or determining that the claimant had met all of the milestones and approving the lump-sum payment. As this table indicates, with the exception of Vancouver, the large majority of first waiver reviews (80-100 percent) resulted in the waiver being extended, and very few claimants were instructed to return to regular UI. In contrast, the large majority of Vancouver treatment group members with an End of Waiver Period Review were approved for their lump-sum payment at that time. Thus, it appears that the BDSs in Vancouver generally completed an End of Waiver Period Review service record whenever they approved a claimant for a lump-sum payment, even if the claimant had not been instructed to schedule such a review. This helps explain the unusual timing of these reviews in Vancouver noted above.

Because the majority of End of Waiver Period Reviews that were recorded for SEED participants occurred for Vancouver claimants -- 86 of 149 (57.7 percent) -- and since most of these appear to have been in error, the most striking feature of these results is the limited extent to which such reviews were conducted at all. This result, however, was to be expected since the End of Waiver Period Review was essentially a tool for reviewing those cases that remained in the SEED program beyond Week 10 without completing the milestones or dropping out. It is not surprising that only a small fraction of individuals fell into this category.

### Lump-Sum Payment

To receive a lump-sum payment, SEED participants had to achieve five milestones:

- Complete the training modules;
- Develop an acceptable business plan;
- Establish a business bank account;
- Satisfy all licensing requirements; and
- Obtain adequate financing.

Although the intent was for participants to contact their BDS on an ongoing basis to report the completion of milestones, in practice this did not occur. For example, nearly two-thirds (64.8 percent) of those who received a lump-sum payment achieved the final four milestones on the same date. This ranged from a low of about 40 percent in Vancouver and Wenatchee to a high of 96.9 percent in Snohomish County. As a result, very few SEED participants were recorded as having achieved different combinations of milestones. Specifically, only six treatment group members completed multiple (but not all) milestones, and five of these did not obtain adequate financing.

In Table 4.7 we provide summary information on the proportion of SEED treatment group members who received a lump-sum payment, as well provide an indication of where in the process others dropped out. Through March 1991, a total of 450 treatment group members, or approximately 60 percent, had completed all milestones and received a lump-sum payment. Approximately \$1.9 million have been paid to date in the form of lump-sum payments, with an average payment of slightly over \$4,200. The average lump-sum payment varied considerably across site and tended to be much higher in the urban areas of King and Snohomish County and lower in the rural sites.

The proportion of treatment group members who received a lump-sum payment ranged from a low of 47 percent in Wenatchee to a high of 65 percent in Snohomish County. The 47 percent rate in Wenatchee corresponds to about 62 percent of those who completed the training modules, which is much lower than the 71.6 percent overall average among such participants. The particularly low lump-sum rate in Wenatchee reflects the higher initial

Table 4.7

Summary of Specific SEED Activities by Site

	All Treatment Group Members (N = 755)	Site					
		Vancouver (N = 155)	Olympia (N = 94)	King County (N = 286)	Snohomish County (N = 100)	Wenatchee (N = 58)	Yakima (N = 62)
Percent Did Not Attend Module 1	15.2	14.2	19.1	12.2	16.0	20.7	19.4
Percent Attended Module 1 But Not All Modules	1.4	1.9	3.2	0.3	0.0	3.4	1.6
Percent Attended All Modules But Did Not Receive Lump-Sum Payment	23.7	27.7	16.0	26.2	19.0	29.3	16.1
Percent Attended All Training Modules and Received Lump-Sum Payment	59.7	56.1	61.7	61.2	65.0	46.6	62.9
Average Lump-Sum Payment (\$)	4,225	4,141	4,167	4,417	4,327	3,442	4,005



dropout rate in that site, and appears to be partly due to the large number of treatment group members in the site who expected to be called back to their previous employer.<sup>39</sup> In addition, as described in Chapter 5, there were some differences across BDSs in the level of detail required in the business plan that may have contributed to the observed differences across sites in the proportion who received a lump-sum payment and the timing of the payment.

In Table 4.8 we provide information on the length of time after random assignment it took for individuals to receive their lump-sum payments. As this table indicates, 44 percent of all treatment group members who received their lump-sum payment received it within 6 weeks of random assignment (or within approximately 4.5 weeks after the business training modules). Another 17.4 percent took more than 12 weeks after random assignment to complete all of the milestones required to receive the lump-sum payment. Overall, the average length of time after random assignment until receipt of the lump-sum payment was 7.8 weeks. Since it took approximately 4 weeks on average from the effective date of claim to random assignment, this indicates that treatment group members who received a lump-sum payment did so within about 12 weeks after their effective date of claim on average.

There were several noteworthy differences in the time taken to lump-sum payment across sites. For example, no treatment group members received a lump-sum payment in Wenatchee within 3 weeks of random assignment, whereas nearly 30 percent of the SEED participants in Snohomish County received their lump-sum payment during the same

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<sup>39</sup>As indicated in Chapter 3, over 50 percent of the treatment group members in Wenatchee reported in their SEED applications that they expected to be called back to work by their previous employer. Additional analysis revealed that individuals in all sites who indicated they expected to be recalled were much less likely to receive a lump-sum payment than other claimants. Specifically, only 46 percent of those who expected to be recalled received a lump-sum payment, as compared to 62.8 percent of other claimants.

Table 4.8

**Time from Random Assignment to Lump-Sum Payment by Site  
(Percent)**

Time to Lump-Sum Payment	All Lump-Sum Recipients (N = 450)	Site					
		Vancouver (N = 87)	Olympia (N = 58)	King County (N = 174)	Snohomish County (N = 65)	Wenatchee (N = 27)	Yakima (N = 39)
≤ 3 Weeks	8.9	4.6	3.4	7.5	29.2	0.0	5.1
3 - 6 Weeks	35.1	31.0	56.9	26.4	32.3	25.9	61.5
6 - 9 Weeks	21.6	26.4	24.1	19.5	15.4	33.3	18.0
9 - 12 Weeks	17.1	19.5	8.6	20.7	12.3	22.2	12.8
12 - 15 Weeks	11.8	9.2	6.9	20.7	1.5	11.1	2.6
≥ 15 Weeks	5.6	9.2	0.0	5.2	9.2	7.4	0.0
Average Number of Weeks	7.8	8.6	6.4	8.7	6.5	8.7	5.7

period.<sup>40</sup> Moreover, over 60 percent of those who received a lump-sum payment in Yakima, Snohomish County and Olympia did so in less than 6 weeks after random assignment. This is in sharp contrast to the other three sites where 26-36 percent of the lump-sum recipients received their payment after 6 weeks. Overall, these results indicate that treatment group members who received a lump-sum payment in Vancouver, King County or Wenatchee averaged nearly 9 weeks from random assignment, as compared to roughly 6 weeks in the other three sites. This suggests potential differences across sites in the types of businesses established, the needs of claimants, or the ways in which BDSs assessed the achievement of milestones.

### **Businesses Established**

In Table 4.9 we provide information on the businesses established by SEED participants who received a lump-sum payment. These results indicate that the majority (53.5 percent) of the businesses established were in the service sector. Other SEED businesses were spread out over the other sectors with manufacturing (13.1 percent) and retail trade (12.3 percent) accounting for most of the remaining, followed by construction (8.0 percent) and wholesale trade (5.8 percent). Although there were some differences across sites, services were clearly the dominant business type in all sites.

Although the data in Table 4.9 clearly demonstrate that most businesses established by SEED participants were in the service sector, they do not provide much insight into the types of businesses established. Table 4.10 provides additional information on the types of businesses established by project participants. As this table indicates, the largest number of

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<sup>40</sup>The exceptionally high lump-sum payment rate in Snohomish County in the first 3 weeks after random assignment occurred because the BDS initially treated the milestone review process as pro forma and approved large numbers of claimants for their lump-sum payment at the end of the fourth training module. Virtually all of these early approvals occurred during the first two months of the demonstration. This situation was corrected following a May 1990 meeting with business development specialists to discuss the milestone review process and other issues. See Chapter 5 for additional information.

Table 4.9

**Types of Businesses Established by SEED Participants by Site  
(Percent Provided in Parentheses Below Number)**

Type of Business	All Lump-Sum Recipients (N = 449)	Site					
		Vancouver (N = 86)	Olympia (N = 58)	King County (N = 175)	Snohomish County (N = 65)	Wenatchee (N = 27)	Yakima (N = 38)
<b>Construction</b>	36 (8.0%)	7 (8.1%)	4 (6.9%)	12 (6.9%)	8 (12.3%)	1 (3.7%)	4 (10.5%)
<b>Manufacturing</b>	59 (13.1%)	14 (16.3%)	8 (13.8%)	19 (10.9%)	9 (13.9%)	4 (14.8%)	5 (13.2%)
<b>Transportation/Utilities</b>	12 (2.7%)	3 (3.5%)	0 (0.0%)	5 (2.9%)	2 (3.1%)	1 (3.7%)	1 (2.6%)
<b>Wholesale Trade</b>	26 (5.8%)	4 (4.7%)	4 (6.9%)	15 (8.6%)	1 (1.5%)	1 (3.7%)	1 (2.6%)
<b>Retail Trade</b>	55 (12.3%)	10 (11.6%)	6 (10.3%)	15 (8.6%)	8 (12.3%)	7 (25.9%)	9 (23.7%)
<b>Finance or Real Estate</b>	15 (3.3%)	0 (0.0%)	3 (5.2%)	7 (4.0%)	4 (6.2%)	1 (3.7%)	0 (0.0%)
<b>Services</b>	240 (53.5%)	46 (53.5%)	33 (56.9%)	100 (57.1%)	33 (50.8%)	12 (44.4%)	16 (42.1%)
<b>Other</b>	6 (1.3%)	2 (2.3%)	0 (0.0%)	2 (1.1%)	0 (0.0%)	0 (0.0%)	2 (5.3%)

Table 4.10

Detailed Descriptions of Businesses  
Established by SEED Participants

Construction (36)

General (18)  
Specialties (e.g., painting, plumbing, roofing,) (18)

Manufacturing (59)

Clothing (14)  
Publishing (13)  
Value-Added Wood Products (5)  
Miscellaneous (27)

Transportation/Utilities (12)

Travel Agencies (5)  
Trucking (3)  
Shipping (3)  
Recycling (1)

Wholesale Trade (26)

Retail Trade (55)

Restaurant/Cafe/Catering (11)  
Food/Beverage Cart, Stand, or Van (10)  
Auto Parts/Accessories (6)  
Computer Sales (4)  
Mail Order (4)  
Miscellaneous (20)

Finance or Real Estate (15)

Property Management/Real Estate Brokers (8)  
Insurance/Financial Advising (7)

Services (240)

Computer Service (32)  
Accounting/Bookkeeping (26)  
Residential Building Maintenance and Cleaning (18)  
Landscaping Services and Lawncare (16)  
Auto Repair/Painting (16)  
Management Consulting (14)  
Graphic Arts/Design (12)  
Miscellaneous (106)

businesses established in the services sector involved computer services (e.g., software development, desktop publishing, data-entry, word processing services) and accounting/bookkeeping services. There were also a substantial number of businesses established that provided building maintenance services, landscaping services, and auto repair and painting services.

The businesses established by SEED participants could potentially differ somewhat from the types of businesses that treatment group members initially proposed in their SEED application for two reasons. First, some participants may have changed their business idea. Second, certain types of businesses may have been more difficult to start, making it more difficult for these individuals to receive their lump-sum payment.

For the most part, it appears that the distribution of businesses initially proposed by treatment group members matches reasonably closely with the businesses started by those who received a lump-sum payment. In particular, a comparison of Table 3.5 with Table 4.9 indicates that 53 percent of all business ideas initially proposed by treatment group members were in the services sector, as compared to 53.5 percent of those who received a lump-sum payment. Although there were some differences in the manufacturing and retail trade sectors, these differences were not large and could be due to minor differences in coding the brief descriptions of businesses.<sup>41</sup> Thus, based on data available to date, it appears that the businesses established by SEED participants were generally representative of the businesses initially envisioned by the broader population of all treatment group members.

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<sup>41</sup>The SIC codes for the businesses that were ultimately established by SEED participants were assigned by the business development specialists. The SIC codes for the business ideas listed in the SEED application were assigned by Battelle staff based on the description contained in the application file in the PTS. Differences in coding are expected to be minor at the one-digit level.

## **5. ASSESSMENT OF SEED IMPLEMENTATION AND OPERATIONS**

Previous chapters have focused on the flow of claimants through the various intake steps and through receipt of different SEED services, while providing only limited information on the content of the activities. In this chapter, we switch our focus and examine the implementation and operation of the different program intake steps and services. We describe the major demonstration elements, discuss whether they were implemented as planned, and indicate any differences observed in implementation across sites. We also describe any operational problems and issues that arose during the course of the demonstration that should be kept in mind when interpreting estimated program impacts.

The results described in this chapter are based on multiple data sources. The most important data source were protocols completed to document various demonstration monitoring activities. In addition, the chapter draws on information obtained from discussions with Awareness Day Coordinators and business development specialists, PTS data, and information from discussions with a few participants and participant training evaluation forms. Below we describe the general features of the monitoring plan for the demonstration and the types of data collected. We then present our results based on the monitoring activities and other data sources.

### **SEED Demonstration Monitoring**

The implementation and process analysis was based in large part on extensive monitoring. The major objectives of the monitoring effort were to:

- Collect data for the process analysis to enrich our understanding of the findings;
- Help assess whether the demonstration was implemented consistently across sites as planned;

- Help identify program strengths and weaknesses; and,
- Provide management assistance to sites during the operation of the program.

Monitoring of SEED activities was a collaborative effort by State, Battelle and DOL staff. A master schedule of monitoring visits was prepared jointly by research contractor and SEED Unit staff. Site visits were coordinated through the SEED Project Unit to ensure coverage of as many different activities as possible, across all sites, throughout the operational period of the demonstration.

Activities that were monitored included:

- Awareness Day meetings;
- Application review and data-entry process;
- Random assignment;
- Business training modules;
- Entrepreneur club meetings; and
- Individual counseling sessions, including milestone reviews, End of Waiver Period Reviews, and Business Status Reviews.

To maximize the amount of uniform information collected across monitoring activities and among monitors, standard protocols were used by each monitor when observing demonstration events, and interviewing staff and SEED participants.<sup>42</sup>

The monitoring plan resulted in observing a total of 175 demonstration activities at the six sites. This included 98 business training modules, 18 Awareness Day meetings, 21 Entrepreneur Club meetings and 38 sessions between BDSs and participants. The sessions with individual participants included individual counseling sessions, End of Waiver Period Reviews, meetings to review completion of milestones, and two-month business status reviews.

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<sup>42</sup>Examples of the monitoring protocols are contained in M. Wood, "Washington State Self-Employment and Enterprise Development (SEED) Demonstration: Monitoring and Management Assistance Plan," August 1989.



Of the total of 175 demonstration activities that were observed, King County -- the site with the largest sample size -- accounted for the largest number of observations with 26 percent. The next largest number of activities monitored was for Snohomish County with 19 percent followed by the four sites of Vancouver, Olympia, Wenatchee and Yakima, which accounted for between 12-15 percent each.

In addition to observing specific activities, the monitoring effort also included interviews with demonstration staff using standard protocols. Site staff were interviewed a total of 26 times. Each BDS was interviewed at least twice during the demonstration and Awareness Day Coordinators were interviewed at least once.<sup>43</sup>

Limited information from SEED participants was also obtained for the process analysis. SEED participants were interviewed in groups, usually after business training sessions or Entrepreneur Club meetings. At least three participant group interviews were conducted at each site as part of the monitoring activities.

Finally, the application review and data-entry process that took place at the SEED Project Unit office in Olympia was observed on three occasions. Information from each of these sources was used as background to inform our review of SEED implementation and operations.

## **Demonstration Intake**

### **Inviting Targeted Claimants**

The automated processes used to invite targeted new claimants to Awareness Day meetings worked extremely well during the demonstration. As described below, the only element of this process that required changes during the demonstration was the sub-

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<sup>43</sup>In four of the six sites the coordinators were interviewed more than once.

sampling rate that was applied to the eligible target population to regulate the flow of claimants at the beginning of the intake pipeline.<sup>44</sup>

The original sub-sampling rates set for the demonstration were based on take-up rate estimates developed from the pilot study, in combination with expected claimant flow in each site. The sub-sampling rates also took into account the business development specialist resources that were available in each site and the goal of having similar training class sizes across sites. These factors resulted in the following initial sub-sampling rates by site:

- Vancouver 100 percent
- Olympia 100 percent
- King County 60 percent
- Snohomish County 80 percent
- Wenatchee 100 percent
- Yakima 80 percent

In three sites -- Vancouver, Wenatchee and Yakima -- the initial sub-sampling rates remained unchanged throughout the demonstration. In the other sites, however, some changes were required to deal with a combination of increased claims loads, higher than expected take-up rates, and demonstration space constraints. In Olympia, the rate was reduced from 100 percent to 80 percent within the first month of the demonstration and was kept at 80 percent throughout. In the other two sites, the rate changed twice: in King County to 50 percent in early April 1990 and then to 40 percent in the middle of May 1990; in Snohomish County the rate was changed to 60 percent in the middle of April 1990 and then to 40 percent in the middle of May. The sub-sampling rates remained at 40 percent in these two sites for the rest of the demonstration.

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<sup>44</sup>In addition, in Yakima and Wenatchee early in the demonstration it was determined that non-English speaking Hispanic claimants were not able to read the invitation letter. To ensure that such individuals would be potentially eligible for the demonstration, the invitation letter was revised in March 1990 to include an explanation in Spanish advising interested claimants to bring a translator to the meetings if needed.

### Awareness Day Meetings

Awareness Day meetings were the first demonstration activity. The goal of the meeting was to provide all claimants with information about the program, in a manner that would allow them to make an informed choice about whether to apply to SEED. Moreover, because both treatment and control group members attended these meetings, it was important to avoid providing any information about business services that could constitute "treatment" and potentially contaminate claimants who later were assigned to the control group.

To meet these goals, the format and content of the material presented at Awareness Day was designed to control the type of information given to claimants. This was accomplished through the use of video tapes that ensured that everyone who attended a meeting in any site would hear the same information, presented in the same way. The meeting agenda consisted of:

- Taking attendance;
- Welcoming claimants and explaining the purpose of the meeting;
- Showing the two videos;
- Explaining the application process;
- Providing claimants with the SEED Project's toll-free telephone number; and
- Answering any questions.

Awareness Day Coordinators reported that the meetings took about 45 minutes on average to conduct. The length varied depending on the number of people attending and the amount of time spent at the end of the session answering questions. At the 18 Awareness Day meetings observed during the monitoring process, the length ranged from a low of 30 minutes to a high of one hour and 16 minutes. The length of the meetings tended to be somewhat shorter (30-35 minutes) in Vancouver, where the coordinator preferred not

to answer questions and potentially give incorrect responses, but instead referred claimants with questions to the SEED toll-free number.

Although the monitoring reports for observations of Awareness Day meetings strongly confirm that the Awareness Day component of the demonstration was implemented as planned and served to inform targeted claimants in a consistent manner about the SEED Demonstration -- while not providing any business services information -- the Awareness Day Coordinators encountered a few operational problems as described below.<sup>45</sup> These problems include:

- Discomfort in not being able to respond to many claimant questions;
- Excessive time involved in taking attendance;
- Over-crowded meeting rooms in several sites; and
- Rescheduling claimants for Awareness Day.

Although each of these problems was to some extent due to the experimental nature of the program, and, as such, would not arise in an ongoing program, below we briefly discuss the different problems.

The kinds of questions asked by claimants at Awareness Day meetings generally fell into two categories: (1) questions about how demonstration participation would affect UI eligibility; and (2) questions about the business services to be offered by the demonstration. Coordinators who did not feel confident about how to respond to claimants' questions were more likely to answer few or no questions and to exhibit less enthusiasm for the program. Coordinators who were more confident would answer claimants' questions, but avoided giving information about business services by restating what was presented in the videotaped material.

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<sup>45</sup>In addition to these issues, all Awareness Day Coordinators agreed that the late Friday afternoon time slot (3:00 p.m.) for the meeting was not good for JSC staff, claimants or commuter traffic and that future programs should consider an alternative schedule.

No matter which style was employed, all coordinators made good use of the toll-free number, emphasizing that SEED Unit staff would be able to answer all questions. Generally, claimants were not allowed to pick up the application packet until after the question and answer period. However, the King County Awareness Day Coordinator allowed claimants without questions to pick up the SEED application package and leave prior to the question and answer period. There is no evidence indicating that this procedural difference affected program application or drop-out rates.

A second issue concerned the processes used to take attendance. For most of the demonstration intake period, attendance sheets were prepared once a week as part of the process of generating invitation letters for targeted new claimants. Since Awareness Day meetings were held bi-weekly, this meant that each site was sent two lists of claimants for a particular Awareness Day meeting. To record attendance, claimants were asked to find their name on one of the lists and sign next to it. Because of the large number of claimants invited to attend the Awareness Day sessions and the way the names were ordered on the lists (by first four digits of SSN), taking attendance consumed nearly as much time as the meeting itself and distracted claimants from the main purpose of the meeting. Because these lists were difficult to use, the attendance-taking procedure was modified in August 1990 to use a blank form with spaces to record names and social security numbers.

Third, early in the demonstration, a few sites experienced over-crowding at Awareness Day meetings due to the large number of claimants who were responding to the invitation. As described above, the sub-sampling rates were changed in three sites to deal with this problem. Although this eliminated the over-crowding in two of the sites, the meetings in King County continued to be crowded throughout the demonstration.

The final operational issue that arose in regard to the Awareness Day meetings concerned rescheduling claimants who could not attend the meeting to which they were invited. To meet the early intervention objective of the demonstration, invitation to

Awareness Day was designed to be a "one-time only" offer. It was thought that this would also serve as a self-screening mechanism and a test of the seriousness of a claimant's interest in self-employment. However, during the operational phase, many claimants offered compelling reasons for why they could not attend the scheduled meeting and SEED Project Unit staff allowed some of these claimants to be rescheduled for the next meeting. In total, 143 claimants -- 0.3 percent of all invited -- were rescheduled during the course of the demonstration.<sup>46</sup> Examples of reasons that were accepted include late mail delivery (i.e., on the day of meeting or later), jury duty, illness, injury, death in the family, traffic problems, and getting married.

#### **Application Review, Data Entry and Random Assignment**

The next steps in the intake process concerned the review, data-entry and screening of SEED applications, and the random assignment process. These steps continued the philosophy of using self-screening to identify the population most interested in self-employment. Below we provide some information on the experiences in operating these steps during the SEED Demonstration.

**Application Review and Screening.** The application-review process established for the pilot study and followed during the demonstration worked extremely well and served to yield a group of targeted claimants interested in self-employment. Moreover, the schedule established for this process helped to meet the early intervention goal of the demonstration.

Claimants interested in applying to SEED were required to fill out and return an application within seven days of the date they attended Awareness Day. These applications were mailed to the SEED Project Unit where a review of the applications was completed.

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<sup>46</sup>Of the 143 claimants who were re-scheduled for Awareness Day, 66 percent attended the subsequent meeting. This indicates that people who called to ask to attend another Awareness Day meeting were highly motivated to attend the meeting. Of those who attended the meeting, 69 submitted SEED applications, 33 were randomly assigned to the treatment group, and 22 received a lump-sum payment.

The applications were date-stamped upon receipt and checked to ensure that each was signed by the claimant. A few applications that arrived late were accepted by the SEED Unit if they could ascertain that the application had been mailed no later than the Friday following Awareness Day. This occasionally occurred in the Vancouver site, where mail posted on Friday in Vancouver was sent to Portland for processing and not canceled until Saturday.

The applications were also reviewed to ensure that the claimant's business idea was legal and not prohibited by SEED project rules. If the business idea was missing or unclear and SEED Unit staff were not able to reach the claimant, the application was considered to be "not substantively complete" and the claimant was not eligible for random assignment.

In the design phase, there was much discussion about whether active screening (e.g., feasibility of business idea, lack of assets) should be used to exclude applicants from the demonstration. During the pilot study, all applications were carefully scrutinized to identify approximately how many were potentially "questionable" and might be considered candidates for exclusion if active screening were implemented. However, the self-screening process tested in the pilot study generated high-quality applications and it was decided not to incorporate any active screening during full implementation of the demonstration.<sup>47</sup>

Experiences during the demonstration continued to be very consistent with the pilot study on this issue, and indicate that it is not necessary to have active front-end screening for a self-employment program targeted on experienced workers. Moreover, the recruitment and intake process combined clearly appears to have worked to meet the early intervention

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<sup>47</sup>Moreover, information obtained from a small sample of individuals who attended Awareness Day but did not submit applications indicated that the reasons they did not apply were often related to issues raised in the Awareness Day videos and in the SEED application. Thus, it appears that claimants were making an informed decision on whether to apply based on available information and that the steps included in the SEED design served a useful self-screening role.

objective of the SEED Demonstration and provide a group of claimants committed to self-employment.

**Data Entry.** Data from the SEED application provide extremely valuable information for program operations and for evaluation purposes. Not only did the applications identify claimants who wanted to be eligible for random assignment, and provide information necessary to judge whether the proposed business idea was eligible under SEED rules, it also provided extremely valuable baseline data on the characteristics of treatment group members and controls that are not available in the UI system. Moreover, these data have the potential of being of higher quality than data obtained from follow-up interviews, both because there are no response rate problems and the answers are obtained at a time when there is likely to be much less recall error.

To make maximum use of the information, all applications received were entered into the PTS each week prior to running the random assignment program. Based on our review of the application data, it appears that the data-entry process successfully supported SEED program operations.

**Random Assignment.** The next step in the SEED intake process was the random assignment of targeted new claimants who had a valid UI claim and who submitted applications with appropriate business ideas. Random assignment was conducted by the PTS every Thursday, using an automated routine. Although the automated process established fully met the evaluation goals of assigning eligible applicants into two comparable groups, the process required manual assistance from SEED staff to ensure it was successful from an operational standpoint. Much of this assistance was needed to deal with the unique nature of certain claims that could not have been anticipated in advance. Although these special circumstances required considerable SEED Unit staff effort to ensure that all applicants were treated appropriately, this would not be a problem for an ongoing program as random assignment would not be involved.



## **Business Training Modules**

The business training modules were designed to expose participants to the most important components of starting and operating a business and to provide the framework needed to plan their businesses. The design of the business training modules called for 20 hours of classroom time to be spent on four topics: feasibility, marketing, financial and accounting, and management and organization. The training schedule was designed so that the first module would begin on Thursday and sessions for the other modules would continue on Friday and the following Monday and Tuesday.

Through a highly-structured curriculum, video tape segments, slides, workbooks and handouts, the business development specialists exposed participants in all sites to the same core material. In addition, the specialists were free to add material they found relevant for their clients; to use as examples real situations from their own personal experiences; to provide information about the business resources available in their individual communities; and to structure the sessions around the particular needs and personalities of the participants.

The basic structure of the modules was as follows:

- Take attendance;
- Review material from previous module, questions about homework;
- Present subject matter through the use of lecture, video, slides and handouts, discussion and demonstration; and,
- Answer questions, and assign/review homework.

Despite the highly-structured design of the training curriculum, we observed some variation in the nature of the presentation among business development specialists, due to differences in personalities, expertise, interest and styles of instruction. For example, some of the business development specialists were most comfortable using a lecture style, while others tended more toward a discussion style format or a mix of the two styles. Although the material presented was the same for participants in a class where the instructor used a

lecture style as that where the instructor used a discussion style, the experience of the class may have been different, mostly due to the fact that the discussion style elicits more participation from the members of the class. In addition, the number of participants and the personality of the group affected the style of the sessions.

A noteworthy difference in the training modules across sites was variation in class size. Below we list the average class size, the range of class sizes by site and the number of training sessions held in each site during the demonstration.

Site	Average Class Size	Range in Class Size	Number of Sessions
Vancouver	4.8	1 - 8	26
Olympia	4.6	2 - 7	16
King County	7.2	4 - 12	32
Snohomish County	5.6	2 - 11	16
Wenatchee	3.0	1 - 5	15
Yakima	3.1	1 - 6	16

The smallest sites often experienced classes of one or two participants. In Wenatchee there were six training sessions with cohorts of one or two people while in Yakima this occurred seven times. Occasionally, for these very small cohorts, two modules were combined into one training day so that business training took two days instead of the normal four. This was done twice in Wenatchee and in Yakima. Very small training cohorts presented a problem for the business specialists because the framework and pace of the curriculum was designed for class sizes of around 5 to 10 people. Business development specialists felt an optimal class size would be between 6 and 7 participants, allowing for individual attention while still providing for an exchange of experiences and discussion.

Office space and facilities also caused problems for several sites during the demonstration. The Yakima site was disrupted by construction at their facilities during the

course of the demonstration. Also, early in the demonstration the training area for the Snohomish site was too small and not conducive for training. After negotiations with the building's other tenants, a more appropriate space to conduct training was secured for the remainder of the demonstration.

Below we briefly discuss the content and implementation of each of the four training modules.

### **Module 1: Feasibility**

The feasibility module was designed to be an introduction to the demonstration, an opportunity to read and sign the participation agreement and work search waiver, an explanation of the milestone requirements and a discussion of the importance of planning. In addition, the module provided participants with an opportunity to evaluate the feasibility of their business idea and to focus on the important factors to consider in developing a successful business venture.

Along with the letter informing claimants they had been selected to participate in the SEED Demonstration, they received "A First Analysis of A Business Venture" that they were asked to complete and bring to the first day of training.<sup>48</sup> This is a very detailed instrument that participants could use to begin to analyze their business idea. Business development specialists felt that the instrument was difficult for some claimants to complete and not always well-suited for analysis of the types of businesses claimants intended to start. They reported that some participants were overly discouraged by the complexity of the form and were sometimes discouraged when they reported to training. They also felt that the document likely served as an additional screening device and deterred some treatment group members from attending the first training module.

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<sup>48</sup>"A First Analysis of A Business Venture" is a business analysis form produced by the Small Business Development Center, Washington State University.

Nevertheless, the BDSs generally agreed that the intent of the "First Analysis" was appropriate to the program.

Another issue that arose during the first module was precipitated by the large number of questions that the BDSs received about UI eligibility issues and how the continued claims form was to be completed. The BDSs were quite uncomfortable in not being able to respond to numerous UI-related questions, which was particularly awkward at a time when participation agreements were to be signed. Although lists of answers to frequently asked questions were provided to each BDS (along with a mockup of a continued claim form to show treatment group members how to report that they are in SEED), BDSs reported they were never comfortable answering such questions throughout the demonstration. In an ongoing program, it may be desirable to have a knowledgeable local Job Service Center staff member attend the first module to handle UI eligibility questions.

### Module 2: Marketing

The second module was designed to provide participants with an overview of marketing techniques, market research, pricing and sales projections. The importance of having a well-defined product or service, identifying the market for the business and planning a marketing strategy were all emphasized. In addition, pricing strategy and how to arrive at sales projections were discussed.

This module was implemented as planned, although some of the business specialists felt that the content needed modification or expansion. BDSs found that as SEED participants progressed further in the process of planning and opening their businesses that marketing was an area of great difficulty. In particular, the lack of useful market research impeded writing their business plans and closing sales was a problem for people once they had begun their businesses. In the Olympia site, a portion of the marketing module was

covered on the first day of training to give participants an opportunity to use the local library and other resources to begin some of their market research.

### **Module 3: Financial and Accounting**

The third module introduced participants to the financial forms used in business such as the sales forecast, projected income statement, projected cash flow statement, balance sheet and break-even analysis. The content of this module was the most complex of the four sessions. As described below, participants indicated that this module was the one they felt "needed more time" to cover the material. To deal with this issue, in King County the BDSs did, for a short time, re-order the marketing and finance modules, choosing to present the finance module on Friday and allow participants time over the weekend to work on this module. However, to ensure consistency across sites, they went back to the original module order.

### **Module 4: Management and Organization**

The final module discussed forms of business structure, management and personnel issues, as well as business licensing. The milestone requirements were also reviewed and participants were reminded of the availability of business counseling. Some of the specialists considered the curriculum for this module to be too thin while others thought some of the material confused participants because it addressed the many different types of business organizations, when the large majority of participants were starting businesses as sole proprietors.<sup>49</sup>

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<sup>49</sup>Nearly 90 percent of all businesses established by SEED participants were as sole proprietors.

### Summary and Participant Evaluation

In general, observations from the monitoring visits confirmed BDS reports that they stayed with the agenda of the training modules and presented the materials as planned. Throughout the course of the demonstration the business training modules were generally conducted in a similar manner in all of the sites and implemented as designed. However, BDSs would have preferred more flexibility.

At the end of the fourth training module, participants were asked to complete a brief evaluation form concerning the training received. BAC and SEED Unit staff developed the evaluation form. The form contained seven items related to issues such as the usefulness of the training materials, time spent on each subject, the quality of the presentation, and whether the trainer was knowledgeable about the subject matter. Claimants were asked to rate the items on a five-point scale, with 5 representing the highest possible score. Space was also provided for participants to offer additional comments.

Of the 630 treatment group members who completed the set of four training modules, 578 evaluation forms (91.7 percent) were returned. In general, SEED participants rated the BDSs and the training received very highly. In particular, 85.8 percent of all participants gave their BDS the highest possible rating of 5 in terms of knowledge of subject matter, and only 1.7 percent rated the BDS a 3 or lower. In addition, about two-thirds (65.7 percent) of the participants rated the training received a 5 in terms of helping to understand the process necessary to start a business and another 29.6 percent rated the training a 4 on this dimension.

Results from the evaluation form also indicate some concern that the financial and marketing modules may have been too short. For example, only 33.7 percent of the SEED participants rated the adequacy of the time for the financial module a 5 and 34.6 percent rated it a 3 or less. In addition, only 38.9 percent rated the adequacy of the time for the marketing module a 5 and 26.5 percent rated it a 3 or less. This is consistent with what we

learned from business development specialists who felt that these two subject areas gave participants the greatest difficulty. Moreover, the remarks most often listed in the comments section of the evaluation form were either, "need more time overall" or "need more time" for these modules in particular.

### **Counseling Services, Business Plans and Milestone Reviews**

#### **Counseling Services**

As described in Chapter 4, most of the business counseling that took place during the demonstration was related to completion of the business plan. For the most part, the design of the demonstration left the responsibility for seeking counseling to the participants. Although business development specialists were given the goal to attempt to reach participants who had not contacted them within three weeks of the completion of business training, it was up to the participants to take initiative and ask for assistance as they needed it.

In observing the business training modules, we noted that all of the business development specialists made participants aware of the availability of counseling and clearly emphasized their willingness to provide assistance to anyone in need of help. Yet, during the course of the demonstration, business specialists reported that participants often did not seek counseling. As indicated in Chapter 4, a significant number of participants completed training and then ceased contact with their business development specialist until they were ready for milestone reviews. During interviews with SEED participants conducted as part of the monitoring of the program, we asked participants why they thought people did not seek out counseling. Generally, when speculating about others, participants said they thought people mostly wanted to "do this on their own." In regard to their personal use of counseling, participants felt they used it as much as they needed it.

The demonstration procedures called for the business development specialists to refer participants to other business development resources in the community as needed. As described in Chapter 4, there was very little evidence that this occurred in the demonstration. When asked, BDSs reported that they informed participants of the availability of other business counseling providers during the training modules; those who needed specific types of services were provided additional referrals. For the most part, the BDSs felt that their clients did not need referrals. It is possible that the data understates referrals since the general information provided by the BDSs about other resources may have been enough for some claimants to seek out other agencies for assistance. Information from the follow-up interviews may be useful in understanding this issue.

#### **Business Plans and Milestone Reviews**

Lack of adequate financing and poor management are two of the main reasons why some new businesses fail. For this reason, the SEED design required participants to complete a business plan as one of the qualifications for the lump-sum payment. The business training modules were designed to provide participants with an introduction to the basic tools they needed to successfully complete a business plan and counseling services were available to all who needed help with their plans.

The determination as to whether a plan adequately addressed the needs of an individual's business idea was left to the judgment of the business development specialists. The demonstration design did not require the BDSs to judge the plan in terms of whether the business would be successful, only to assess whether the plan adequately addressed the issues that would be important to the individual's business. Even so, discussions with the BDSs revealed that the approval process was inherently quite subjective. As described below, the criteria used to judge plans varied across BDSs, and also depended on the type of business.



Except for participants who sought outside financing, none of the specialists required plans as detailed as those required by financial institutions. Some specialists required that all financial forms be included, while others asked only for cash-flow projections, or projections along with a profit and loss statement. Some specialists required a type-written plan, others accepted handwritten plans, and a business development specialist in one site (Snohomish) accepted completed pages of the workbook as the plan.

Review procedures varied by BDS. Most BDSs gave their clients the option of presenting parts of the plan for approval or submitting the entire plan. Most required that participants leave the plan with them to allow time for review. The result of the review might be approval of the plan, or a requirement of additional work or modification of the plan.

All business development specialists reported that the quality of the plans varied widely. Most felt that the financial section of the plan caused people the most difficulty, and that the market research section of the plan was often the weakest part of their clients' plans.

An issue that arose early in the demonstration that affected BDSs approach to reviewing business plans and the achievement of other milestones concerned the view that the lump-sum payment was essentially an "entitlement". Some indicated that they assumed that if the participants completed the other milestones, the plans should also be approved so the participant could get a lump-sum payment. The demonstration design did not specify detailed business plan review guidelines, nor did it call for screening the business idea for viability. Lacking specific standards, some BDSs were confused about the level of detail to expect from the participants.

In May 1990, the BDSs met with the SEED Project Unit staff, the BAC staff and the research contractor for a one-day meeting to clarify the process and ensure that the plans be carefully reviewed before approving the lump-sum payment. During the meeting it was

emphasized that SEED -- unlike UI -- was not an entitlement program and that there were specific milestones that had to be met to ensure the proper use of public funds. After that meeting, there was greater emphasis across sites in the business plan review process. In addition, most sites began keeping copies of the completed plans, and -- with the permission of participants -- shared plans they felt were particularly good with new cohorts of participants to better illustrate what was expected of them.

### **Entrepreneur Club Meetings**

The Entrepreneur Club meetings were designed to be held monthly at all sites throughout the course of the demonstration. The purpose of these meetings was to allow SEED participants an opportunity to meet with their peers to discuss their self-employment efforts and experiences. The meetings were also meant to serve as an opportunity to provide participants with information that was not covered in the training modules.

The time of day the meetings were held varied among sites, with some choosing daytime hours while others held evening sessions. Each site made arrangements for guest speakers such as attorneys, accountants, bankers, business advisors and representatives from government taxing agencies. In addition, some sites showed video tapes on business topics and some participants brought their products to the meeting to show their peers.

In general, the Entrepreneur Club meetings were implemented as planned, although the frequency with which they were held was less often than designed in some sites. Only King County held a meeting every month of the demonstration. The smaller sites did not have enough participants who had completed business training to justify holding meetings early in the demonstration.

As discussed in Chapter 4, only about one-third of the treatment group members attended an Entrepreneur Club meeting. The number of Entrepreneur Club meetings held and the average number of attendees by site is listed on the following page.

Site	Number of Meetings	Average Number of Attendees
Vancouver	11*	6.9
Olympia	9	9.5
King County	12	17.8
Snohomish County	8	10.0
Wenatchee	8	4.4
Yakima	8	7.9

\* Count excludes meetings held during pilot study.

### **Business Status Reviews**

The business status reviews were designed to provide information for the evaluation by collecting data about the status of SEED businesses two months after the participants received the lump-sum payment. The review was also designed to serve as an opportunity to provide additional business counseling and support to participants who needed help. To maximize the opportunity for providing additional assistance, the reviews were to be conducted at the place of business, if possible. However, business development specialists were not required to go into a participant's home if the business was home-based.

Relatively few of the business status reviews were conducted at the place of business. This was in part because of the considerable number of home-based businesses. Most reviews were either done at the business assistance centers or by telephone, except for a few difficult-to-reach participants, for whom the process was handled via mail. Specifically, only 18.9 percent of all business status reviews were conducted by the BDS at the place of business, and the remainder were generally done at the BDSs' office where the training modules were held. However, this varied considerably across site, from a low of 5.6 percent in King County and 9.3 percent in Snohomish County to a high of 44-48 percent in Wenatchee and Vancouver. Consistent with this pattern, Vancouver BDSs used the

opportunity of the in-person two-month review to provide counseling to 49 participants (about 70 percent), which far surpassed the rate for any other site.

Our discussions with the BDSs identified three concerns with the business status reviews as implemented during the demonstration. First, there was uniform agreement that two months was too early in the process for a review, and that perhaps 4-6 months would be better. Second, BDSs felt that multiple follow-up visits -- perhaps after every two months -- would be preferred, provided sufficient resources were available. Finally, it was generally agreed that the reviews would be potentially more useful -- both to the participant and to the evaluation -- if conducted in person at the place of business.

## 6. PRELIMINARY SHORT-TERM OUTCOMES

The previous chapters have described in detail the design, implementation and operational experiences of the SEED Demonstration. In this chapter, we turn our attention from process issues to documenting short-term outcomes. In particular, the results presented in this chapter concern two different types of short-term outcomes: (1) experiences with the UI system, including UI benefits received, and the propensity to return to UI after drawing a lump-sum payment; and (2) early experiences in starting operating a business.

Although the results for these short-term outcomes are quite interesting, it is important to recognize that they are based on preliminary and incomplete data, as we do not have data for the entire benefit year for most claimants. Moreover, we do not have any data on the business startup experiences for the control group. As such, one should be careful not to interpret the short-term outcomes described below as estimates of the impacts of SEED.

### UI Outcome Measures

The demonstration design called for treatment group members to receive regular UI weekly benefit payments while they were working toward starting their business, and then to receive a lump-sum payment equal to their remaining UI entitlement at the time all milestones were met. Because the lump-sum payment was paid for out of special demonstration funds, it was expected that the treatment group would receive less regular UI benefits than the control group, but more in total after including the lump-sum payment. In Table 6.1, we provide evidence on this issue based on UI payments data through March 1991.<sup>50</sup>

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<sup>50</sup>By March 1991, the entire benefit year was completed for claimants who enrolled at the beginning of the demonstration, and about 30 weeks worth of UI claims data were available for those who enrolled at the end of the intake period.

Table 6.1

Mean UI Benefits and Lump-Sum Payments by Treatment-Control Group and Site  
(Dollars)

	All Claimants	Site					
		Vancouver	Olympia	King County	Snohomish County	Wenatchee	Yakima
<b>Control Group</b>							
UI Benefits (\$)	3,723	3,796	3,852	3,968	3,726	2,772	3,110
<b>Treatment Group</b>							
UI Benefits (\$)	2,300	2,238	2,240	2,664	1,982	2,064	1,595
UI + Lump-Sum Payment (\$)*	4,823	4,652	4,811	5,367	4,795	3,667	4,115

\*Note that the average amount of total payments – UI + lump-sum payments – received by the treatment group includes the average lump-sum payment over all treatment group members, even those who did not receive a lump-sum payment.

The results in Table 6.1 indicate that through this period the control group on average received \$3,723 of UI benefits. At an average WBA of \$198, this amounts to about 18.8 weeks of UI benefits. The amount of UI benefits received was between approximately \$3,700-\$3,900 for four of the six sites, but considerably lower in Wenatchee (\$2,772) and Yakima (\$3,110). The lower amounts drawn in these two rural sites in part reflect the lower UI entitlements of claimants in these sites described in Table 3.6.

As expected, the UI benefits received by treatment group members was considerably less. In particular, the average UI benefits received was \$2,300, and ranged from a low of \$1,595 in Yakima to a high of \$2,664 in King County.<sup>51</sup> The low values of UI benefits received by treatment group members in Yakima and Snohomish County in part reflect the short time taken for treatment group members in these sites to get their lump-sum payments as described in Table 4.8, as well as the low average entitlements for claimants in Yakima.

In the last row of Table 6.1, we present information on the payments received by treatment group members, taking into account both UI benefits and lump-sum payments. As this table indicates, total payments to the treatment group averaged \$4,823, or \$1,100 greater than the average UI benefits received by the control group. The increased benefits received by the treatment group over the control group generally ranged between about \$850-\$1,050, except in King County, which averaged nearly \$1,400.

The other short-term UI outcome measure of interest concerns the extent to which claimants in the treatment group who received a lump-sum payment re-opened their claim and received additional UI benefit payments. As described in Chapter 2, the lump-sum component of the demonstration was designed to simulate a cash-out of UI benefits. However, it was not legal to deny claimants their UI entitlement for demonstration

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<sup>51</sup>It is important to note that these UI benefits for the treatment group include all benefits received during the benefit year through March 1991, whether they occurred before or after the lump-sum payment. In subsequent reports we will separate the benefits received into pre- post-lump-sum measures using data from the UI history files.

purposes. Although we did not expect many treatment group members to return to UI after receiving their lump-sum payment due to their demonstrated commitment to self-employment, it is important for the evaluation to determine the extent to which this occurred.

Information obtained from SEED Unit staff indicate that of the 450 claimants in the treatment group who received a lump-sum payment, 26 (5.8 percent) subsequently re-opened their UI claim within the same benefit year.<sup>52</sup> The re-opening rate varied from a low of 2.6 percent in Yakima to a high of 8.0 percent in Vancouver. To the extent that the higher rate in Vancouver in part reflects the greater proportion of claimants in that site who have completed their benefit year, this may provide a better estimate of the re-opening rate to be expected for the entire benefit year.

#### **Short-Term Business Outcomes**

The second set of short-term outcomes concern the status of businesses established by SEED participants. Two data sources were available to shed light on this issue. First, the business development specialists contacted all individuals who received a lump-sum payment approximately two months following the payment to conduct a business status review and to provide counseling if necessary. Second, SEED project staff reviewed employer-reported UI wage records to determine whether any SEED businesses had hired employees. Below we briefly discuss these results.

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<sup>52</sup>These data were derived by SEED Unit staff through a manual search of the records of lump-sum recipients whose net balance available differed from the amount of lump-sum payment. Because the benefit year was not yet complete for most treatment group members, this represents a lower-bound estimate of the proportion who re-opened their UI claim after receiving a lump-sum payment.



Of the 450 treatment group members who received a lump-sum payment, the BDSs were able to contact 390 (86.6 percent) for the business status review.<sup>53</sup> Of the 60 SEED participants who were not contacted for the business status review, 16 (26.7 percent) had a disconnected telephone and the remainder did not respond to messages left by the BDS, presumably because they were busy with business activities. Of all businesses contacted for the two-month status review, 335 had begun operations and, of those, 13 businesses had already closed. Another 12 businesses of those contacted closed their doors without having actually begun operations. In Table 6.2, we present selected information obtained from the two-month business status review for the 335 businesses that had begun operations.

As indicated in Table 6.2, two-thirds of the businesses contacted had received income from the business. Slightly less than one-half (46.7 percent) of the businesses reported they were operating above the break-even level after two months. Nearly three-fourths (73.1 percent) of the individuals indicated they were working full-time in their business and the large majority (88.9 percent) reported they were using their business plan. The business development specialists indicated that slightly over one-half (52.3 percent) of the businesses were in need of further counseling or assistance at the two-month period.

Although it is hazardous to draw strong conclusions from these data, there appear to be differences in short-term business outcomes across sites. In particular, the businesses established in Snohomish County and Yakima appear to be off to a somewhat better start than the businesses in other sites. For example, both Snohomish County and Yakima exceed the average rates of having received business income by about 10-12 percentage points and exceed the average rate of operating above the break-even level by about 13-18 percentage points. In addition, the Yakima BDSs indicate that a relatively small proportion (31.2 percent) of the businesses in the site are in need of further assistance.

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<sup>53</sup>The proportion of lump-sum recipients that were contacted for the two-month business status review varied from approximately 64-66 percent in Snohomish County and Olympia to over 90 percent in Wenatchee, Yakima and King County.

Table 6.2

Business Status After Two Months by Site  
(Among Those Who Started Operations)

Business Status	All Who Started Operations (N = 335)	Site					
		Vancouver (N = 64)	Olympia (N = 34)	King County (N = 137)	Snohomish County (N = 42)	Wenatchee (N = 26)	Yakima (N = 32)
Percent Received Income from Business	67.6	74.2	64.7	64.2	76.2	46.2	78.1
Percent Operating Above Break-even Level	46.7	49.2	41.2	38.0	64.3	50.0	59.4
Percent Working Full-Time at Business	73.1	68.2	79.4	70.1	73.8	88.5	75.0
Percent Using Business Plan	88.9	87.3	88.2	86.1	90.5	96.2	96.9
Percent Need Further Assistance	52.3	26.2	27.3	70.1	59.2	65.4	31.2

In contrast, there is some indication that King County businesses may be in a relatively weaker initial position. One indicator is that only 38 percent of the SEED participants reported that they were above the break-even level after two months. Furthermore, the King County BDSs indicated that 70 percent of the businesses were in need of further assistance. To the extent that these results reflect actual differences in business needs, and not merely differences in the perceptions of the BDSs themselves, these results suggest potential differences across sites in program outcomes that will be important to examine in the impact analysis, particularly given the concentration of treatment group members in King County.

The other information on the early business startup experiences of SEED participants was obtained by the SEED project unit from matched UI employer-reported wage records. In particular, they were able to identify 24 (5.3 percent) businesses established by SEED participants that have hired other employees. Based on earnings records through the fourth quarter of 1990, it appears that 15 full-time employees have worked for these businesses and another 83 individuals have worked part-time. In total, slightly over \$300,000 has been paid in wages to those employees since the SEED businesses began operations. In subsequent analysis the state UI wage records will play an important role in determining the economic development and other outcomes of the demonstration.

Taken together, our analysis of these short-term UI and business outcomes suggest potential differences in outcomes between treatment and control group members and potential differences in outcomes across sites. These issues will be addressed in the comprehensive impact analyses to be conducted during 1992-1993 when more complete data -- including follow-up survey data for treatment and control groups -- are available.

## 7. SUMMARY AND LESSONS LEARNED

In this report we have described the design, implementation and operations of the Self-Employment and Enterprise Development (SEED) Demonstration program that was implemented in six sites Washington State during 1989-1990. The primary purpose of SEED was to determine the viability of self-employment as a reemployment option for unemployed workers. The SEED Demonstration was designed to test the effectiveness of a combination of business assistance services and self-employment allowances to provide UI claimants with the technical and financial assistance needed to launch a successful business venture. Sponsored by the U.S. Department of Labor, SEED was the first federally-sponsored self-employment demonstration program for unemployed workers in the United States. The main findings of the implementation and process analysis summarized below provide a valuable context for interpreting the results of the impact and benefit-cost analyses that will be conducted in 1992-1993.

The results described in the previous chapters indicate that the intake procedures were implemented as designed. The intake processes, based on a self-screening philosophy, resulted in identifying a group of targeted new claimants who were interested in self-employment and who applied to the SEED program. Eligible applicants were randomly assigned to a treatment group, which was offered all demonstration business startup services and financial services, or to a control group, which continued to receive regular UI benefits and services. The complete intake process resulted in individuals, on average, being randomly assigned within 4 weeks from their effective date of claim. This enabled treatment group members to receive business training services within about 5.5 weeks after their effective date of claim, on average. As such, the procedures followed enabled SEED to meet the goal of early intervention.

For the most part, our results indicate that the business support services were also provided as planned. Of particular importance, the business training modules appear to have been conducted consistently so that treatment group members in all six sites were provided with the same basic framework for starting a new business. In addition, there was a consistent emphasis across sites in providing counseling to help claimants develop a business plan. Although a few treatment group members in some sites received considerable other counseling assistance or participated in the peer support meetings, for the most part it appears that participants received relatively little in the form of other business support services in all sites.

In contrast to the consistency of counseling services, there appear to have been some differences across sites in the milestone review process and, in particular, in the criteria used to determine the adequacy of the business plan. As a result, treatment group members in some sites received their (larger) lump-sum payments earlier in the claim than treatment group members in other sites. This is an important finding of the process analysis and must be kept in mind when conducting the impact analysis and interpreting the impact results.

The results from the implementation and process analysis provide extensive information of interest to policymakers about the operations of a self-employment program.

A few of the major findings are briefly listed below:

- It is feasible to implement a self-employment program for UI claimants (without immediate job prospects) using a self-screening approach and to provide intensive services early in the claim.
- The self-employment option is of interest to a relatively small sub-group of claimants. About 4 percent of UI recipients without immediate job prospects were interested in SEED. These individuals tended to be older, more educated, more likely to be in professional, managerial or technical occupations and had higher UI entitlements. In addition, many had a working spouse and substantial assets to draw on when starting the business.
- The interest in self-employment was much greater in urban areas with low unemployment rates than in rural areas with relatively high unemployment rates. It is not possible at this time to determine whether the difference in interest was primarily due to the employment conditions or to the urban/rural nature of the area.

- The individuals served in SEED were quite committed to starting their own enterprise. Only 15 percent dropped out before the business training modules and approximately 60 percent of the treatment group achieved the five milestones and received a lump-sum payment.
- Although the majority of businesses established through a self-employment program such as SEED were in the services sector, a substantial number are in manufacturing, construction and retail trade. Moreover, it appears that some of these businesses have hired other workers, even in the very short-term after business startup.

The results from the implementation and process analysis also provide extremely useful background for the forthcoming impact analysis. In addition to exploring differences in impacts across sites, and trying to get a sense of how impacts may differ by urban/rural areas or employment conditions, two other results of particular interest to the impact analysis were:

- Although the self-screening approach worked quite well in identifying a group of participants committed to self-employment, 15 percent of the treatment group dropped-out early, before the business training modules began. Early drop-outs complicate the net impact analysis.
- Although individuals who were placed on standby by their employer were excluded from SEED, nearly 20 percent of treatment group members reported in their application that they expected to be recalled by their employer. Because the commitment to self-employment seems to be lower for these individuals, it will be important to explore whether the impacts differ for this sub-group.

Finally, it is important to remember the design of SEED and the context in which the SEED program operated and how that affects the possibilities for implementation of a similar program in other settings. Although subsequent reports will deal more fully with the issue of replicability, the results from the implementation and process analysis support the following preliminary conclusions:

- The SEED Demonstration was implemented at a time when the Washington State economy was very strong, and quite insulated from the recession that was affecting other states. Moreover, the sites with vibrant economies tended to generate considerable interest in the self-employment option, whereas in rural areas with weaker economies, the interest was much less. The overall strength of the state's economy could have implications for the replicability of the findings to other areas.

- The SEED design included a lump-sum payment to simulate a cash-out policy for UI payments. It is not clear at this time how much of the interest in the program was due to the availability of the lump-sum payment or how feasible it would be to include lump-sum payments in an ongoing program.
- For evaluation purposes, the SEED design imposed a common schedule of key activities across sites of widely varying claims loads. It is quite likely that an ongoing program would offer the services less often in rural areas than they were offered in SEED, which might hamper the ability of the program to meet the early intervention goal and lessen program impacts.
- The self-screening approach for identifying a group of targeted claimants without immediate job prospects generally worked quite well and could be adapted to other settings. However, the exclusive reliance on the temporary-layoff indicator in the UI system resulted in SEED including a sub-group of claimants who were expecting to return to their former employer. If the impact results for this sub-group are small, other programs might consider using the application data (or other methods) to screen-out individuals who might truly be on temporary layoff.
- The SEED Demonstration relied on extensive centralized control of many key functions and a participant tracking system. To the extent that such resources would not be available for an ongoing program, the impacts may also be different.

In evaluating the impact of SEED it will be important to take into account the context in which the program operated and the lessons learned from the implementation and process analysis. Efforts will also be made to identify those features that may be readily replicated in an ongoing program and features that can not. These issues will be addressed in the final impact report for the SEED Demonstration scheduled for June 1993.

**APPENDIX A**



## APPENDIX A

### SITE DESCRIPTIONS

In this appendix we provide additional detail about each of the six sites selected to operate the SEED Demonstration. The map in Figure 2.1 and the data in Table 2.1 in the main body of the report provide other useful information about the characteristics of the sites.

#### Site 1: Vancouver<sup>54</sup>

Wahkiakum, Cowlitz, Clark, Skamania, and the western portion of Klickitat county, all bordering the Columbia River in Southwest Washington, make up the Vancouver site. While geographically contiguous, the western counties in the site are topographically diverse from those in the east. Cowlitz, Wahkiakum and Clark lie on bottom land from the Columbia River and include heavily forested foothills of the Cascades Mountain Range, while mountainous Skamania County, is bisected by the Cascade Range and is 90% forested land. Klickitat County lies east of the mountains with sparsely vegetated hills in the north and rich and fertile valleys in the south.

Except for Clark County, which accounts for 73% of the site's population and is part of the metropolitan area of Portland, Oregon, the majority of the site includes small towns, rural areas and wilderness land. Traditionally, timber-related industries have dominated the economy of the area but these industries have been declining. The timber harvest will likely be further affected by federal legislation to prohibit logging in protected old-growth habitat.

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<sup>54</sup>Data for this section was gathered from reports produced by the Labor Market and Analysis Branch of the Washington State Employment Security Department.

Clark County is one of the few areas of the state outside of the Puget Sound region that has experienced dramatic population and economic growth in the past decade. Historically, major employers in the county are in the manufacturing sector, including paper products, lumber and wood products, aluminum smelting, food processing and textiles. In the last decade the county has diversified its manufacturing base by attracting high-technology firms. As many as 40 percent of the county's work force commutes to Portland, Oregon.

As indicated in Table 2.1, the Vancouver site has an overall unemployment rate in 1989 of 6.7 percent, quite close to the state average. However, this masks the extreme diversity across the five county areas included as the unemployment rate in 1989 ranged from 5.9 percent in Clark County to 18.8 percent in Skamania County.

#### Site 2: Olympia

The Olympia site includes Thurston, Mason, Lewis and Grays Harbor Counties. Thurston County, which accounts for 50% of the population of the site, is located at the southern end of Puget Sound. Because Olympia is the State Capitol, Thurston County's economy is dominated by the government sector. However, Olympia is also a regional transportation center and provides many services for the surrounding counties.

Although Thurston County is largely a developing metropolitan area, most of the remainder of the site is agricultural or forested land and the economies of these counties rely primarily on resource-based industries such as fishing and timber. Because of its dependence on timber and fishing, Grays Harbor County is one of the few areas in the state that lost population during the last decade. In contrast, Thurston County grew by 30 percent. Although the unemployment rate for the site as a whole was 7.8 percent, it ranged from 6.3 percent in Thurston County to a high of 10.3 percent in Grays Harbor County.

### Site 3: King County

King County is located along the eastern shoreline of the Puget Sound with its eastern border in the crest of the Cascade mountain range. With 31 percent of the state's population and 37 percent of total state employment, the county is home to the state's largest metropolitan region, dominated by the city of Seattle, the largest city in the three-state region of Idaho, Oregon and Washington. The Boeing Company is headquartered in King County and airplane manufacturing continues to be the engine driving the economy of the region and the state as a whole. In addition, the Port of Seattle is a major transportation center for the West Coast and handles a major share of the state's import-export trade between the United States and the Far East.

In the last decade, the economy of the greater Seattle area has been particularly strong, which has led to a large growth in population and in the labor force. For example, the unemployment rate has steadily declined from a high of 9.9 percent in 1982 to 4.5 percent in 1989 and the civilian labor force has grown by 25 percent in those years, reaching 870,600 in 1989. The most notable increase in industry employment has been in the service sector which rose 67 percent between 1980 and 1989. With a per capita income of over \$20,000, King County exceeds the income levels of other counties by at least 30 percent.

### Site 4: Snohomish County

Although we refer to the fourth site as Snohomish County, it also includes the small area of Island County. Snohomish County lies directly north of King County, with its western border the shoreline of Puget Sound and its eastern boundary in the Cascade Mountains. Island County comprises five islands in Puget Sound to the west of Snohomish County. These two counties have experienced the largest population increases in the state (33 percent and 34 percent, respectively) during the last 10 years.

Snohomish County has a diversified industrial base including aerospace, forest products, electronics, and farming and fishing, whereas Island County's economy is dominated by the Whidbey Island Naval Air Station. Unemployment in Snohomish County during 1989 averaged 4.9 percent -- down from 5.3 percent in 1988 -- and the lowest rate of the decade. Unemployment in Island County was 4.6 percent in 1989. As indicated in Table 2.1, this site is second only to King County in average monthly wages and per capita income.

#### **Site 5: Wenatchee**

The Wenatchee site is comprised of Chelan, Douglas and Okanogan counties. These counties, which are situated in the north central region of the state, encompass about 15 percent of the land mass of the state, but only 2.3 percent of the state's population. Separated from Douglas County by the Columbia River, Chelan County is predominantly mountainous with 90 percent of its geographic area designated as part of the Wenatchee National Forest. Valleys in Chelan County are noted for tree fruit production.

In Douglas County, rolling plateau lands are used for grain production while the terrain around East Wenatchee is conducive to tree fruit production. Okanogan County, bordered by Canada on the north, is also dominated by mountainous terrain that makes up much of the Okanogan National Forest. The government sector is the largest employer in the county due to state and federal management of forests, parks and dams and agricultural regulatory jobs.

Many of the manufacturing industries in the Wenatchee site are related to agricultural and timber production, which causes seasonal fluctuations in employment throughout the year. Although the unemployment rates in all three counties in the site have declined considerably since the early 1980's, in 1989 the unemployment rate was still much higher than the state average at 10.5 percent.

**Site 6: Yakima**

The Yakima site is comprised of Kittitas, Yakima and eastern Klickitat counties. These counties, located east of the Cascade Mountains, extend from the geographical center of the state (Kittitas County) southward to the Columbia River. Yakima County is the second largest in land area in the state and the economic center of central Washington. It also accounts for 85 percent of the population of the site. Agricultural production is the dominate economic influence in the area. Other industries such as food processing, shipping, packing warehouses and cold storage and wholesale trade are directly related to agricultural production. Forest products, aircraft parts and health services are also important industries in the county.

Kittitas county is primarily an agricultural and live stock producing region. The largest employer in the county is the government sector, which accounts for 42 percent of employment in the county, much of it at Central Washington State University.

The site as a whole experienced the highest unemployment rate of all SEED sites with an average rate of 11.6 percent in 1989. It also has the lowest per capita income of approximately \$13,000.

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**Massachusetts UI Self-Employment  
Demonstration**

Interim Report to Congress

Submitted under contract number: 99-8-0803-98-047-01

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## EXECUTIVE SUMMARY

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The Massachusetts UI Self-Employment Demonstration, also known as the Massachusetts Enterprise Project, was authorized under Section 9152 of the Omnibus Budget Reconciliation Act (OBRA) of 1987. This three-year demonstration project has been designed to test the effectiveness of providing self-employment assistance for those unemployed workers who are likely to exhaust their Unemployment Insurance (UI) benefits. As mandated by the legislation, the Massachusetts demonstration incorporates an experimental evaluation design with half the eligible UI claimants receiving self-employment services (the treatment group) and the other half receiving regular UI services (the control group).

The Massachusetts Enterprise Project began operations in seven sites in May 1990. A total of 300 treatment and 300 control group members are projected to participate in this three-year demonstration project. Data from the Massachusetts demonstration will be analyzed to determine if self-employment programs for the unemployed can be implemented successfully. The analysis will also address whether self-employment programs represent a cost-effective way of getting the target group of UI recipients back to work.

To carry out the legislative mandates successfully required the collaboration of the Department of Labor (DOL), the Massachusetts Department of Employment and Training (DET), and the research contractors, Abt Associates and Battelle Memorial Institute. This interim report describes the process involved in developing the design of the Massachusetts self-employment program to meet the legislative requirements. The report also describes the early implementation experiences of this experimental demonstration program.

The final design of the Massachusetts Enterprise Project (documented in the Massachusetts Operational Guide) incorporates the decisions agreed upon by DOL, Massachusetts DET, and the research contractors. As mandated by the legislation, the demonstration targets for self-employment services those UI claimants likely to exhaust UI

benefits. Targeted UI claimants are invited to attend an Information Session which provides information about the demonstration and about the rewards and risks of self-employment. Those who submit an application that meets project requirements are then randomly assigned to either treatment or control group status. Participants selected into the treatment-group receive business development services and financial assistance. Business development services include both classroom training and individual business counseling. These services may also include referrals to other business assistance providers. Financial assistance includes the payment of self-employment allowances in lieu of unemployment benefits (as mandated by the legislation) as well as a waiver of the regular UI work search requirement (also mandated by the legislation). In addition, participants in the Massachusetts Enterprise Project are eligible for business loans through the Shawmut Loan Program, a loan program designed for Massachusetts Enterprise Project participants by Massachusetts DET and Shawmut Bank.

During the first three months of program operations we have learned several lessons. First, it appears that the self-employment option interests a relatively small subset of likely UI exhaustees. In the Massachusetts Enterprise Project, 3.4 percent of those invited to attend an Information Session actually attended. This result confirms results in other countries where self-employment programs for the unemployed have operated for several years. This result has also recently been confirmed in the U.S. by the Washington UI Self-Employment Demonstration, the first UI Self-Employment demonstration project sponsored by DOL.

Our preliminary analysis also indicates that self-employment may interest some subgroups more than others. For example, unemployed men appear to be substantially more interested in self-employment than unemployed women. Individuals between 36 and 55 years old are more interested than younger or older groups. Those with higher levels of education appear more interested in self-employment. Finally, those individuals laid off from professional, managerial,

and technical occupations are more interested in self-employment than individuals in other occupational groups.

In addition to information on program participation, this interim report also summarizes early experiences with project implementation. This information helps us understand whether the program has been implemented as planned and identifies needed operational changes. Our results to date indicate the Massachusetts Enterprise Project has been implemented according to the mandates of the authorizing legislation. The demonstration provides business development assistance and financial assistance to UI claimants identified as likely to exhaust UI benefits. As mandated by the legislation, the Massachusetts demonstration operates as an experiment, with half the eligible sample receiving program services and the other half serving as a control group (receiving regular UI benefits and services). Using this experimental design, the UI Self-Employment Demonstration is scheduled to proceed for three years. At the conclusion of this demonstration period, a final evaluation report will be completed and transmitted to Congress in December 1993. This final report will contain an evaluation of program impacts as well as analysis of the benefits and costs of the Massachusetts UI Self-Employment Demonstration.

As described in this report, the OBRA legislation included certain provisions that created concern among States interested in participating in the UI Self-Employment Demonstration. The provision that created the greatest concern was the requirement that States repay, from general revenues, any "excess costs" -- i.e., costs to the Unemployment Trust Fund that would not have been incurred in the absence of the project. To minimize the potential for excess costs, DOL and the research contractors evaluated alternative program designs that reduce potential excess costs, while meeting all the legislative mandates. These alternative options contributed significantly in obtaining State cooperation from Massachusetts. Two other States that participated in the design process -- Minnesota and Oregon -- ultimately declined to participate in the demonstration, however, largely because of concern about excess costs.

## CHAPTER 1

### BACKGROUND AND OVERVIEW

---

Unemployment Insurance (UI) has provided temporary income support to unemployed workers for more than 50 years. Temporary income support, however, may not be adequate for workers who lose their jobs due to structural changes in the economy. Workers who lose jobs as a result of structural economic changes typically experience long periods of unemployment, often exhausting UI benefits. To alleviate some of the employment hardships faced by individuals likely to exhaust their UI benefits, the Department of Labor (DOL) is evaluating several alternative uses of UI benefits. One alternative under consideration is a self-employment program that provides unemployed workers with assistance to speed their return to work through self-employment.

The first federally sponsored project in the U.S. to test the use of self-employment programs as a reemployment strategy is the Washington Self-Employment and Enterprise Development (SEED) Demonstration Project. The second federally sponsored project to test the use of self-employment as a reemployment strategy was mandated by Congress in the Omnibus Budget Reconciliation Act (OBRA) of 1987. In this report we discuss the requirements of Section 9152 of this Act, the steps taken to implement the requirements of this legislation, and the design and implementation of the Massachusetts UI Self-Employment Demonstration (known as the Massachusetts Enterprise Project).

The process of designing and implementing the demonstration mandated by the above authorizing legislation has been collaborative and has incorporated input from several sources. The U.S. Department of Labor provided overall guidance and monitoring during all phases of the project. The Massachusetts Department of Employment and Training (DET) has been instrumental in the design process and has been responsible for the implementation of the demonstration. Abt Associates Inc. and its subcontractor Battelle Memorial Institute were

competitively selected to assist in the demonstration design and evaluation and have been involved in all project phases since 1988.

The first wave of participant intake in the Massachusetts Enterprise Project began in May 1990; two additional waves of intake are planned for 1991 and 1992. Researchers anticipate a combined total of 300 treatment group members and 300 control group members in the three waves. Data from the Massachusetts demonstration together with data from the Washington State demonstration will then be evaluated in an implementation and process analysis. In addition, the data will be used to measure the net impact and cost-effectiveness of self-employment programs for the unemployed. A final evaluation report incorporating these analyses will be transmitted to Congress in December 1993.

### **BACKGROUND**

The Federal government's role in dealing with the unemployed has changed over the years. Initially, government provided the unemployed temporary, partial relief for wages lost during unemployment. More recently, services have expanded to include skills upgrading and occupational training. These services have become essential in dealing with the changing characteristics of unemployment.

Structural economic changes have substantially increased the number of workers laid off from high-wage jobs in manufacturing and other industries. Between 1970 and 1985, for example, employment in goods-producing industries declined from 33 to 26 percent of total employment.<sup>1</sup> Since many of these cutbacks are permanent rather than cyclical, these workers

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<sup>1</sup> See Task Force on Economic Adjustment and Worker Dislocation, *Economic Adjustment and Worker Dislocation in a Competitive Society*, Washington, D.C.: Secretary of Labor, Task Force, December 1986.

are likely to remain unemployed for long periods and may exhaust their UI benefits prior to reemployment.

The term "dislocated worker" describes workers who have acquired specific skills over years of employment and, following a plant closure or mass layoff, find their skills no longer in demand. For statistical purposes, the Bureau of Labor Statistics (BLS) defines displaced workers as those persons who lost their jobs due to "plant closings, slack work, or position or job abolished, and who had 3 years or more of tenure on the job they lost." To determine the magnitude of the displaced worker population, DOL sponsored supplements to the Current Population Survey in January 1984, 1986, 1988, and 1990. Based on the 1988 survey<sup>2</sup>, BLS reported that the number of dislocated workers declined to 4.6 million from 5.1 million in 1986 and 1984. The 1988 survey found that nearly 40 percent of dislocated workers were unemployed for more than six months following the dislocation. The survey also found that 62 percent received UI benefits after losing their jobs (with about half of them exhausting UI benefits).

The magnitude of the dislocated worker problem has prompted policy-makers to try new approaches to alleviate long-term unemployment. For example, the Economic Dislocation and Worker Adjustment Assistance program (EDWAA), which began in 1989, established a number of new approaches to serve dislocated workers. One of the more important changes was the implementation of new procedures to provide services more rapidly to dislocated workers. This rapid response, or early intervention component, was incorporated into EDWAA to correct some perceived deficiencies in earlier programs.

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<sup>2</sup> This survey covered the five-year period from January 1983 to January 1988. See Diane E. Herz, "Worker Displacement in a Period of Rapid Job Expansion: 1983-87," *Monthly Labor Review*, May 1990, pp. 21-33.



Similarly, in designing the UI self-employment demonstrations, DOL, Massachusetts, and Abt/Battelle sought to incorporate an early intervention component. Early intervention is particularly important in self-employment programs since successful business development often requires a substantial period of time. To provide sufficient time for planning and business development, the demonstration incorporated features that expedite participants' receipt of program services early in their unemployment spell.

The concept of using the UI system to promote self-employment for the unemployed is partly based on programs in several foreign countries (particularly Great Britain and France) that encourage the unemployed to create jobs for themselves by becoming self-employed. In Great Britain, for example, the Enterprise Allowance Scheme (EAS) provides workers receiving unemployment or welfare benefits who wish to start their own businesses a weekly allowance payment for up to a year. These payments are made in lieu of unemployment benefits and participants must agree to pursue business development activities full time. In contrast, the French Chomeurs Createurs program provides a single lump-sum payment in lieu of unemployment benefits to participants who wish to start a business.

While rigorous evaluations of these foreign programs have not been conducted, follow-up surveys of participants indicate encouraging results for self-employment programs. Both the British and French programs report high business survival rates long after program entry. For example, 55 percent of the businesses started under the EAS program survived to 36 months.<sup>3</sup> Similarly, Chomeurs Createurs participants experienced a business survival rate of 61 percent after 36 months.<sup>4</sup>

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<sup>3</sup> Research Bureau Limited, *Enterprise Allowance Scheme Evaluation--Three Year National Survey*. London: Manpower Service Commission. December 1987.

<sup>4</sup> Feit, Rona F., *Expanding Entrepreneurial Opportunity: An Alternative Route to Self Sufficiency*. Corporation for Enterprise Development. December 1987.

**ALTERNATIVE USES OF UNEMPLOYMENT INSURANCE**

Over the past several years, DOL has launched a series of demonstrations to investigate alternative uses of UI that might expedite reemployment into wage and salary employment. These projects tested different service approaches including job search assistance, retraining, and relocation assistance. Several of the projects also incorporated reemployment bonuses, which provide payments to UI claimants who find jobs within a fixed period of filing their initial UI claim and keep those jobs for a specified length of time. Different reemployment bonus plans were tested to determine whether bonuses encourage UI claimants to search for employment more intensively and return to work more quickly. Demonstrations to evaluate these programs have been implemented in Pennsylvania, Washington, and New Jersey.

A second set of demonstrations launched by DOL tests the use of self-employment programs as a reemployment strategy. Two demonstration projects, the Washington State UI Self-Employment Demonstration and the Massachusetts UI Self-Employment Demonstration, have been designed to test the ability of the employment security and economic development systems to help selected UI recipients start businesses. Both of these demonstrations provide business development assistance in the form of entrepreneurial training and business support services. They also provide participants with financial assistance while they make progress toward self-employment in the form of self-employment allowance payments equal to their weekly UI benefits. In addition, the Washington project (funded by DOL research funds) also provides financial assistance in the form of a lump-sum payment representing the remaining UI benefits available to program participants. This lump-sum payment is to be used for business start-up costs and is made only to those participants who meet specific project requirements.

Through the UI Self-Employment Demonstrations, Congress and DOL will obtain the first systematic evaluation of self-employment programs as a reemployment strategy. To provide

a scientifically valid evaluation of self-employment programs in the U.S., these self-employment demonstrations are being evaluated based on an experimental design in which UI claimants are randomly assigned to treatment and control groups. This rigorous approach will provide policy-makers with sound estimates of the effectiveness of self-employment as a reemployment strategy.

## **UI SELF-EMPLOYMENT DEMONSTRATIONS**

Two self-employment programs launched by DOL are currently under evaluation on a demonstration basis. The Washington UI Self-Employment Demonstration began pilot operations in September 1989. Following an evaluation of the pilot experience, the project began program operations in February 1990.<sup>5</sup> The Massachusetts UI Self-Employment Demonstration began operations in May 1990. Each of these self-employment demonstrations is described below. A more complete description of the Massachusetts demonstration design is presented in Chapter 3.

**Washington Self-Employment Demonstration.** The Washington Self-Employment Demonstration Project provides selected UI claimants with entrepreneurial training and business support services. These services include:

- intensive classroom training that addresses issues related to starting and running a business;
- assignment of a case manager to oversee and assist in the development of a business plan;
- individual and group counseling; and
- monthly group meetings to provide peer support and advice.

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<sup>5</sup> Johnson, Terry R., Jacob Benus, and Jan Leonard, Washington State Self-Employment and Enterprise Development (SEED) Demonstration, *Summary of Pilot Study Experiences and Recommendations*, December, 1989.

Financial assistance in the Washington demonstration includes:

- waiver of the UI work search test;
- payment of regular weekly benefits equal to the claimant's regular UI benefits; and,
- a lump-sum payment equal to the participant's remaining UI entitlement upon satisfying specific milestones in the process of starting a business.

The Washington demonstration enrolled 755 treatment group members. A total of 451 participants received lump-sum payments, averaging approximately \$4225. A complete description of the implementation will be presented in the forthcoming Washington UI Self-Employment Demonstration Interim Report.

**Massachusetts Self-Employment Demonstration.** The second UI self-employment demonstration was mandated in Section 9152 of OBRA and is governed by the provisions of this legislation. (A detailed discussion of the provisions of the authorizing legislation is presented in Chapter 2). Eligible individuals are defined by the legislation as those who are "likely to receive regular or extended benefits for the maximum number of weeks that such compensation is made available under the State law during such benefit year." This provision mandates that only those individuals likely to exhaust UI benefits are identified as eligible and targeted for program services.

Two objectives were paramount in the Massachusetts Self-Employment Demonstration design. The first was to develop a program, consistent with the authorizing legislation, designed to facilitate self-employment for UI claimants who choose this avenue. The second objective was to develop a design that would permit a scientifically valid program evaluation. To achieve the latter objective, the design includes random assignment of demonstration applicants either to a treatment group, which receives demonstration services, or a control group, which does not.

Two key components comprise services offered to treatment group members -- business assistance and financial assistance. The business assistance services offered to demonstration participants are similar to the services offered in the Washington demonstration:

- intensive classroom training that addresses issues related to starting and running a business;
- assignment of a case manager to oversee and assist in the development of a business plan;
- individual and group counseling; and
- regular group meetings to provide peer support and advice.

The financial assistance component in Massachusetts includes exemption from certain requirements for receipt of UI benefits. Specifically, the authorizing legislation stipulates that demonstration participants shall not be subject to the regular UI work search requirements while in the demonstration. Furthermore, the legislation requires self-employment allowances to be paid in the same form as regular UI benefits.

The demonstration design also incorporates provisions for participants returning to the regular UI system upon leaving the demonstration. These participants are eligible to continue to receive their UI entitlement and are subject to the regular work search test.

The Massachusetts demonstration design calls for participant enrollment to be implemented in three annual waves. The first wave was implemented during May-October, 1990. This interim report is based on the implementation experience of the initial three months of the first demonstration intake wave. Current plans call for two additional intake waves with 100 treatment group members and 100 control group members to be selected in each wave.

**PURPOSE AND ORGANIZATION OF REPORT**

Section 9152 of OBRA requires that the Secretary of Labor present an interim report to Congress. The present report fulfills this requirement. The legislation also requires a final report following demonstration completion; the final report is due to Congress in December 1993.

In this interim report we review the provisions of the legislation and how these provisions have been implemented to date. The report also discusses the prospects for reaching scientifically valid analytic results, and the potential for using these results as a basis for designing a national self-employment assistance program. Because data were available for only the first three months of program operations at the time this interim report was written, it is premature to attempt to evaluate program impacts in this report.

The remainder of this report is organized as follows. Chapter 2 reviews the demonstration planning process and some of the constraints encountered in that process. Chapter 3 summarizes the design of the Massachusetts demonstration and Chapter 4 presents an early assessment of its implementation. Finally, Chapter 5 summarizes the findings and presents preliminary conclusions.

## CHAPTER 2

### PROJECT PLANNING PROCESS

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The fundamental objective of the UI Self-Employment Demonstration, mandated by the Omnibus Budget Reconciliation Act (OBRA) of 1987, is to measure the economic and social impact of providing self-employment services for those unemployed workers likely to exhaust their UI benefits. State UI laws pose a significant barrier to self-employment in that they require UI claimants to search for work and to be able and available to accept suitable employment if offered. Section 9152 of OBRA removes this barrier for the self-employment demonstration. In this chapter we review requirements of the authorizing legislation and the process followed by DOL to carry out its provisions.

#### LEGISLATIVE REQUIREMENTS

The Omnibus Budget Reconciliation Act of 1987 requires the Secretary of Labor to carry out a self-employment demonstration project, select and enter into agreements with three States that will operate the demonstration, analyze the benefits and costs of the demonstration, and submit reports to Congress. Pursuant to Section 9152(a) of the authorizing legislation, selection of demonstration States was to be competitive and made from among States that:

- apply to participate in the project, and
- demonstrate that they are capable of implementing the provisions of the cooperative agreement.

The selection criteria for selecting the States is detailed in Section 9152(b) of the Act. The Secretary of Labor is required to consider the State's ability to meet the legal, financial, and administrative requirements, as well as the State's resources for providing self-employment services.

Section 9152(c) requires the Secretary of Labor and each of the selected States to enter into an agreement that defines the conditions for demonstration implementation. Specifically, the cooperative agreement between the Secretary and the selected States must:

- define the eligible individuals for the demonstration;
- define the conditions for payment of self-employment allowances;
- define the amount of self-employment allowances that may be paid to demonstration participants;
- stipulate that the program design must be approved by the Secretary of Labor;
- require that the program implemented will not result in any cost to the Unemployment Trust Fund in excess of the cost which would have been incurred if the State had not participated in the demonstration (i.e., excess costs); and
- require that the State agree to repay to the Unemployment Trust Fund any excess cost.

The authorizing legislation further stipulates (Section 9152(d)) that evaluation in each State must be based on an experimental design with random assignment of applicants to treatment and control groups. Furthermore, the data from this experiment shall be used for establishing excess costs as well as analyzing program benefits and costs.

Section 9152(e) authorizes the State to make self-employment allowances in lieu of regular unemployment compensation from the State unemployment funds. Section 9152(f) prohibits States from using funds appropriated under Title III of the Social Security Act or any other Federal law for administrative costs of the demonstration. Section 9152(g) mandates two reports to Congress, including an interim report on the progress of the demonstration and a final report which is to include an evaluation of program impacts and a cost-benefit analysis. The Act



as amended requires DOL to submit the interim report in December 1990; the final report is due in December 1993.<sup>6</sup>

## **IMPLEMENTATION OF LEGISLATIVE REQUIREMENTS**

Implementation of the specific requirements of the authorizing legislation required substantial effort on the part of DOL, the States, and the research contractors. In some instances (discussed below) implementation was affected by specific concerns raised by the states. These concerns related largely to the legislative requirement that excess costs must be repaid to the Unemployment Trust Fund by the States. To deal with this excess cost issue, the research contractor conducted special analyses. These analyses helped to design a program that meets all the legislative requirements, yet reduces the potential magnitude of excess costs.

Section 9152 of OBRA describes the funding source for each project activity. The self-employment allowance payments (i.e., the periodic payments to program participants), for instance, are to be made from State unemployment funds; administrative costs are to be drawn from State general funds or another non-federal funding source. Finally, funding for design, monitoring, and evaluation are to be financed through DOL funds. No federal resources were provided to support project operations.

The authorizing legislation requires that excess costs be measured as the difference in UI benefits (net of contributions) paid to the treatment and control groups. That is, the control group will be used to measure what the trust fund experience would have been absent the demonstration. DOL has provided Massachusetts with a detailed explanation of the excess cost

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<sup>6</sup> The due dates for the interim and final reports were amended by the Technical and Miscellaneous Revenue Act of 1988 (P.L. 100-647).

calculation, including the specific formula for calculating excess cost. DOL and the research contractors have also developed operating procedures that are designed to reduce the potential for excess costs. These special efforts were important in eliciting State support for the demonstration. A more complete discussion of excess costs and the methods developed to reduce their likely magnitude is presented later in this chapter.

### **STATE SELECTION**

The criteria for selecting demonstration States specified in the authorizing legislation include:

- technical assistance currently provided by the State to the self-employed;
- the business climate for new, small business enterprises;
- adequacy of State resources to carry out the project; and
- the range of specialized services proposed by the State for demonstration participants.

In addition to these and other State selection criteria, DOL considered (as required by the Act) the adequacy of the State's unemployment compensation reserves.

Despite project financing concerns, Massachusetts, Minnesota and Oregon submitted applications and were chosen to participate. In September 1988, DOL entered into a cooperative agreement with the States as required by the authorizing legislation. This cooperative agreement defined the required demonstration provisions and delineated State and Federal responsibilities.

**PROJECT DESIGN PROCESS**

Abt Associates Inc. and its subcontractor Battelle Memorial Institute were competitively selected in June 1988 by DOL to assist in the design and to evaluate the demonstration. Since then, all aspects of project design have proceeded as a cooperative effort among DOL, the host States, and the Abt/Battelle research team.

The design planning process began with a meeting in each host State in October - November 1988. The meetings provided each State with an overview of major design components, a review of the demonstration schedule, startup of pre-project analysis, and a discussion of data processing requirements.

To gain insight and to observe the implementation of other self-employment programs for the unemployed, representatives from DOL, the host States, and the research team participated in a study tour of self-employment programs in England, France, and Sweden. This study tour, funded by the German Marshall Fund of the United States, provided demonstration planners with insights into the design and operations of self-employment programs. In fact, two of the foreign programs evaluated provided models for the design of the U.S. demonstrations. The Massachusetts demonstration is broadly modeled on the British program and the Washington demonstration is broadly modeled after the French self-employment program.

The first project design meeting was held in December 1988. During this meeting planners reviewed a wide range of design issues and options. Based on this review, the Abt/Battelle research team prepared the Draft Design Report, which presented major design issues, reviewed potential design options, and evaluated available choices. The report paid specific attention to the excess cost implications of various options and available options for minimizing excess costs.

The second design meeting was held in April 1989 to attempt to narrow the potential design options. The design team reached consensus on the major design areas--project objectives, intake process, self-employment allowances, and business development services. During the meeting the States presented a memo proposing legislative action to eliminate or minimize excess costs. All parties recognized, however, that the options outlined in the memo required legislative action to implement.

A panel of self-employment experts convened in July 1989 to review the proposed project design. The expert panel emphasized the importance of case managers and recommended that substantial resources be devoted to recruiting and training quality case managers. The consensus of the panel members was that the quality of the case managers was critical to program success. The panel also concluded that legislative requirements with respect to excess costs had created barriers to the demonstration's potential success and recommended that an effort be made to eliminate the requirement that States repay excess costs.

Following the expert panel meeting, a final design meeting was held to reach final agreement on outstanding issues. DOL agreed to provide the States with a formal response on the methodology for calculating excess costs. The States, however, continued to express serious concern with the excess cost provisions of the authorizing legislation.

Based on the results of the expert panel meeting and the final design meeting, Abt/Battelle prepared a Final Design Report,<sup>7</sup> which incorporated all agreed upon decisions. DOL also developed a report detailing the methodology to be used to calculate excess costs. Both reports were transmitted to the States to be used as a basis for the States' final decision on

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<sup>7</sup> Orr, Larry L., et. al., UI Self-Employment Demonstration Evaluation, *Design of the Three-State Self-Employment Demonstration*, Abt Associates Inc., July, 1989

participating in the demonstration. Two States, Oregon and Minnesota, declined to participate in the demonstration, largely due to the potential for State excess costs liability.

### **EXCESS COSTS ISSUES IN THE DESIGN OF THE SELF-EMPLOYMENT DEMONSTRATION**

A variety of design issues were evaluated in designing the Massachusetts Enterprise Project. Many of these issues revolved around excess costs and methods to reduce these costs while meeting the legislative mandates. In this section we discuss excess costs, targeting likely exhaustees, and duration of the work search waiver.

Excess costs arise when demonstration treatment group members, on average, collect more self-employment allowances than the amount of UI benefits they would have collected in the absence of the demonstration (as measured by the experience of control group members). The excess costs that must be repaid each year by the State are calculated as the per person difference in Unemployment Trust Fund payments (including regular UI payments and self-employment allowances) collected by treatment group members and control group members, multiplied by the number of treatment group members. The authorizing legislation also includes a provision (Section 9152(c)) which requires the State to pay interest on any outstanding excess costs balance. The calculation and method of payment of excess costs interest and principal payments is detailed in DOL's Final Procedures for calculating excess costs.

Throughout the planning process, the States recognized that repayment of excess costs was a condition of participation in the self-employment demonstration (as required by the authorizing legislation). To reduce the likely magnitude of this State liability, DOL and Abt/Battelle developed a variety of program design features to minimize excess costs. For example, to implement the legislative requirement (Section 9152(i)) to target self-employment services for those UI claimants "likely to receive unemployment compensation for the maximum

number of weeks that such compensation is made available" (i.e., likely UI exhaustees), Abt/Battelle developed a statistical algorithm to identify likely UI exhaustees in each State. Using this algorithm for selecting UI claimants most likely to exhaust benefits (i.e., targeting) reduces potential excess costs liability. The impact of targeting on potential excess costs liability was discussed in detail in the Final Design Report (Chapter 4). The Final Design Report also explored a variety of other design features and considered their impact on expected excess costs. Below we present a summary discussion of the impact and tradeoffs associated with two of the demonstration design features: targeting of likely exhaustees and duration of the work search waiver.

**Targeting on Likely Exhaustees.** Concern that the self-employment demonstration will generate excess costs arises from the assumption that treatment group members are likely to remain in the demonstration throughout their eligibility period (work search waiver period) and collect self-employment allowances up to the maximum amount available. In the absence of the demonstration, some claimants would presumably find jobs and leave the UI rolls before they reached the maximum UI benefit amount.

To reduce expected excess costs, one may target for the demonstration only those individuals most likely to exhaust UI benefits. By including only likely exhaustees, differences in payments between treatment and control groups is expected to be small, since both groups are likely to exhaust all their available benefits.

Operationally, targeting likely exhaustees may be implemented by using a statistical algorithm to predict the probability that a new claimant will exhaust his or her UI benefits. Those with the highest predicted probability of exhaustion (i.e., those with a predicted probability that exceeds a specific cutoff level), are then selected (targeted) for the demonstration.

The accuracy of the predictive algorithm used in the targeting has direct implications on excess costs. Suppose, for example, that we were able to predict the probability of exhaustion perfectly, and that the cutoff were set so that only claimants who would in fact exhaust their UI benefits would be invited to participate. In this ideal scenario, there would be no excess costs to the trust fund; payments to demonstration participants could not exceed what they would have received in the absence of the demonstration, since in the absence of the demonstration each would receive the maximum UI benefits payable.

The choice of cutoff probability level used in targeting participants also has implications for excess costs. The higher the cutoff, the more likely one is to identify exhaustees; the lower the cutoff, the more likely one is to include nonexhaustees in the targeted group. Because nonexhaustees raise excess costs, lower cutoff probabilities are associated with higher costs.

Based on these results, one might wish to establish a very high cutoff probability for selecting a target population so that only highly likely exhaustees are selected. Operationally, however, a high cutoff probability limits the number of individuals available for the demonstration since a smaller number meet the targeting requirement. To reach a minimum efficient operational level, one may be forced to lower the cutoff probability. Clearly, there is a tradeoff among excess costs, cutoff probability, claimant population, and operational constraints in designing the demonstration.

**Duration of the Work Search Waiver.** In Massachusetts, the maximum duration of UI benefits is 30 weeks. In the discussion above, we assumed that the UI work test is waived for the entire duration of benefit availability for the treatment group. We have also assumed that treatment group members are likely to exhaust their self-employment allowance eligibility (i.e., draw benefits up to the maximum available) since business development often takes a substantial period of time. To reduce excess costs, one may consider limiting the eligibility period for

treatment group members below the maximum duration available. That is, if the work search waiver were limited to some period shorter than the maximum duration, some treatment group members may choose to forego their remaining UI benefits and continue to devote full time to their self-employment activities. Other treatment group members may choose to return to the UI system and would likely exhaust their benefits.

The effect on excess costs of limiting the duration of the work search waiver depends on the proportion of treatment group members who choose to forego their remaining UI benefits at the end of the waiver period. This proportion, in turn, is dependent on the duration of the work search waiver. The shorter the waiver period, the higher the proportion likely to return to UI and exhaust remaining UI benefits. The relationship among the duration of the work search waiver, the proportion who choose to forego remaining UI benefits, and the expected impact on excess costs is discussed in detail elsewhere.<sup>8</sup>

After reviewing available Massachusetts data and incorporating conservative assumptions about the proportion of treatment group members expected to forego remaining benefits, the duration of the work search waiver was set at 24 weeks in Massachusetts. Thus, in Massachusetts treatment group members may collect self-employment allowances through the 24th consecutive week of their UI claims. At that point they must choose between continuing with their self-employment activities full-time or returning to UI for the remaining six weeks of UI eligibility and meeting the work search requirements.

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<sup>8</sup> Jacob M. Benus, Design Options to Reduce Excess Costs in the Massachusetts Enterprise Project, Abt Associates, Inc., March 1990.



## **IMPACT OF EXCESS COSTS ON STATE PARTICIPATION**

As part of the design process, Abt/Battelle prepared several papers outlining the methodology for predicting likely UI exhaustees and for estimating potential excess costs. Using the methodology developed in these documents, the researchers generated excess costs estimates for each State, based on State-supplied UI data.

These excess costs estimates provided the first indication of the magnitude of potential excess costs. At this point in the planning process, the States became even more concerned than they had been about the potential for excess costs liabilities. To retain the participation of the three States, DOL explored a variety of methods to reduce the potential for excess costs liability. After evaluating the financial risks associated with participating in the demonstration, two States -- Oregon and Minnesota -- decided to withdraw from the project. The sole State remaining in the demonstration was Massachusetts.

The decision to withdraw from the project was made after substantial delay while efforts were made to retain all three States. Minnesota withdrew from the demonstration primarily because of the potential for excess costs liabilities. For Oregon, a variety of factors were significant, including excess costs, economic conditions, and the lack of available self-employment services in the State.

Based on these observations, we may conclude that the potential for excess costs liability was a substantial barrier in the States' participation decisions. Furthermore, excess costs may have discouraged other States from applying to participate in the demonstration.

## CHAPTER 3

### DESIGN OF THE MASSACHUSETTS DEMONSTRATION

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The Massachusetts UI Self-Employment Demonstration, also known as the Massachusetts Enterprise Project, has been designed to test whether the UI system may be used effectively in assisting unemployed workers who are likely to exhaust their UI benefits to become self-employed. In designing the Massachusetts demonstration, careful consideration was paid to requirements of the authorizing legislation, the program operators and the program evaluators.

To achieve a design that meets the above requirements necessitated the close cooperation of the U.S. Department of Labor (DOL), the Massachusetts Department of Employment and Training (DET), and the Abt/Battelle research team. The final results of the design process are documented in the Massachusetts Operational Guide.<sup>9</sup> This document describes each project implementation step in detail.

Massachusetts DET has overall responsibility for Massachusetts Enterprise Project implementation. DET has contracted with the Massachusetts Small Business Development Center (MSBDC) and the Franklin County Venture Center to provide program business assistance services. DET also initiated and developed a unique component for the Massachusetts Enterprise Project -- the Shawmut Loan Program. This program provides loan assistance to qualified project participants.

The design of the Massachusetts Enterprise Project involves a series of steps. The first step is the targeting of eligible UI claimants who, on the basis of characteristics in their UI claims record, are likely to exhaust their UI benefits and who meet other eligibility requirements. As discussed in Chapter 2, targeting likely exhaustees is both a requirement of

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<sup>9</sup> UI Self-Employment Demonstration Evaluation, *Operational Guide for the Massachusetts Enterprise Project*, Abt Associates, Inc., April, 1990.

## ***DESIGN OF THE MASSACHUSETTS DEMONSTRATION***

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the authorizing legislation as well as an important component in reduction of potential excess costs.

Targeted UI claimants are invited to attend an Information Session where they are provided information about the demonstration and about the risks and rewards of self-employment. Only those individuals interested in self-employment are expected to attend the Information Session and submit an application to participate in the self-employment program. Those who submit an application that meets project requirements are then randomly assigned to either treatment or control group status. Those assigned to the treatment group are provided program services; those assigned to the control group continue to receive UI benefits and services.

Enterprise Project services have two key components: (1) business development assistance and (2) financial assistance. Business development assistance includes both classroom training and individual business counseling. These services may also include referrals to other business assistance providers. Financial assistance includes the payment of self-employment allowances in lieu of unemployment benefits (as mandated by the legislation) as well as a waiver of the regular UI work search requirement (also mandated by the legislation). In addition, participants in the Massachusetts Enterprise Project may be eligible for business loans through the Shawmut Loan Program.

In the remainder of this chapter we describe the design of the Massachusetts Enterprise Project in greater detail. We begin by describing the seven sites chosen to operate the Enterprise Project. Next we discuss the intake procedures used to identify an appropriate experimental sample, the procedures for recruiting program participants, and the procedure for randomly assigning individuals to treatment or control group status. Finally, we describe the business development services and financial assistance provided for treatment group members.

## **SITES IN THE ENTERPRISE PROJECT**

Seven local Department of Employment and Training (DET) offices participate in the Enterprise Project. Participating sites were selected largely on the basis of their interest in operating the project; however, they represent a variety of geographic areas, programmatic environments, and economic conditions. The sites also represent a broad mixture of urban and rural locations, different industrial bases, and different demographic compositions.

In Table 3.1 we present descriptive statistics for the participating sites. The data in Table 3.1 indicate a wide range of unemployment rates among the sites -- from a low of 4.1 percent in Greenfield to a high of 9.5 percent in New Bedford. Similarly, the distribution of demographic characteristics varied substantially across sites. In 1988, for example, minorities accounted for only 0.3 percent of the UI claimant population in Greenfield but 94.7 percent in Roxbury.

The seven participating sites also represent a wide geographic distribution across Massachusetts. **Gloucester** is a small coastal city in northeastern Massachusetts. **Greenfield**, the most rural project site, is located in western Massachusetts. **Lowell** is a former industrial center in northeastern Massachusetts. **New Bedford** is a small coastal city in southeastern Massachusetts. **Roxbury** is an urban community located in Boston; of all the project sites, it has the highest percentage of minority claimants. **Springfield**, the state's third largest city, is located in western Massachusetts. **Woburn** is a small city in eastern Massachusetts. These participating sites represent a wide mix of characteristics important for the evaluation of the Massachusetts Enterprise Project.

**Table 3.1**

**Summary of Claimants and Jobs Data  
Enterprise Project Sites**

	Gloucester	Greenfield	Lowell	New Bedford	Roxbury <sup>1</sup>	Springfield	Woburn
<b>% Minority (Aug. 1990 UI Claims)</b>	0.4	0.3	8.3	5.8	94.7	23.9	1.3
<b>May 1990 Unemployment Rate</b>	8.8	4.1	7.2	9.5	n/a <sup>1</sup>	6.1	4.8
<b>Major Industries (% of workforce)</b>							
Mining	0.0	0.0	0.1	0.1	0.0	0.1	0.1
Construction	10.8	14.2	13.8	20.4	7.3	10.3	13.6
Manufacturing	26.8	18.2	34.0	31.1	10.1	19.5	19.5
Utilities	7.5	9.4	6.1	7.3	26.8	12.7	6.5
Trade	21.8	23.5	17.4	18.8	16.3	23.9	23.1
Financial\Insurance Real Estate	3.1	4.5	2.5	2.4	6.8	3.4	5.3
Services	24.3	24.9	20.8	15.9	28.3	22.3	25.9
Other	5.7	5.2	5.2	3.9	4.5	7.7	5.8

Sources: Statewide Summary of Claimant and Jobs Data, August 1990.

Local Area Unemployment Statistics and Current Employment Statistics: Preliminary Estimates for May 1990 and Revised Estimates for April 1990. Massachusetts Department of Employment and Training.

<sup>1</sup>Roxbury is a community within the city of Boston. The Boston unemployment rate is 4.8 percent.

## **DEMONSTRATION INTAKE AND ASSIGNMENT PROCEDURES**

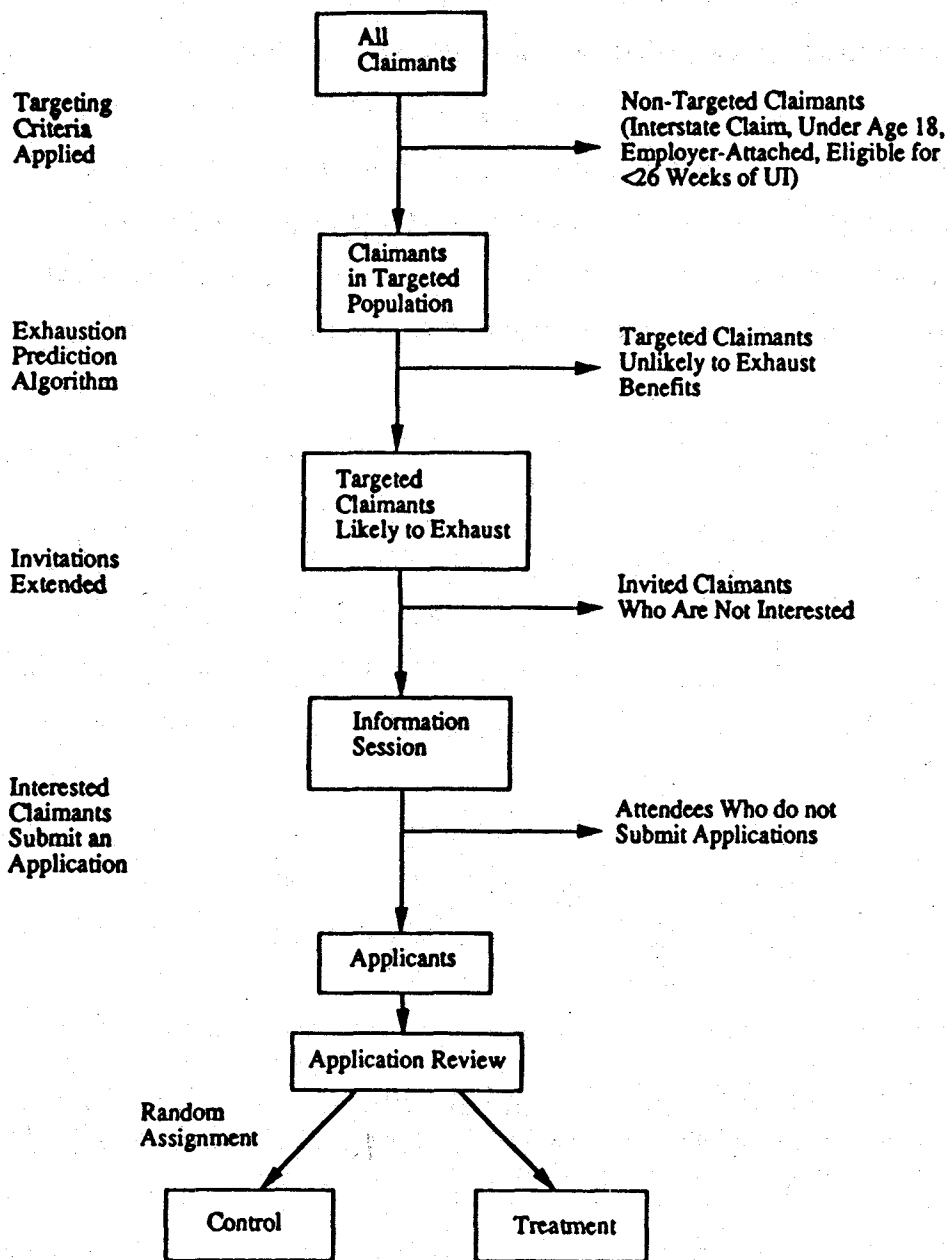
In this section we describe the intake and assignment process for selecting an experimental sample of participants from the universe of UI claimants in Massachusetts. UI claimants file UI claims as usual; upon filing new claims, certain claimants are targeted for participation in the demonstration and invited to attend program activities. Those who attend the first component, the Information Session, are given the opportunity to submit a project application. Following a review of the submitted applications, individuals are randomly assigned to the treatment group, which receives program services, or to the control group, which does not. The intake and assignment process thus involves four steps: targeting, selecting likely exhaustees, recruitment and random assignment. These steps are summarized in Exhibit 3.1. We discuss each in turn.

**Targeting.** Targeting refers to the method by which UI claimants of most interest to designers of self-employment policy are identified and invited to participate in the project. The Enterprise Project uses a two-step process to identify the target population. The first step applies targeting criteria to all UI claimants and eliminates those who:

- are under age 18. Since individuals under age 18 cannot enter legally binding contracts, they are not included in the target population.
- file interstate claims. The demonstration is designed to serve Massachusetts residents only.
- are eligible for less than 26 weeks of UI benefits. Since business startup can require many weeks or months to accomplish, especially when preceded by substantial training, claimants who are eligible for less than 26 weeks of benefits are inappropriate targets for the demonstration. UI claimants in Massachusetts are eligible for a maximum of 30 weeks.

Exhibit 3.1

### Enterprise Project Intake and Assignment Procedures



## **DESIGN OF THE MASSACHUSETTS DEMONSTRATION**

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These characteristics are easily identified using information contained in the UI claims record. Each week, the State computer system identifies those individuals who fall into the categories described above and eliminates them from the pool of potential project participants. UI claims records for the remaining eligible claimants are then transferred from the State UI mainframe computer to the demonstration database, the Participant Tracking System (PTS). The PTS was developed by DOL and serves as an integral part of the demonstration. It provides an on-line capability for tracking program participants and program services. The PTS also provides the researchers with a database for analyzing program operations. Chapter 4 presents a more detailed description of the PTS and the data provided by this unique database system. The following section describes the second step in the two-stage targeting process.

**Selecting Likely Exhaustees.** Since the authorizing legislation requires that the program focus on unemployed workers who are likely to exhaust their UI benefits, the second step is to select likely UI exhaustees. To accomplish this legislative mandate, Abt/Battelle developed an algorithm to predict each claimant's likelihood of UI benefit exhaustion (for a description, see Appendix).<sup>10</sup> This algorithm predicts the probability of UI benefits exhaustion on the basis of information available in the UI record. This prediction is based on the following set of claimant characteristics:<sup>11</sup>

- Total number of dependents;
- Ratio of benefit amount to average wage;

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<sup>10</sup> The algorithm was estimated on a State-wide sample of Massachusetts UI claimants who collected more than 8 weeks of UI in 1989.

<sup>11</sup> Since the goal of targeting is to accurately identify as many UI benefit exhaustees as possible, explanatory variables were included in the algorithm to achieve the "best fit" between claimant characteristics and exhaustion.



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- Whether or not the claimant reported being permanently separated from the pre-layoff job;
- Office in which the claim was filed;
- Education level (four categories -- less than nine grades, some high school, college, and postgraduate education);
- Industry of most recent job (construction, durable manufacturing, and nondurable manufacturing); and
- Occupation (professional or clerical).

A numerical probability of exhaustion can then be calculated for each new claimant by applying this algorithm to each individual's characteristics. Entry into the demonstration is restricted to those with a " high" predicted probability of exhausting UI benefits.

Selecting only those with a high probability of claims exhaustion directly affects excess costs. Selecting into the target population only individuals likely to exhaust benefits reduces the likely difference in UI claims between those assigned to the treatment group and those assigned to the control group. Thus, the higher the predicted exhaustion probability, the lower the expected excess costs.

The problem with selecting only those with high exhaustion probability, however, is that it restricts the size of the target population. If the cutoff probability is set too high, we cannot achieve a sufficient case flow for the demonstration, especially in smaller sites. Experimentation with various cutoff probability levels indicates that very few targeted cases have an exhaustion probability of .5 or higher. To achieve a sufficient case flow, especially in smaller sites, the cutoff probability must be set substantially below .5.

There is therefore a tradeoff between setting the cutoff probability high enough to reduce excess costs and low enough to achieve an appropriate case flow. Based on an analysis of this

## DESIGN OF THE MASSACHUSETTS DEMONSTRATION

tradeoff, .25 was established as the appropriate cutoff probability rate for selection.<sup>12</sup> Applying this .25 cutoff uniformly across all sites, however, resulted in targeting too many claimants and exceeding the capacity of some sites. As a result, it was necessary to establish a site specific limit on invitations that corresponds with the capacity of the local office to serve project participants.

Operationally, selecting likely exhaustees is accomplished by first applying the algorithm to the characteristics of each individual record downloaded from the State mainframe. Those with a calculated probability of .25 or higher are included in the target population. To accommodate limitations in site capacity, only those with the highest predicted exhaustion probability, up to the site capacity limitation (see Table 3.2), are selected and invited to attend an Information Session.

**Recruitment.** The next step in the intake process is to recruit those targeted claimants interested in self-employment into the demonstration. We identify the more highly motivated claimants by establishing a strict time frame for attending required project services. Only those who meet these time frames (or, in special cases, are excused by project staff) are permitted to continue in the demonstration. In this way self-screening is used to eliminate the less motivated from the project.

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<sup>12</sup>For a discussion of this issue, see Jacob Benus, Design Options to Reduce Excess Costs in the Massachusetts Enterprise Project, Abt Associates, Inc., March, 1990.

**Table 3.2: Enterprise Project Site Capacity Limitations**

<b>Site</b>	<b>Weekly Quota of Invited Claimants</b>
Gloucester	50
Greenfield	50
Lowell	100
New Bedford	75
Roxbury	75
Springfield	100
Woburn	75

Each week new claimants who satisfy the targeting criteria described above are sent a letter inviting them to attend an Information Session. The letter gives the time, date and location of two alternate Information Sessions. Invited individuals must attend a session within 19 days of the date of the letter to be eligible for the demonstration. This time frame was established to provide participants approximately two weeks after receipt of the invitations to attend an Information Session.

The Information Session is designed to provide claimants with sufficient information about the Enterprise Project to decide whether to apply to the program. The sessions are designed to last approximately two hours and are conducted by a DET local staff person (Enterprise Representative) and business development experts from the SBDC (Enterprise Coordinators). During Information Sessions, participants receive information on the purpose of the demonstration and its key features, including random assignment; the rules regarding UI benefit payments while in the project; and participation requirements, including application procedures and attendance at certain training and counseling sessions.

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Since attendance at the Information Session precedes random assignment of participants into treatment and control groups, it is important that the information presented at this session not make it easier or harder for attendees to start businesses. That is, since potential control group members are present at these meetings, it is critical that their behavior not be influenced by the demonstration. The Information Session, therefore, is designed to present attendees sufficient information about the project and about self-employment to allow them to make an informed decision about participating in the demonstration, yet avoid giving specific information about the availability of business services or directing attendees to sources of business startup assistance.

The Information Session performs a screening function. Through a description of the risks and rewards of self-employment, the session can help winnow down the group of interested claimants to a subset who have a realistic understanding of the self-employment requirements and of their own entrepreneurial prospects.

During the Information Session claimants are provided a two-part project application. Part A, which is returned to the DET local office within seven days for review, includes an informed consent form, background information, a description of the applicant's business idea, and contact information for use in the follow-up surveys. Part B contains additional background information and is mailed directly to Abt Associates.

Local DET staff complete a preliminary review of the forms, including a check of the receipt date, verification of permanent separation with the former employer, verification that the informed consent form is signed, and a general review for completeness. Next, a review panel consisting of DET, SBDC, Shawmut Bank, and economic development representatives reviews

## **DESIGN OF THE MASSACHUSETTS DEMONSTRATION**

applications to ensure that proposed businesses satisfy project requirements and are eligible for random assignment. Businesses not allowed in the Enterprise Project include:

- franchises in which the applicant is not the principal owner;
- partnerships in name only;
- pre-existing businesses in which the applicant has no decision making authority;
- businesses involving the speculative purchase and/or sale of real estate;
- businesses involving gambling activities;
- non-profit organizations; and,
- pyramid-selling activities.

Businesses also must meet all local, State, and Federal requirements regarding licensing, taxes, zoning and permits. Central Office staff also review business ideas to verify that they appear suitable for funding by a public agency. The reviewers do not evaluate the likely success of the business ideas, but focus only on established project criteria.

Applications that are submitted within the seven-day limit (unless this deadline is waived by Central Office staff in cases of emergency), are complete, and have a qualifying business idea are eligible for the next step in the intake process, random assignment.

**Random Assignment.** Eligible applicants are randomly assigned into either the treatment group, which is offered the self-employment option, or the control group, which is not. Assignment to these groups is done at random, to obtain scientifically valid measures of project impact. That is, random assignment creates treatment and control groups that are statistically identical. Thus we can be confident that any subsequent difference in outcomes between the treatment and control groups can be attributed solely to the program. Random assignment is the only technique that guarantees that the two groups are truly comparable. It occurs after

## **DESIGN OF THE MASSACHUSETTS DEMONSTRATION**

interested claimants apply to the project and after project staff review applications to ensure that they are acceptable. Operationally, random assignment is accomplished using a random number generator in the PTS.

Prior to conducting random assignment, the PTS is used to scan the records of all pending applicants to verify their eligibility for random assignment. To be eligible, applicants must:

- have been invited to attend an Information Session;
- attend an Information Session within 19 days of the date of the invitation letter;
- submit a timely and acceptable application;
- be monetarily eligible for UI benefits based on an automated check of the current balance available in his or her UI benefit entitlement; and
- be non-monetarily eligible ("cleared for payment") for benefits based on a review of non-monetary issue codes by DET Central Office staff.

Applicants who do not meet all of the above criteria are not eligible for random assignment.

Following random assignment, letters are sent to inform applicants of their status in the project. Three types of letters are sent: (1) non-acceptance letters to ineligible applicants; (2) treatment group letters to applicants selected to receive demonstration services, and (3) control group letters to those applicants selected for the control group (who do not receive demonstration services). Treatment group members are then required to report to the local DET office for an enrollment interview, in which the project requirements are explained. At this interview, participants sign a participation agreement that outlines the individual's responsibilities and the project requirements. Self-employment allowances are also initiated at this time by signing the first self-employment allowance form. This enrollment interview constitutes the first treatment activity for project participants.

**BUSINESS SERVICES AND SELF-EMPLOYMENT ALLOWANCES**

Once the participation agreement has been signed by treatment group members, the next step is to provide demonstration services, including business development assistance services and financial assistance services.

**Business Development Services.** Business assistance services are intended to enable participants to plan, implement, and operate their businesses. The design specifies that business development services begin as soon after random assignment as possible, so that participants can take full advantage of available services in a timely fashion and to achieve the demonstration's early intervention objective.

The Enterprise Project offers the following business development activities:

- an intensive eight-hour training session, the Enterprise Seminar, to introduce participants to business development issues;
- individual counseling sessions to meet the unique needs of each participant (one session is mandatory, others are scheduled as needed by the participant);
- regular bi-weekly meetings (Enterprise Meetings) designed to provide additional training and peer support; and
- referrals to other sources of business training and technical assistance (for example, consultants, private organizations, free legal or accounting assistance, etc.).

The eight-hour **Enterprise Seminar** is led by the SBDC Enterprise Coordinator in most sites. The design calls for project participants to attend an Enterprise Seminar within two weeks of assignment to the treatment group. The seminars follow a discussion format and cover a variety of topics, including opportunities and requirements of the Enterprise Project, developing a business ownership mind set, business entry options, business plan development, marketing,

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financial considerations, personnel issues, forms of business, and management issues. The sessions conclude with a description of the next steps necessary to develop the business idea. Within two weeks of the Enterprise Seminar, participants are required to schedule a two-hour **individual counseling session** with their business development counselor. Together, they determine the most effective steps to develop the business. Additional counseling sessions are held as needed.

Following the first individual counseling session, participants attend **bi-weekly Enterprise Meetings**. The meetings provide participants with ongoing business training and peer support and are led by the Enterprise Coordinator or other business development counselor.

Enterprise Meetings are primarily training sessions, with content dependent on the overall group needs. They provide an opportunity to bring in guest speakers from the local business community to strengthen the entrepreneur's knowledge of local resources and make community members aware of fledgling businesses. The bi-weekly sessions also function as discussion sessions where group members can assist each other in their business ventures as well as network with others in the program. Finally, the sessions give the business development counselors the opportunity to monitor participant progress and encourage individual counseling as necessary. Some topics that have been discussed at Enterprise Meetings include finance, marketing, cash flow, management, record keeping, personnel issues, and taxes.

Business counselors also make **referrals** to other business training providers in the community based on the needs of individual participants.

**Financial Assistance Services.** The financial assistance component consists of bi-weekly self-employment allowances, available to all participants through the 24th week of their UI



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claim.<sup>13</sup> The self-employment allowances are paid out of the Unemployment Trust Fund under a waiver of the UI work test authorized by OBRA specifically for this demonstration. The self-employment allowance payments, paid in the same frequency and amount as regular UI benefits, provide participants a stream of income while they develop their businesses. The authorizing legislation also exempts self-employment income received during the waiver period from the calculation of self-employment allowance payments.

To provide additional financial support, DET has initiated and successfully developed a loan program through Shawmut Bank. Shawmut Bank is a large regional bank with branches in each project site. Through this loan program, Enterprise Project participants gain access to banking and financial services that they might otherwise not receive. As part of this program, participants' loan applications are given consideration by Shawmut Bank, even if the size of the loan falls below normal minimum levels. Shawmut Bank has designated experienced lending officers to design small business loans with individually tailored terms for Enterprise Project participants.

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<sup>13</sup> Jacob M. Benus, Design Options to Reduce Excess Costs in the Massachusetts Enterprise Project, Abt Associates, Inc., March 1990.

## CHAPTER 4

### IMPLEMENTATION OF THE MASSACHUSETTS DEMONSTRATION

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Enterprise Project implementation is a collaborative effort among several organizations. The project is sponsored by the U.S. Department of Labor (DOL) and is operated by the Massachusetts Department of Employment and Training (DET). DET has contracted with the Massachusetts Small Business Development Center (MSBDC), and the Franklin County Venture Center to provide business assistance services. In addition, DET has worked with Shawmut Bank to develop the Shawmut Loan Program to provide loan assistance to qualified project participants.

The Massachusetts demonstration began operations May 1, 1990. In this chapter we discuss the implementation of the Massachusetts Enterprise Project through July 29, 1990. This preliminary assessment focuses on the following questions:

- What has been the response of UI claimants to the Enterprise Project?
- What are the demographic characteristics of project participants?
- How long does it take participants to move through the project components?
- Does our experience to date provide insight for projections about self-employment programs in general?
- Has the demonstration been implemented as planned? If not, where has implementation diverged from design, and what are the implications of such discrepancies?
- What types of businesses are participants considering?

To answer these questions, we examine quantitative information collected through the Participant Tracking System (PTS) and qualitative information collected through site visits to monitor project activities. As described in Chapter 3, the PTS is an on-line database system developed by DOL to provide ongoing information about project participants and project services. The PTS also serves as an integral component of the demonstration in that it performs

## ***IMPLEMENTATION OF THE MASSACHUSETTS DEMONSTRATION***

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such functions as calculating individuals' probability of exhausting UI benefits, targeting project participants, generating letters to participants, randomly assigning individuals to treatment and control groups, and maintaining on-line information about project services.

### **INTAKE FLOW**

As described in Chapter 3, targeted UI claimants are invited to attend an Information Session where they are provided information about the demonstration and about the risks and rewards of self-employment. Those who submit an application that meets project requirements are then randomly assigned to either treatment or control group. To analyze the flow of participants through project components, we employ PTS data extracted on July 29, 1990. Extracting data in the middle of program operations<sup>14</sup> necessarily truncates program information at a fixed point in time. This data truncation complicates the analysis and presentation of results somewhat. For example, as of July 29, some individuals in the PTS data file may have received an invitation letter to attend an Information Session, but have not yet attended. A portion of these may yet attend an Information Session before their attendance period expires.<sup>15</sup> Thus, an attendance rate calculated on the basis of the data available on July 29 would understate the true response to the program. Similarly, there may be some individuals in the PTS file who attended an Information Session and whose seven day period for submitting a timely application has not expired. Therefore, an application rate calculated on the basis of applications filed prior to July 29 would also understate the true application rate. Our technique for dealing with the truncation issue is presented below.

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<sup>14</sup> First year program intake operations began in May 1990 and continued through October 1990.

<sup>15</sup> In Chapter 3, we noted that individuals must attend an Information Session within 19 days of the invitation mailing date.

## **IMPLEMENTATION OF THE MASSACHUSETTS DEMONSTRATION**

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To estimate a take-up rate between one project component and the next (say, component  $n$  and  $n+1$ ), we include only those participants who completed component  $n$  with sufficient time to complete component  $n+1$  before the data truncation (i.e., before July 29). Suppose, for example, that program procedures require that component  $n+1$  be completed within ten days of component  $n$ .<sup>16</sup> To derive the take-up rate between component  $n$  and component  $n+1$ , we include in the calculation only those who completed component  $n$  on or before July 19 (i.e., July 29 less the ten day maximum interval between component  $n$  and  $n+1$ ). In this way, we do not include in the rate calculation individuals whose time limit has not expired, nor do we include individuals who completed component  $n+1$  before their time limit expired. The take-up rate is thus unaffected by the truncation of the data.

Table 4.1 presents the results of employing the above procedure for estimating take-up rates between adjacent components (these rates are presented on the diagonal). To estimate the response rate to the invitation letters, for example, we eliminate all claimants who were mailed invitation letters after July 10 (July 29 less 19 days). This leaves 5721 who were sent invitation letters on or before July 10; 197 of these individuals attended an Information Session on or before July 29, for a take-up rate of 3.4 percent.

To calculate the rate at which participants submit timely applications, we first eliminate all those who attended an Information Session after July 22 (July 29 less seven days). Of the 195 who attended an Information Session on or before July 22, 136 submitted a timely application, for a take-up rate of 69.7 percent.

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<sup>16</sup> Program procedures are described in detail in the Massachusetts Enterprise Project Operational Guide.

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**Table 4.1: Enterprise Project Participant Flow Information - Marginal and Cumulative Take-up Rate (Data through July 29)**

	<b>Attended Info. Session</b>	<b>Applied</b>	<b>Randomly Assigned</b>	<b>Treatment Group</b>	<b>Enrolled in the Project</b>	<b>Attended Ent. Seminar</b>
<b>% of Invited</b>	3.4% (197/5721)					
<b>% of Attended</b>		69.7% (136/195)				
<b>% of Applied</b>			81.2% (104/128)			
<b>% Randomly Assigned</b>				51.9% (54/104)		
<b>% of Treat- ment Group</b>					88.0% (44/50)	
<b>% of Enrolled</b>						96.9% (32/33)
<b>Cumulative Rate</b>	3.4%	2.4%	1.9%	1.0%	0.9%	0.9%

Source: Participant Tracking System (PTS); data extracted July 29, 1990.

Following the submission of a project application, a committee meets to review the application. This committee meets at approximately ten day intervals to discuss recently received applications. To estimate the rate at which those who submit an application are accepted and randomly assigned, we follow a similar procedure as above and eliminate from the rate calculation those who submitted an application after July 19 (July 29 less 10 days). Of the 128 who submitted an application on or before July 19, 81.2 percent were randomly assigned to treatment or control group status. Of the 104 randomly assigned, 54 (or 51.9%) were assigned to the treatment group and 50 (or 48.1%) to the control group.

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Following random assignment, treatment group members are required to sign a participation agreement during an enrollment interview. In general, the signing of this participation agreement takes place within one week. To estimate the rate at which randomly assigned participants sign a participation agreement, we eliminate those who were randomly assigned after July 22 (July 29 less seven days). Of the 50 who were assigned to the treatment group on or before July 22, 88.0 percent signed a participation agreement.

The interval between signing a participation agreement and attending an Enterprise Seminar may be as long as two weeks, depending on when a treatment group member signs the participation agreement relative to the schedule for Enterprise Seminars. Thus, to estimate the rate at which treatment group members attend Enterprise Seminars, we eliminate those who signed a participation agreement after July 15 (July 29 less 14 days). The results indicate that out of 33 who signed a participation agreement on or before July 15, 96.9 percent attended an Enterprise Seminar.

The rates derived above provide the marginal take-up rates from one project component to the next. To estimate the take-up rates across several project components, we multiply the relevant marginal take-up rates together. For example, to estimate the take-up rates from invitation through random assignment, we multiply 3.4 percent (the Information Session take-up rate) by 69.7 percent (the application take-up rate) by 81.2 percent (the acceptance rate). The resulting take-up rate through random assignment (i.e., the proportion of invitees who are randomly assigned) is 1.9 percent. This is nearly identical to our original Design Report projection of a 2 percent random assignment take-up rate.

The results derived above are also generally in line with the experience of other self-employment programs. In the Washington UI Self-Employment Demonstration, for example, the proportion of invitees who are randomly assigned is 3.4 percent (as compared with 1.9

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percent for the Massachusetts demonstration). The higher take-up rate in Washington is largely due to the higher response to the orientation session invitations (i.e., 7.1 percent in Washington as compared with 3.4 percent in Massachusetts). Of those who attended the orientation session<sup>17</sup> in the Washington demonstration, 61 percent submitted an application (as compared with 70 percent in Massachusetts). Finally, of those submitting an application, 78 percent were randomly assigned (as compared with 81 percent in Massachusetts).

Similarly the European experience indicates participation rates of approximately 2-3 percent. The British self-employment program, which has features similar to the Massachusetts demonstration, has consistently reported this level of participation since its inception in 1982.

### **LENGTH OF INTERVALS BETWEEN PROJECT COMPONENTS**

The Massachusetts Enterprise Project Operational Guide establishes fixed time limits between key project activities. For example, attendance at an Information Session must be within 19 days of invitation date; application submission must be within seven days of Information Session attendance. In this section we analyze the demonstration implementation by measuring the intervals between key demonstration activities. As discussed in Chapter 1, a major objective of the demonstration is to provide services to dislocated workers early in their unemployment spells. Measuring intervals between key project activities can help us determine the success of the early intervention objective.

Table 4.2 presents the average number of days elapsed between key project components. The average interval between the invitation letter date and Information Session attendance is 10.7

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<sup>17</sup> These orientation sessions are called Awareness Day sessions in the Washington demonstration.

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days. This result is consistent with the observation that most of those attending an Information Session attend the earlier of two Information Sessions available to invitees.<sup>18</sup> Table 4.2 also indicates that an average of 5.4 days elapse between attending Information Sessions and submitting project applications. Once applications are received, it takes an average of 10 days to review the applications and assign participants to treatment or control group. This yields a total of 15 days from the day an individual attends an Information Session to the day he or she is randomly assigned. On average, it takes another 5 days before the participant enrolls in the project by signing the participation agreement, and 7.2 more days elapse before participants attend an Enterprise Seminar.

**Table 4.2: Average Number of Days Between Key Events**

<b>INTERVAL</b>	<b>MEAN (days)</b>
Invitation Date--Information Session	10.7
Info. Session Date--Application Receipt	5.4
Application Receipt--Random Assignment	10.0
Random Assignment--Enrollment	5.0
Enrollment--Enterprise Seminar	7.2

Source: Participant Tracking System (PTS); data extracted July 29, 1990.

As stated earlier, an important objective of the Enterprise Project is to offer early intervention services for UI claimants. Given the experience to July 29, an average of 26 days

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<sup>18</sup> The Operational Guide specifies that individuals must attend Information Sessions within 19 days of the invitation date. This 19 day limit may be waived by Enterprise Project staff in cases of emergency. Four such waivers occurred and participants attended beyond the 19 day limit.



elapse between the invitation date and random assignment date. Combining this 26 day interval with the 22 day interval between initial UI claim and invitation date, implies that demonstration services begin approximately 48 days after initial contact with UI. Whether this timing of self-employment services can be considered early intervention is a matter of judgment. One should note that part of the 48 day interval between initial UI claim and self-employment services is due to the experimental component of the demonstration, which would not be a factor in an ongoing program.

### **PARTICIPANT FLOW BY SUBGROUP**

Self-employment may be of greater interest to some population subgroups than to others. In this section we examine the extent to which participant characteristics are associated with program participation. In Table 4.3 we summarize Information Session attendance rates and application rates by office location (i.e., where the UI claim is filed), and the sex, occupation group, age, and education level of the claimant.

**Attendance Rates.** Among those who were invited to attend an Information Session on or before July 10, 197 participants or 3.4 percent attended as of July 29. The response (or take-up) rate to these invitations varied by participant characteristics. For example, take-up rates varied by location where UI claim was filed. Woburn, for example, has the highest Information Session attendance rate (5.6 percent) while Roxbury has the lowest attendance rate, with 1.9 percent of invitees attending.

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**Table 4.3: Attendance and Application Rates, by Subgroup, (Data through July 29)**

	Invited to Information Session	Attended Information Session		Submitted Application	
			Rate		Rate
<b>TOTAL</b>	5721 <sup>1</sup>	197 <sup>2</sup>	3.4	136 <sup>3</sup>	69.0
<b>SITE</b>					
Greenfield	356	12	3.4	11	91.7
Springfield	1242	33		26	78.8
Lowell	1290	51	3.9	34	66.7
Gloucester	485	16	3.3	7	43.8
Roxbury	479	9	1.9	6	66.7
Woburn	965	54	5.6	38	70.4
New Bedford	904	22	2.4	14	63.6
<b>SEX</b>					
Female	2804	76	2.7	45	59.2
Male	2917	121	4.2	91	75.2
<b>RACE</b>					
White, Non-Hispanic	4741	177	3.7	121	68.4
Black, Non-Hispanic	584	15	2.6	12	80.0
Hispanic	296	3	1.0	2	66.7
Am. Indian, Alaskan	18	1	5.6	1	100.0
Asian, Pacific Islander	82	1	1.2	0	0

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	Invited to Information Session	Attended Information Session		Submitted Application	
			Rate		Rate
<b>EDUCATION</b>					
Elementary	222	0	0	0	0
High School	781	12	1.5	6	50.0
High School Graduate	2926	70	2.4	46	65.7
College	1530	89	5.8	66	74.2
Graduate School	262	26	9.9	18	69.2
<b>AVERAGE YEARS OF SCHOOL</b>	12.5	14.1		14.2	
<b>OCCUPATION</b>					
Prof/Mgr/Tech	1548	104	6.7	73	70.2
Clerical	1286	29	2.3	17	58.7
Sales	221	11	5.0	9	81.8
Services	491	7	1.4	5	71.4
Agriculture	38	1	2.6	0	0
Production/Labor	2137	45	2.1	32	71.1
<b>AGE</b>					
0-25	1057	10	1.0	5	50.0
26-35	1981	65	3.3	45	69.2
36-45	1321	71	5.4	52	73.2
46-55	776	39	5.0	26	66.7
Over 55	586	12	2.0	8	66.7
<b>AVERAGE AGE</b>	37.0	39.0		39.5	

**Source:** Participant Tracking System (PTS); data extracted July 29, 1990.

<sup>1</sup> Invited before July 10, 1990.

<sup>2</sup> Attended as of July 29, 1990 (of those invited before July 10, 1990).

<sup>3</sup> Submitted applications as of July 29, 1990 (of those attending Information Session before July 22, 1990).

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Approximately the same number of invitations were sent to men and women (49 percent of all invitations sent were sent to men, 51 percent were sent to women); the participation rate for men, however, is 4.2 percent as compared with 2.7 percent for women. This result is consistent with the Washington demonstration experience and may indicate that men are more interested than women in self-employment; at least, they respond in higher proportions to invitations to participate in self-employment programs.

Table 4.3 indicates other group differences in Information Sessions attendance rates. Whites attend at a rate of 3.7 percent, blacks attend at 2.6 percent, and Hispanics at a rate of 1.0 percent.

Attendance rates also increase with education level. None of the 222 individuals with only an elementary school education who were invited to attend Information Sessions attended. Those with some high school education attend at a rate of 1.5 percent; high school graduates attend at a rate of 2.4 percent. Among those with a college education, the attendance rate is 5.8 percent, while those with graduate school education have the highest attendance rate of 9.9 percent.

These results indicate a positive relation between education level and attendance rate. This positive relationship is also reflected in the higher average years of education for those attending an Information Session (14.1 years) relative to those invited (12.5 years).

Attendance rates also appear to vary across occupational groups. Those claimants previously employed in white collar occupations (professional, management, and technical group) had the highest attendance rate, 6.7 percent. Production/labor occupations had an attendance rate of 2.1 percent while service occupations had the lowest rate, 1.4 percent.

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The youngest and oldest invitees exhibit the lowest attendance rates. Invitees age 25 or under attend at a rate of 1.0 percent; those over age 55 attend at a rate of 2.0 percent. The attendance rate is 5.4 percent among individuals between the ages of 36 and 45, and 5.0 percent for those between the ages of 46 and 55. The average age for those invited to attend an Information Session is 37.0 years; the average age for those attending is 39.0 years.<sup>19</sup>

The results reported in Table 4.3 are consistent with findings in the Washington demonstration. In the Washington demonstration, relative to invited claimants, those attending the orientation session are more likely to be male (66% vs. 55%), white (90% vs. 82%), previously employed in professional, managerial, and technical occupations (32% vs. 17%), older (mean age 39 vs. 36) and more highly educated (mean years of schooling 13.3 vs. 12.0).

**Application to the Enterprise Project.** Of the 195 who attended an Information Session before July 22, 136 submitted project applications. As in the case of Information Session take-up rates, application take-up rates also vary across subgroups. For example, there are site differences in application take-up rates. Greenfield has the highest application rate (91.7 percent), Gloucester has the lowest (43.8 percent). Roxbury, which has the lowest Information Session attendance rate, has a relatively high application rate (66.7 percent).

Men are more likely than women to apply to the Enterprise Project. Men submitted applications at a rate of 75.2 percent compared to 59.2 percent of women. Combining this result

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<sup>19</sup> To analyze the relative impact of each of the above characteristics on the likelihood that an individual attends an Information Session, we estimated an equation to predict the probability of attending Information Sessions. We included the following explanatory variables in the model: age, sex, ethnic group, office location, and occupation. The results of this analysis indicate that the most significant factors that determine the likelihood of attending Information Sessions are professional occupation, sex, and age.

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with the fact that men are more likely than women to attend an Information Session, it appears that men are much more likely than women to participate in self-employment programs.

In contrast to the earlier finding that whites are more likely to attend an Information Session, we observe that blacks who attend such a session are more likely to submit applications than whites (68.4 percent of whites applied compared to 80.0 percent of blacks). Although education had a positive relation to Information Session attendance rate, it appears to be less related to application rate. There also appears to be less variation by occupational group in the application rate than there was in the Information Session attendance rate. As was true for attendance at Information Sessions, individuals age 25 and under are least likely to submit project applications. The remaining age groups applied at approximately the same rate.<sup>20</sup>

### **IMPLICATIONS OF THE PARTICIPANT FLOW INFORMATION**

What are the implications of the Enterprise Project experience to date regarding self-employment programs in general? First, not unexpectedly, such programs appeal to only a small minority of claimants. Our experience so far shows that over three percent of those invited to participate in the program respond to an invitation, and that individuals between the ages of 36 and 45, men, and those in professional, managerial and technical occupations, are the most likely to respond. Furthermore, the initial demonstration experience indicates that nearly 2 percent remain in the program through the application stage to the point of random assignment.

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<sup>20</sup> To analyze the relative importance of these characteristics in determining the likelihood of applying to the Enterprise Project, we used regression analysis to estimate the impact of age, sex, ethnic group, occupation, education and office location on the probability of submitting an application. The regression results indicate that the only statistically significant factor is whether or not an individual applies is sex; specifically, males are more likely to apply than women.

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The extent to which these results can be used to make general statements about the likely take-up rates in a self-employment program open to all UI claimants depends on the similarity between the group of targeted (invited) individuals in the Massachusetts demonstration and the general UI population. Perhaps better evidence on the likely UI population take-up rate can be gained from an analysis of the Washington Self-Employment Demonstration. The Washington demonstration enrolled a broader population of UI claimants and thus may provide more direct information on this issue.

The Massachusetts demonstration was designed to target likely UI benefits exhaustees, as required by the authorizing legislation, and thus provides direct evidence on the effectiveness of a self-employment program for this population. In the final report (following the conclusion of both the Washington and Massachusetts demonstrations), we will use both the Washington and Massachusetts data to derive estimates of the likely take-up rates for the general UI population and the group of UI claimants likely to exhaust benefits. The final report, due December 1993, will present national program take-up estimates for various population groups.

### **TYPES OF BUSINESSES PLANNED**

Previous sections focused on the flow of participants from one project component to the next, the characteristics of program participants, and the length of time it takes participants to reach various components in the Enterprise Project. In this section we review the types of businesses planned by program participants who submitted applications prior to July 29, 1990.

While it is premature to speculate on the proportion of these business plans that will actually start operations, it appears that a number of these business plans are proceeding systematically through the business development stages. Progress toward development of planned businesses is reflected in interviews with participants who indicate overall satisfaction

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with the training and other program components. Some participants have indicated that the project has provided an opportunity to attempt something they had thought about in the past, but never had the means or training to pursue.

Enterprise Project participants are pursuing a variety of business ideas. An examination of the business ideas of participants who were randomly assigned before the July 29 indicates that the majority are planning businesses in the service industry. Examples include: interior decorating, catering, motorcycle repair, pet care, courier and janitorial services, auto reconditioning, and plumbing services. Several participants are planning businesses in retail or wholesale trade, including: a fiction bookstore, custom bicycle wheels, convenience store, two-way radio sales, recreation center, retail electronics and audio/video store, jewelry and leather sales, and wholesale seafood. Other participants are pursuing businesses in professional services, including accounting and bookkeeping, computer graphics design, billing and direct mailing service for small businesses, technical writing and consulting service, technical support for IBM mainframe installations, and architectural and graphic design.

### **MONITORING THE MASSACHUSETTS ENTERPRISE PROJECT**

Abt and DOL staff have monitored the implementation of the Enterprise Project through site visits, interviews with Enterprise Project staff and participants, and regularly generated PTS reports that summarize project activities. When visiting sites and when interviewing staff or participants, monitors completed detailed protocols that describe the key findings. Below we discuss the findings of monitoring the Enterprise Project prior to July 29. Based on these results, Abt Associates has recommended some changes to improve the operation of some project components. These recommendations will be reviewed by DOL and the State prior to the start of the second intake wave.



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**Information Sessions.** Abt and DOL staff monitored nine Information Sessions across all seven sites through the end of July. In general, the sessions functioned as planned, providing potential applicants with basic information on the Enterprise Project and the risks and rewards of entrepreneurship. Monitored sessions lasted an average of 1.5 hours, and rarely required the two hours projected in the Operational Guide.

**Enterprise Seminars.** Abt and DOL monitored four day-long Enterprise Seminars in three sites. Although the length of the seminar (eight hours) leaves opportunity for variation between sites, the four visits indicate that coordinators follow the curriculum provided in the Operational Guide. The seminars utilize the knowledge and skills of various business-related experts, and seem to provide a firm basis for bi-weekly Enterprise Meetings. Presenters use personal examples and visuals well, and encourage group discussion.

**Bi-Weekly Enterprise Meetings.** Unlike Information Sessions and Enterprise Seminars, bi-weekly Enterprise Meetings are not designed to follow a strict outline. Although the Operational Guide provides suggested topics for discussion, coordinators are afforded maximum flexibility to cater to claimants' particular needs. Monitors attended two Enterprise Meetings in two different sites prior to July 29. These monitoring visits revealed a few important differences between sites which may warrant more stringent guidelines for bi-weekly Enterprise Meetings.

**Participant Tracking System.** The Participant Tracking System (PTS), designed by DOL for the Enterprise Project, augments our monitoring capabilities by providing an automated database to track participants and activities. The PTS was designed to serve as an on-line device capable of providing up-to-date program status information. Such a function, however, requires timely reporting and entry of demonstration activities. Throughout the project, information gathered by DET staff was entered into the PTS in a timely manner. Information on services

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provided by SBDC, however, often lagged behind project activities. Earlier reporting of counseling and other SBDC services would enhance the system's utility as a monitoring tool.

## CHAPTER 5 CONCLUSIONS

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The Massachusetts UI Self-Employment Demonstration was authorized under Section 9152 of the Omnibus Reconciliation Act of 1987. In this interim report we have reviewed the development and operations of the demonstration, known as the Massachusetts Enterprise Project. Specifically, we have reviewed the requirements of the authorizing legislation as well as the implementation of those requirements by DOL, Massachusetts DET, and the research contractors, Abt Associates and Battelle. This interim report also describes the demonstration components that were developed to achieve the legislative mandates and the implementation of program operations through July 29, 1990.

The Massachusetts Enterprise Project began intake operations in May 1990; this interim report, therefore, evaluates only the first three months of program operations. The timing of this report, after only three months of program operations, makes this report a highly preliminary evaluation of the Massachusetts Enterprise Project. For a variety of additional reasons, the results of this interim report should be considered preliminary. First, Massachusetts is undergoing a severe economic downturn; analysis of current program operations may, therefore, be dominated by the current depressed economic conditions. Since the Massachusetts Enterprise Project is scheduled to continue for three years (as mandated by the authorizing legislation), we hope to observe Massachusetts Enterprise Project operations under improved economic conditions.

Second, new programs, especially experimental demonstration programs as innovative as the Massachusetts Enterprise Project, invariably require start-up adjustments. Our analysis of the first three months of program operations may thus reflect the early adjustment period inherent in any new program. In subsequent years, the Massachusetts Enterprise Project will reach a steady-state level and analysis of subsequent years' program operations will more accurately reflect the program.

Finally, to be complete, an analysis of program operations should incorporate information from program participants. In this interim report we evaluate only information about program operations and participants. At this early stage of the demonstration, we do not have available data collected from participants. In subsequent years, we will have available for analysis follow-up interview data collected from program participants. This will substantially enhance program evaluation and provide data necessary to complete the impact and benefit/cost analysis mandated by the legislation.

### **WHAT HAVE WE LEARNED?**

The lessons to be learned from the Massachusetts Enterprise Project are twofold. First, as expected, we found that self-employment is not for everyone. Only a relatively small fraction of UI claimants choose to participate in a self-employment program when invited. The results confirm the results in other countries, where approximately 2-3 percent of the unemployed population participate in self-employment programs. These results have also recently been confirmed with U.S. experience in the Washington UI Self-Employment Demonstration.

Our preliminary analysis of the Massachusetts demonstration also provides some insights into the attractiveness of self-employment for specific subgroups. Unemployed men appear to be substantially more interested in self-employment than unemployed women. Individuals between 36 and 55 years old are more interested than younger or older groups. Those with higher levels of education appear more interested in self-employment. Finally, those individuals laid off from professional, managerial, and technical occupations are more interested in self-employment than individuals in other occupational groups.

The second lesson learned from this preliminary evaluation of the Massachusetts Enterprise Project concerns the substantial impact of legislative provisions on program design and operations. The provision of particular concern to the States was the requirement that States

repay, from general revenues, any excess costs -- i.e., costs to the Unemployment Trust Fund that would not have been incurred in the absence of the project. This legislative requirement affected both States' participation decisions as well as decisions on the design of program features such as length of the work search waiver (i.e., self-employment allowance payments period).

### **WHAT CAN WE EXPECT TO LEARN?**

By implementing the Massachusetts Enterprise Project over the projected three-year study period we can expect to learn a great deal and achieve a variety of goals. First, we expect to gain a better understanding of the characteristics of individuals who are most likely to participate in self-employment programs. In subsequent analyses we will evaluate not only participants' demographic characteristics, but also the types of businesses started and their success/failure rates (in the short-term). Based on this information, we will be able to identify the subgroups for whom self-employment services are most likely to be effective as well as the types of businesses that have the highest probability of success for various population subgroups.

Information collected from service providers and participants will also yield valuable data to evaluate service delivery issues. For example, follow-up interviews with participants will provide qualitative information that will be important in understanding self-employment services and their impact on participants. Other information from service providers, including the costs of providing self-employment services, will help researchers understand and evaluate the benefits and costs of self-employment programs. The combination of these data from program participants and service providers will be used to evaluate whether a self-employment program like the Massachusetts Enterprise Project is a cost-effective way of getting the target group of UI recipients back to work. The results of the evaluation will also be invaluable for the design of future self-employment programs that maximize program impacts.

The data collected throughout the three-year Massachusetts demonstration will also be used to derive estimates of program impacts. Since the authorizing legislation mandated that the "evaluation shall be based on an experimental design with random assignment between a treatment group and a control group" (Section 9152(d)), an unbiased measure of program impact is provided by a simple difference in outcome means between treatment and control groups. A more precise, and still unbiased, measure of program impacts is derived through multivariate analysis. Using this technique we will evaluate program impacts on a variety of employment and earnings measures including wages and salaries, employment status, hours worked, and hourly wage rate. We will also evaluate program impacts on such outcomes as UI benefits collected and transfers from other government programs. Efforts will also be made to measure the program impacts on tax payments. The evaluation of these and other program impacts require data from a variety of sources to be collected throughout the three-year study.

While the three-year Massachusetts demonstration is expected to yield a great deal of information about a self-employment program for the unemployed, there are limits to what can be learned from this demonstration. One of the limitations arises from the relatively small evaluation sample. Originally, the sample design called for a total of 700 treatment and 700 control group members (over three years). Since two states withdrew from the demonstration, the evaluation sample has been reduced to 300 treatment and 300 control group members (over three years). The impact of this reduction in the analysis sample is to reduce the likelihood of reaching statistically significant conclusions about program impacts. That is, the smaller the sample, the less likely it becomes that the evaluation will yield statistically significant results.

The currently projected Massachusetts evaluation sample of 300 treatment and 300 control group members will yield statistically significant results only if program impacts on outcomes are large. For example, if the Massachusetts Enterprise Project affects UI benefit receipt by 15 percent or more, then the program will have more than an 80 percent chance of being judged to significantly affect UI benefit receipt. If, on the other hand, the impact of the program on

UI benefit receipt is less than 15 percent, then the program will have less than an 80 percent chance of being judged to significantly affect UI benefits.<sup>21</sup>

Another limitation on what can be learned from the Massachusetts demonstration arises from the relatively low level of assistance provided by the Massachusetts Enterprise Project (e.g., periodic self-employment allowance payments through week 24 of the participant's UI claim and limited counseling services). This relatively low level of program treatment may not be sufficient to substantially affect individual outcomes. As a result, our analysis may not yield statistically significant program impact estimates.<sup>22</sup>

The combination of small analysis sample and relatively weak program treatments in the Massachusetts Enterprise Project may yield inconclusive results. Nonetheless, analytic efforts will be made to address these limitations and achieve all the legislative mandates. At the conclusion of the UI Self-Employment Demonstration, a final evaluation report will be completed and transmitted to Congress. The final report, due in December 1993, will contain a complete evaluation of program impacts as well as an analysis of the benefits and costs of the UI Self-Employment Demonstration.

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<sup>21</sup> For a discussion of sample size and statistical significance, see: Orr, Larry L., et al, *op. cit.*, pp. 2-28 to 2-33.

<sup>22</sup> In contrast, the Washington State demonstration provides more intensive program assistance, including a lump-sum payment of remaining UI benefits to those participants who complete certain milestones. In addition, the Washington demonstration includes a substantially larger analysis sample (750 treatment and 750 control group members).

## APPENDIX

### EXHAUSTION PREDICTION ALGORITHM

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To meet the legislative mandates and to reduce excess costs, the Massachusetts Enterprise Project targets UI claimants most likely to exhaust their benefits. Operationally, targeting likely exhaustees is implemented by employing a statistical algorithm that predicts the probability that a new claimant will exhaust his or her UI benefits. In this Appendix we describe this algorithm.

The exhaustion prediction algorithm predicts a dichotomous event: a claimant either exhausts all UI benefits or a claimant does not. Several statistical techniques are available for relating a set of independent variables to a dichotomous dependent variable. We considered, probit, logit, and ordinary least squares (OLS). Exploratory analysis indicated that OLS and logit models yielded virtually identical estimates of excess costs. Furthermore, since OLS estimates are asymptotically equivalent to probit estimates -- that is, identical in very large samples -- and can more easily handle large numbers of predictors, the exhaustion model was estimated using OLS. The model included the following explanatory variables:

- Number of eligible dependents
- Ratio of weekly benefit amount to weekly wage
- Whether or not claimant reported him/herself to be permanently separated
- Office (dummies for six of the seven demonstration sites)
- School attainment (dummies for elementary, college, and postgrad education)
- Industry for most recent job (dummies for construction, durable manufacturing, and nondurable manufacturing)
- Occupation (dummies for professional and clerical)

The model was estimated on the population of targeted UI claimants in the demonstration sites who claimed more than 8 weeks of benefits in 1989. Targeted claimants include those



claimants who are: 18 years old and older, residing in Massachusetts, eligible for 26 or more weeks of UI, and monetarily eligible for UI.

A claimant's probability of exhausting benefits is calculated as the sum of a series of values. Each claimant starts with a probability of exhausting UI benefits equal to the value of the intercept term. (See Table A.1)). To this value, we add the contribution of each of the claimant's attributes. A variable's contribution is given by multiplying its value by its coefficient. A claimant's estimated probability of exhausting benefits is given by the sum of all these values.

These probability estimates are then used to screen claimants for invitations. Those with estimated probabilities higher than the cutoff probability are sent invitations, those with values below the cutoff are not. As described in Chapter 3, the cutoff probability used was .25. In addition, site capacity limitations were used to limit the number of invitations in each site. The resulting mean exhaustion probability in each site is presented in Table A.2. The site variation in mean exhaustion probabilities reflects both the distribution of exhaustion probabilities as well as the site capacity limitations established for the demonstration. In New Bedford, for example, the resulting mean exhaustion probability was .439; in contrast, the mean exhaustion probability in Lowell was .609.

A further examination of exhaustion probabilities for claimants invited to participate in the Enterprise Project and claimants who expressed an interest in self-employment by attending and submitting program applications indicated little difference in mean exhaustion probabilities. Our sample, however, is not sufficient (at this point in the demonstration) to isolate the impact of exhaustion probability on participation. In the final evaluation report we will address this issue and evaluate the impact of exhaustion probability on participation decisions and program impacts.

## APPENDIX - EXHAUSTION PREDICTION ALGORITHM

Table A.1

**1989 Regression Results**

Benefit Exhaustion  
7 Demonstration Sites

Claimed > 8 Weeks  
Eligible = > 26 Weeks

ROOT MSE	0.4597521	R - SQUARE	0.1112
DEP MEAN	0.3887992	ADJ R - SQ	0.1106

PARAMETER ESTIMATES

VARIABLE	PARAMETER ESTIMATE	STANDARD ERROR	VARIABLE LABEL
INTERCEPT	0.28723430	0.02054594	INTERCEPT
NUMDEPS	0.00823970	0.00301833	TOTAL DEPENDENTS
BENRATIO	0.18857588	0.03850196	RATIO OF BEN AMT TO AVG
PERMSEP	0.24982030	0.00749002	PERMANENTLY SEPARATED
SPRNGFLD	-0.08533316	0.01027944	
GREENFLD	-0.12852732	0.01575869	
LOWELL	-0.05239063	0.00970679	
GLOUCEST	-0.10390754	0.01384439	
WOBURN	-0.06448259	0.01062052	
NEWBEDFD	-0.13140126	0.00976012	
ELEM	-0.06375270	0.00997576	EDUCATION <=8TH GD
SOMEHIGH	0.00968310	0.00919001	9TH - 11TH GRADE
COLL	-0.02743035	0.00843670	1-4 YRS COLLEGE
GRAD	-0.06610346	0.01642848	POST GRAD EDUCATION
CONSTRCT	-0.03649482	0.00868193	15 <=SIC <=17
DURABLE	0.10230360	0.00967210	24 <=SIC <=25,SIC=29,OR
			33 <=SIC <=39
NONDUR	-0.01746453	0.01005489	20 <=SIC <=23, 26 <=SIC <=28, OR
			30 <=SIC <=32
PROFESS	0.06607214	0.00926527	DOT3 <=199
CLERIC	0.12161615	0.01009496	200 <=DOT3 <=249

**Table A.2**

**Mean Exhaustion Probabilities for Invitees\*  
by Site**

<b>SITE</b>	<b>EXHAUST. PROB</b>	<b>N</b>
<b>Greenfield</b>	.439	352
<b>Springfield</b>	.522	1195
<b>Lowell</b>	.609	1200
<b>Gloucester</b>	.467	461
<b>Roxbury</b>	.578	479
<b>Woburn</b>	.613	900
<b>New Bedford</b>	.425	867
<b>TOTAL</b>	.536	5454

\* Excludes those invitees with missing exhaustion probability estimates.

## SELF-EMPLOYMENT PROGRAMS FOR THE UNEMPLOYED

### Program Operation and Policy Research In Western Industrial Countries

#### 1. Introduction

This paper provides a summary description of operating self-employment programs for recipients of unemployment benefits and an analysis of program evaluation methodology as it relates to self-employment projects. This analysis is based on information from operational programs in Europe, North America, and Australia. Also included is summary information on evaluations of existing programs with reference to data sources, methodology, and conclusions.

This paper relies heavily on work performed by an expert panel set up by the Organization for Economic Cooperative Development (OECD) to review government programs to promote self-employment, and on analysis prepared for the United Nations International Labour Organization's 1990 Annual Conference. Two specific objectives were identified by the OECD Panel's Secretariat: the preparation of an inventory and description of existing programs; and evaluation of program results with reference to their effectiveness in reducing unemployment and fostering the creation of new business ventures. This paper represents an attempt to identify a common methodology for program evaluation and to survey existing research to discover indicators of program performance which are relevant to the diverse universe of self-employment schemes.

A large variety of information is available on operating self-employment projects. This information is typically from institutional files created to administer programs, or is gathered through surveys of program participants. Survey data are frequently available for several time periods after business establishment, and can potentially serve as the basis for a longitudinal data base used to measure program outcomes.

The role of evaluation is discussed in general terms in section two. An model is provided for program operations which applies across the spectrum of operating government self-employment for the unemployed in section three and program operations are viewed from a systems perspective, with identified inputs and outputs, in section four.

Section five provides a brief narrative description of operating self-employment programs for the unemployed and program evaluation efforts to date in seventeen industrialized countries, and the demonstration projects operating in the United States. This is followed by a discussion of evaluation theory as it applies to these programs in sections six and seven.

## 2. Program Evaluations

Program evaluation is of interest for a number of reasons. This kind of research allows policy makers to differentiate among programs which are successful in producing intended outcomes, and those which are less successful, or are not cost effective. Evaluation research also supports analysis of policy issues such as the observed relationship between resource investment levels and program outcomes. For example, if access to business capital is part of small business services, what is the optimal level of capital to provide and how is this number derived? If a correlation can be established between levels of initial capitalization and business survival rates based on actual program data, this information can be used to develop effective policies relating to access to capital in operating self-employment programs.

Evaluation research is also useful in the design and implementation of operational programs. Program theory facilitates the analysis of program functions from the perspective of inputs "to" and outputs "from" a closed system. This allows policy makers to create and monitor a program with explicit provisions for process and outputs which effectively implement provisions in applicable law or administrative policy.

An examination of provisions for the evaluation of existing self-employment programs indicates that there is great variety among programs with reference to resources available for program evaluation and analysis. Of the 17 OECD countries with operating programs, ten have not produced evaluation reports at this time, although several of these countries have evaluations in progress.

Only the United States is currently supporting programs as strictly "demonstration" projects. The other OECD countries have programs which are operating as part of established agency policy although some countries, e.g., Great Britain and France, supported pilot phases before the project became operational on a national basis. Program evaluation is not a primary concern because policy decisions about program operation are generally not contingent on the results of evaluations.

Program evaluations have tended to focus on process rather than impact because programs have not been required to justify their existence on the basis of program evaluations. Most operational programs of this sort do not have a strong evaluation component because program evaluation and impact analysis has not been assigned high priority in the design and operation of self-employment programs for the unemployed.

There is no single methodology which should be used for the evaluation of all self-employment programs. Program diversity and resource availability preclude such a recommendation even if such universal methodology could be developed. But the need to derive policy-relevant information from these diverse programs requires that an attempt be made to identify available program evaluation

data, and to develop an analytical framework can apply across programs.

Six policy issues were identified by the OECD expert panel on self-employment evaluation which serve to provide a context for public policy options currently associated with these programs.

1. The importance of government assistance in business start up. This issue can be examined through a comparison of success rates of business ventures started with government assistance with those started by comparable individuals without government aid.
2. Analysis of dead weight -- the extent to which business ventures would have occurred in absence of government aid. This issue can be addressed through observation of comparable numbers of individuals inside and outside the program with reference to the number of business creations.
3. Comparison of success rates of schemes fostered by government with those created without government intervention. Analysis of this issue would require a comparison of success rates between business ventures started under the auspices of government programs with those established outside this structured environment.
4. Targeting methodology intended to provide services to a specified sub-group of the eligible population.
5. Longitudinal tracking to estimate average business lifetimes.
6. The cost effectiveness of government business subsidies.

Several additional issues can be identified which would be of interest to policy makers. These include:

1. The level of satisfaction of business proprietors compared with comparable unemployed individuals who did not choose to enter self-employment.
2. The effect of vetting. The vetting process is conducted by a review panel to ascertain whether a proposed business meets established guidelines. Guidelines for acceptable business ventures reflect two basic policy goals: 1) directing support towards businesses which are likely to succeed, and 2) supporting new business ventures in identified sectors of the economy or geographic locations within a country.
3. The net financial effect over time of self-employment programs on the flow of general revenue or on the solvency of accounts set up to provide assistance to the unemployed.
4. The extent of future dependency on public assistance plans, such as unemployment compensation, by participants in self-employment programs. This issue is related to the issue

of unemployment fund solvency and general revenue funding of income maintenance programs.

### 3. General Program Operation

A number of Western countries have shown an interest in self-employment programs for unemployed members of the labor force since the late 1970s. France began program operation in a pilot mode in 1979. Great Britain and Ireland began operating programs in 1983 intended to primarily serve recipients of unemployment compensation. Similar programs were introduced throughout the 1980s. There are now 17 OECD member nations offering self-employment services to unemployment compensation recipients.

These programs vary dramatically in scope. Great Britain, Spain and France have relatively large operating programs. Enrollments in Great Britain peaked in 1989 at approximately 118,000. At the other end of the scale, Luxembourg operates a program with less than 100 participants in a given year. Between these two extremes, other OECD countries are operating programs which serve between 1,000 and 6,000 people per year. The United States is operating programs as experimental demonstration projects, with 755 enrollees in Washington State and 500 in Massachusetts.

Although these programs are characterized by their diversity, a number of common features can be identified. The operational theory behind these programs is very similar in concept. All of the programs are attempting to facilitate the creation of new businesses in an attempt to re-integrate experienced workers who are unemployed back into the economic mainstream. The programs are intended to serve individuals who have established themselves as wage earners and who, for a variety of reasons, have lost their jobs.

Several secondary goals are also embedded in government policy pertaining to self-employment programs. For example, the program is intended to increase the probability of success of business enterprises established by program participants through access to training, business consulting, and, sometimes, venture capital. Government policy is also in evidence in specific countries' requirements that new business ventures be restricted to certain sectors of the economy, or that program eligibility be restricted to specific categories of unemployed people.

Evaluation research has been assigned various roles in operational self-employment projects. Most of the operational programs were designed and implemented without provisions for formal analysis or evaluation. It is unclear the extent to which analysis of operational data has served to define program policy or to establish operational procedures.

One thesis of the present paper is that it is possible to create an analytical paradigm which is general enough to encompass all operational self-employment programs and which can yield

information about program operations and results which can be used to guide policy formation towards effective and efficient programs.

#### 4. Program Theory

Program theory focuses on how a programs work to produce outcomes. This is distinct from evaluation theory which is concerned with the extent to which programs are successful in producing outcomes. Program theory facilitates the construction of a theoretical model to describe program characteristics and to explain how a specific program is intended to function (see Bickman 1987, 1990).

Self-employment schemes included in this analysis are designed to produce similar outcomes: the establishment of new business ventures with enhanced chances of survival when compared with ventures which are established in the absence of project services. Viewing self-employment schemes from this perspective allows us to categorize programmatic elements as "inputs" and "outputs", and to distinguish among schemes with reference to structural characteristics.

Program theory also facilitates the analysis of program process independent of the political/economic theory which led to the creation of the program. Since established public policy is typically evolves through a process which involves compromise and concessions to competing resource allocations, the extent to which actual program operation is congruent with the original intention of the program's founders, and hence consistent with the theory behind the program, is difficult to gauge.

The government-supported self-employment programs considered in this paper are generally targeted to recipients of unemployment compensation or similar government support programs. Certain individuals within this group may be excluded from eligibility for program participation for reasons which are a concession to operational realities of the program and have no justification with reference to the self-employment program per se.

For example, in the United States unemployment insurance claimants who are not successful in establishing their eligibility for benefits within a certain time period after initiating their claim are excluded from eligibility for enrollment in current UI-related self-employment projects because program objectives include "early intervention" as a stated goal of the program. Since their difficulty in establishing eligibility may be simply an accounting or record-keeping problem, some claimants who are excluded for this reason may fit the profile of individuals the program is intended to serve. Program theory provides a framework from which to observe this process and to acknowledge it as a part of the operational program.

To be useful, program theory must be general enough to encompass the entire universe of self-employment schemes provided under the auspices of unemployment compensation programs. All of



the programs utilize a process which incorporates the following phases:

1. Targeting. This is the identification of a pool of individuals eligible to receive program services. A number of elements may be implicit in targeting arrangements, particularly when program eligibility is contingent upon eligibility for other benefits such as unemployment compensation. Program participants must frequently establish a history of labor force attachment to establish eligibility for unemployment compensation, and then demonstrate dislocation from the labor force as a condition for participation in the self-employment program.

It is important to note that targeting is frequently not designed to focus on individuals with the highest probability of success as entrepreneurs. Eligibility criteria are more likely to be designed to provide services to individuals who are experiencing difficulty locating viable employment. Social equity is also sometimes a factor as in cases where individuals with higher education credentials are assigned a lower enrollment priority, or are denied access to program participation (e.g., programs in Greece and Portugal).

2. Vetting. This review process is intended to differentiate among business plans which are eligible for government support and those which are not. It may occur before an individual is enrolled in the program, or after enrollment since assistance in the preparation of a business plan may be a part of services provided. Approval of a business plan may be contingent on the predicted probability of success of the venture, or may be predicated on other factors such as government economic policy. Economic policy may require that only business ventures in specified sectors of the economy, or in specified geographic areas, are eligible for support. For example, Greece specifies that ventures which are intended to provide service activities of a seasonal nature are not eligible.
3. Provision of Services. The primary service provided in all these programs is access to funds, either through a lump-sum grant (the French model) or through a stipend consisting of periodic payments similar to unemployment compensation (the British model). Services may also include counseling and training in business skills such as accounting and marketing.
4. Business Establishment. Since business creation is the focus of all self-employment programs, all schemes attempt to identify operating business ventures created by program participants and to track their ongoing status. However, the beginning date for business operations is frequently difficult to identify since, for example, business operations may begin before customers have been identified.

5. Project Outcomes. Tracking project outcomes is a part of many of the programs. Business survival rates is a key indicator of project outcomes, implying economic self-sufficiency for the proprietor and economic development for the community. Key indicators of business status also include gross and net income, and the number and type of employees. Positive outcomes for participants may include results other than the establishment of a successful business. For example, employment at an income level equal to or greater than the participant's earlier job may also be attributed to program participation. Tracking program outcomes is necessary for any systematic evaluation effort.

#### 4.1 Inputs

Within this context, program elements can be categorized as "inputs" and "outputs". Inputs represent society's investment in the program. Program elements in this category represent services, or access to resources, available to program participants which are not available under the same terms to non-participants. When the program is structured as an experiment, inputs represent the "treatment" provided to program participants. Members of a control or comparison group share the same characteristics as treatment group members, but do not receive the inputs listed below.

- A. Targeting -- Based on social equity, probability of success, labor force status, prior work history, etc.
- B. Vetting -- The review and winnowing of weak business plans, government economic policy
- C. Financial Services -- Access to capital, stipends, exemptions from tax liability, loan guarantees, etc.
- D. Support Services -- Counseling, business plan development, training, support groups, access to specialized business consulting

#### 4.2 Outputs

Outputs are identifiable attributes which can be attributed to the programs' existence. Measuring program outcomes is consistent with program theory since the observer is implying that observed effects can be attributed to program-specific causes. From an experimental perspective, these attributes can be measured because they exist for the treatment group and not for the control group and can therefore be attributed to program intervention.

The following outcomes are consistent with identified goals of the programs considered here:

- A. Employment for the Proprietor -- This is a basic goal of self-employment programs. Follow-up data for several programs indicate that the majority of successful program

participants do not provide employment for anyone other than themselves within the follow-up period.

- B. Enhanced Business Survival Rates -- This outcome implies a favorable comparison of survival rates between business ventures started by program participants and those started by non-participants.
- C. Contributions to Local and Macro Economy -- This outcome implies that the new business will generate favorable economic activity which would not have occurred in its absence. On a macro level, this will result in a larger Gross National/Domestic Product.
- D. Creation of New Jobs -- This outcome is related to point "C" above. If employment slots are being created which would not exist in the absence of the program, this will tend to lower prevailing unemployment rates. (The extent to which these "new" jobs were created at the expense of jobs elsewhere in the economy is the issue of "displacement".)

The first two outcomes (self-employment and enhanced business survival rates) are consistent with labor force/employment program goals. The second two outputs relate directly to the goal of economic development.

## 5. Experience in Industrial Nations

This Section provides a short narrative description of operating programs and demonstration projects in OECD countries. Information provided here is based on descriptive and analytical reports produced by sponsoring agencies or program analysts. Evaluation reports, when available, were generally conducted or commissioned by the government agency responsible for program operation.

With reference to payment mechanisms, programs are classified as structured in accordance with the French model (lump sum payment for use as seed capital) or the British model (periodic payments similar to unemployment compensation or unemployment assistance).

### 5.1 The French Model: Access to Lump Sum Payments

#### 5.1.1 France

The French Chomeurs Createurs program provides business establishment assistance to unemployed individuals who are eligible for unemployment benefits. A lump sum payment is provided which is approximately equivalent to six to ten months of unemployment payments. Available funding is less for unemployed claimants who delay entry into the program. Under French UI eligibility provisions, claimants do not have to have established a history of wage employment to qualify for benefits. Claimants

are also provided with social benefits during the first six months of their attempt to establish a business under the program.

Recipients can use this grant to establish a new business or to purchase an existing enterprise. The provision allowing participants to purchase an existing business is unique among government entrepreneurship programs targeted to unemployment recipients. The nature and intensity of services available to participants varies among geographic regions, but five weeks of training in business operation is generally available. Craftsmen setting up production business ventures are required to participate in a one week training session. Admission to the program is contingent on program administrators assessment of potential business success. This provision was strengthened after the program underwent revision in 1984.

The Chomeurs Createurs program was introduced in 1979 on an experimental basis. It was originally targeted to dislocated workers and showed preference to unemployed workers who had exhibited relatively high wage earning histories. This led to criticism of the program as being of benefit mainly to highly skilled workers and managers. Program reform in 1984 was partly in response to criticism that controls were too lax and admission to the program too restrictive. High unemployment in France during this period also caused concern over dwindling resource availability.

From 1979 through 1986 almost 280,000 individuals participated in the program. Participation ranged between 2 and 3 percent of the unemployed. In 1985 almost a quarter of all new business establishments in France were by participants in the program. Government policy analysts estimate that program participants will account for up to 50% of new business establishments after 1986.

The French program has not included systematic efforts at evaluation or impact analysis. Program reform has largely been in reaction to political issues related to eligibility for participation and government oversight of participants.

#### 5.1.2 Luxembourg

This program was created for unemployed individuals who are receiving compensation for total unemployment. It is very small in scope with a maximum of 50 slots per year.

Financial assistance is limited to first six months of business operation and consists of capitalization of benefit entitlement. Enrollment is targeted to unemployed individuals who have experienced difficulty locating employment.

#### 5.1.3 Norway

The Norway self-employment program was operated as a pilot in 1985. It is limited in scope with 1989 enrollment estimated at 700 participants.

Eligibility is limited to unemployed individuals who do not have prospects for employment under present labor market conditions. Participants are granted a flat amount based on the estimated number of employment positions which will be created. Targeting requirements specify that the enterprise be labor intensive with a market identified for the product before operations begin. Cooperatives as well as stock companies and sole proprietorships are allowed in the program.

Eligibility is based on a review of a proposed business plan as well as an assessment by the review panel that the individual does not have the option of viable employment in his present circumstances.

#### 5.1.4 Portugal

The program in Portugal was established in 1985 for unemployed individuals who are eligible for unemployment compensation. Estimated 1989 enrollment was 1100.

The basic provision of the plan is capitalization of unemployment compensation entitlement in one lump sum, although receipt of a lump-sum payment does not preclude the receipt of other unemployment benefits. Participants are allowed to set up individual ventures or cooperatives.

Participants are eligible for a second lump sum payment after preliminary phase of business operation. All business plans must be approved by a review committee before as a condition for project enrollment.

#### 5.1.5 Spain

The Spanish program was established in 1985. The major provision of the scheme is capitalization of the claimants' unemployment compensation entitlement. Spanish unemployment compensation plan is based on employee contributions. Business operators can receive an additional wage subsidy for employing young workers and/or unemployed workers over 45 years of age.

Access to training and support services is limited to that available outside the program. Applicants must present a business plan which is deemed potentially viable as a condition of eligibility. Plans for the creation of co-operative ventures are accepted.

Participation among unemployment compensation recipients is relatively high: approximately 17% in 1988. A program evaluation effort has been initiated which will be based on follow-up data gathered through questionnaires and surveys.

### 5.1.6 Sweden

The Swedish program operated as a pilot project from 1984 through 1987. It began national operation in 1987. The program is targeted to unemployed individuals registered with the Employment Service. Approximately 2,300 people received assistance through the plan in 1987/88.

Basic program provision is a lump-sum grant equal to participants' potential entitlement under the Swedish unemployment compensation program. A youth version of the program is available to individuals under 20 years of age. Applicants provide a business plan which must be endorsed as viable by a review board before granting access to program services.

Evaluation efforts have focused on the need to provide analysis of program services in effort to make the program more successful. As a result of analysis of the experiences of participants during the initial phases of the project, additional counseling and access to business information has been provided.

## 5.2 The British Model: Periodic Subsidy Payments

### 5.2.1 Australia

The New Enterprise Incentive Scheme (NEIS) in Australia enrolls unemployment assistance recipients and others receiving public benefits. Program services include up to 12 months income support, access to loans/grants, and other services including counseling and training. The scope of the project is small with fewer than 1,000 participants. The majority (56%) of NEIS participants had been unemployed more than one year before participating in the program.

All program applicants must submit applications which include a description of the proposed business. These proposals are evaluated by a review board which includes government representatives. The business plan must be judged "viable" before the individual is eligible for project enrollment. No plans are approved which propose sponsoring a service or product which is already available, or for which a potential market has not been identified. The amount and conditions associated with loans and grants vary among States.

A summary report, which includes program evaluation components, was published in 1988 based on a survey of 428 participants. This analysis uses "informal comparison group" and includes a systematic analysis of assumed causality between inputs and effects. The evaluation was required to assess program policy and to suggest refinements (e.g., whether services should be targeted to special groups).

The evaluation is based on questionnaires administered to three cohorts: two groups of program participants (enrolled in 1985 and 1986) and an informal comparison group of participants in

an earlier version of the program who did not receive the same package of services provided to NEIS participants. Both groups had access to government grants and loans. NEIS participants received additional services under the auspices of program. Questionnaire administered fifteen months after enrollment, i.e., three months after termination of income support.

### 5.2.2 Belgium

This program introduced on an experimental basis in 1984 and adopted nationwide in 1985. It includes access to venture capital which must be repaid if the business does not survive for six years. Eligibility requirements include eligibility for unemployment compensation and possession of skills or experience necessary to operate a business. The program functions as an economic development as well as a unemployment assistance program.

Business ventures are targeted to specific sectors of the economy. A relatively large number of types of business ventures are excluded from the program including businesses in the medical, sports, housing and financial fields. All business plans are reviewed for viability as a condition of enrollment eligibility.

Published evaluations focused on the early phases of the project. It is estimated that approximately 10% of new business ventures in Belgium are a result of this program. Evaluations indicate that approximately 10% of ventures included in the program had operated before enrollment in the program (10% dead weight).

Follow-up analysis indicates that only from 3% to 10% of business ventures were failing to survive (OECD 1989), however most businesses were small in scope with limited growth or employment potential.

### 5.2.3 Canada

The Canadian program was introduced in 1985, focusing on rural areas. It is still in the preliminary phase with relatively few participants. Basic service provided is a 52 week stipend payment during which time the participant is expected to devote full time attention to business establishment.

In 1990 legislation authorized the program to expand throughout the country and include more urban areas. Some restrictions on the level of financial support were liberalized to allow participants to receive the larger of either their unemployment compensation entitlement or any training stipend available to them. More emphasis is being put on the requirement that applicants present a viable and complete business plan.

Project services include training and support groups. Some regional programs facilitate access to venture capital. Applicants must submit a business plan which is reviewed by a

panel before being accepted into the program. Stipend payments require monitoring by program administrators to assure satisfactory progress.

The program includes provisions for co-operatives and partnerships. Business ventures which propose the commercial exploitation of sex, religion or politics are prohibited.

#### 5.2.4 Denmark

The program in Denmark was introduced in 1985 and is targeted to individuals who have been unsuccessful locating employment through other government-sponsored programs. Yearly enrollment in the program has averaged about 1200.

Program services are limited to cash stipend while attempting to establish a business. Duration of the stipend may be up to 3 1/2 years.

Vetting is not a formal part of the program in Denmark.

#### 5.2.5 Finland

The program in Finland was introduced in 1984 with unemployment compensation eligibility a condition for enrollment. This program served 2,500 participants as of 1990. Several evaluations have been completed which provide primarily business survival rates and descriptive statistics.

Participants receive their usual level of unemployment compensation plus a stipend of 50% of their benefit payments for time they spend in full time business development. Enrollment eligibility is contingent on a review of business plans for viability, and the availability of funds. Approximately 50% of proposed business plans are accepted into the project.

Project services include training and business support groups. Support payments generally last 15 months. Established business ventures have been concentrated in manufacturing and services.

#### 5.2.6 Great Britain

The British Enterprise Allowance Scheme (ESA) was initiated in a pilot mode in 1982, operating in five geographic locations scattered throughout the country. Program implementation on a national level proceeded after completion of the pilot phase. Evaluation of the pilot phase was based on waves of surveys to participants. No provision was made for a formal use of comparison or control groups in the evaluation. It was made a national program in 1983. In 1986, the government began actively recruiting participants through notices in the popular press. As of 1991, over 560,000 individuals have participated in the program.



Stated goals of the program include both the creation of employment and economic development. Eligibility for program services is based on receipt of public income maintenance benefits including unemployment compensation. Enrollment is contingent on completion of a business plan accepted by the project review board. Business plan review is under the auspices of local program officials. Participants must provide a portion of initial capital (approximately \$1650), although this money can be borrowed by program applicants in order to qualify.

Services include training, business consulting services and enterprise support groups. Business progress is monitored through periodic on-site visits.

Operating policy was fundamentally redefined in 1990 when control over the program passed into the hands of locally-based Training and Enterprise Councils. These organizations are structured along the same lines as Private Industry Councils (PICs) in the United States, and include representatives from the private business sector of local economies. Enrollment in the program has been broadened to include individuals who are not eligible for unemployment compensation, however more stringent standards have been adopted for review of business plans as a condition of eligibility for benefits. In 1990, only 50,000 individuals were granted access to the program, down from 118,000 in the prior year.

The program is currently monitored through periodic surveys of participants. Most recent available survey data is from a random survey of 1300 participants conducted in 1990. Several reports have been published on participant characteristics and survival rates. Current plans include an effort to formally estimate displacement rates. Based on the 1990 survey, business establishments in the program have achieved a 65% survival rate. 85% of the operating businesses were established by men. Project analysts estimate that 40% of participants would have established business ventures in the absence of the program (dead weight). Approximately 114 additional jobs have been created for every 100 business survivors. Economic displacement, the process whereby jobs are created in new enterprises at the expense of jobs elsewhere in the economy, has been estimated at approximately 50%. Estimates of dead weight and economic displacement were not derived using formal control or comparison groups.

The program in Great Britain has been the subject of extensive analysis. Twelve analytical reports have been published by government and academic researchers, with six additional studies currently scheduled.

#### 5.2.7 Greece

The program in Greece established in 1986. It operates as two components, one targeted to workers between 18 and 25 years of age, the other for workers aged 26 through 50.

Participants must be unemployed and present a business plan which is deemed viable. The amount of the subsidy varies depending on the type of business established with manufacturing enterprises receiving a larger subsidy than business ventures in the trade and services sector.

#### 5.2.8 Ireland

The Irish self-employment program for the unemployed is modeled after the Enterprise Allowance Scheme program operating in Great Britain. Program applicants must be unemployed 13 weeks to be enrolled in the program. Eligibility is generally limited to unemployment insurance claimants, although recipients of disability benefits may also enroll.

Participants receive 52 weeks of stipend payments and training. A large portion of benefit entitlement can be received as a lump sum if a participant documents the need and can provide needed investment capital from his own resources. Business plans are screened by a review panel. Potential participants must also have skills/training necessary to operate the enterprise.

A summary report was published in October, 1988 which was based on a survey of 438 participants sampled two years after enrolling in program. No control or comparison group was included in the program design. Based on this analysis, 83% of surviving business ventures had no employees, 50% of participants would have founded business in the absence of program services, 90% of business captured from other firms, and 60% of created jobs displaced jobs elsewhere in economy. These estimates were based on a comparison of businesses created under the program with other business ventures in the Irish economy.

#### 5.2.9 Italy

The program in Italy was established in 1985. It is primarily intended to promote cooperative ventures for unemployed individuals.

Eligibility is targeted to displaced workers, i.e., workers unemployed due to plant closure or industrial decline. Participants may form new enterprises or acquire ownership of existing businesses.

Assistance under this program can last up to three years. It is primarily intended to subsidize business ventures which hire workers who are currently unemployed and eligible for unemployment benefits.

#### 5.2.10 Netherlands

The Netherlands program was introduced in 1985 and targeted to recipients of public income maintenance programs including unemployment compensation. Just over 2,000 business ventures were

supported by the plan in 1987.

Enrollment is contingent on submission of a business plan. Over 50% of applicants are denied enrollment. The program is targeted to unemployed individuals who do not have a reasonable expectation of employment in the foreseeable future. Viable employment by a family member is considered disqualifying for this program.

Stipend payments are for six months initially and can be extended a second six months after a review of the business establishes that it is likely to survive. The amount of the stipend is linked to business income, thus successful business ventures receive a decreasing stipend payment. Program services include a government guaranteed loan program to facilitate access to bank loans. Participants are granted partial exemption from taxes during the first three years of business operation.

Program evaluation has been limited to gathering of descriptive statistics. A formal program evaluation was planned for 1990 - 1991. A limited, regional evaluation revealed that after two years 60% of businesses established under this plan were still operating. These business ventures employed an average of 1.6 individuals (including the entrepreneur).

#### 5.2.11 West Germany

Introduced in 1986 and targeted to unemployment compensation recipients, the major component of this program is a stipend which is equal to their unemployment compensation payments, and tax incentives. Enrollments peaked in 1988 at 18,000. Budget restrictions curtailed the program for 1989.

This program is limited in scope with training and support services being similar to those available outside the self-employment program. Applicants must present a viable business plan to a review board.

#### 5.3 Demonstration Projects in the United States

Government programs for self-employment targetted to unemployment insurance (UI) claimants in the United States are currently limited to demonstration projects in Washington State and Massachusetts. The Washington State project provided for lump-sum payment of an amount equivalent to participants' balance their UI account. The Massachusetts project only allowed participants to receive a reduced number of weeks of payments as a subsidy for their business venture rather than in the form of unemployment benefits (they were not required to search for work while receiving benefits).

Both projects are set up as classical experiments with applicants randomly assigned to treatment or control group status after they have applied for admission to the program. UI

claimants who are eligible to apply to the program in Massachusetts are selected based on the estimated probability of UI benefit exhaustion (i.e., the Massachusetts program is targeted to dislocated workers).

Project services include training and business consulting. While not providing business capital, the Massachusetts project provides access to bank loans under favorable terms.

Interim program data are available for both projects. The Massachusetts project has just over 258 treatment group members from two years' operation. Enrollment in the third year of operation will include about 250 additional treatment group members. The Washington State project is now in the follow-up phase prior to evaluation. Approximately 750 treatment group members were enrolled in the Washington project during its operational phase.

Both experiments are being conducted to provide information for possible future policy initiatives. In both projects, business plan reviews are not conducted to restrict program enrollment to individuals who are deemed to have a high probability of business success. Project evaluation will include information on business survival and income levels based on surveys of participants as well as descriptive data on participants and business ventures established under the program.

## 6. Evaluation Theory

Evaluation theory is concerned with the success achieved by programs in producing outcomes. Evaluation resources are devoted to measuring outcomes identified as part of operational programs (Campbell & Stanley, 1963, Mohr, 1988). Systematic evaluation requires that indicators be developed in an attempt to "operationalize" measures of general-level programs outcomes.

Ideally, program evaluation should be supported by a data base which includes socio-economic data in addition to data pertaining to indicators of program outcome. This facilitates the analysis of evaluation data from a comprehensive perspective and may be necessary to interpret observed information. For example, Australia observed a perverse effect of receipt of business counseling services: participants who did not receive the service appeared to do better than those who did. An evaluation data base which includes information such as education levels and prior business experience may be able to explain such an unexpected negative correlation between treatment and result.

### 6.1 Performance Indicators

Indicators presented here are linked to outputs identified earlier in this paper. Performance indicators are an attempt to operationalize measures of program outputs. The indicators here came in part from completed evaluation studies of operational

self-employment programs.

Tracking of program outcomes over time is necessary to depict program operations within the dynamics of labor market conditions. Some of these indicators lend themselves to longitudinal study to a greater extent than others. Indicators which are difficult to gather or are difficult to link to specific business ventures are enclosed in parenthesis.

A. Employment for the Proprietor.

- \* Business operating status over time
- \* Employment status of the proprietor (average hours worked as an entrepreneur or wage earner)
- \* Proprietor's return to unemployment compensation or other government support program
- \* Proprietor's personal income and/or level of job satisfaction

B. Enhanced Business Survival Rate

- \* Business status over time, dates of operation
- \* Business volume over time

C. Contribution to Local and Macro Economy

- \* Tax contribution of business to local and national government
- \* Size of payroll as contribution to local economy
- (\* Changes in the local unemployment rate or inventory of jobs)
- (\* Improved local social stability due to enhanced economic environment)

D. New Job Creation

- \* Employment levels in new business ventures over time; full time and part time
- (\* Changes in the local unemployment rate or inventory of jobs)
- (\* Prevailing local wage rates by labor category)

6.2 Confounding Factors: Displacement and Dead Weight

A number of factors may be at work in a given economic system which can mitigate apparently positive effects of successful

business creation. Other factors complicate our ability to measure outcomes even though the positive effect is present. For example, a new business may employ several workers in jobs which did not exist before the business began operation, but this would be obscured in local unemployment figures if general local employment is in decline. In this example the positive effect of business creation is real but difficult to measure using local unemployment rates.

"Dead weight" refers to program participants who would have started a business in the absence of the program. In this case, program services are not necessary to facilitate the creation of the business since it would have occurred anyway. It could be argued that program services may have a measurable effect in influencing the level of success of the business, in which case program effects will show up in performance indicators despite the dead weight influence.

The dead weight effect is accepted as a part of the reality of program operation in evaluation reports produced by several countries. The most reliable method to estimate the extent of dead weight is through observation of new business start-ups among control group members in an experimental design since some control group members will start businesses in the absence of program services.

"Displacement" refers to the fact that a new business venture may be diverting business volume from other established businesses, and that new employees hired by a business are drawn from other job slots in the economy. This view is predicated on a "zero sum total" view of the economic environment and where job creation and increased business are simply being captured from other places in the (macro) economy.

The displacement effect is very difficult to estimate although most evaluators accept that this process is occurring to some extent. It would be difficult, for example, to identify cases where a new and expanding business operation can be causally linked with business volume loss at another location in the economy. Also, since the number of jobs in a given economy is always changing, it is difficult to link the appearance of a new job at one location with the disappearance of a job elsewhere.

The effect of displacement and dead weight offset apparently positive program effects and are very difficult to measure or estimate. Few of the evaluation reports published to date directly address the extent to which this process is at work. One exception is a published report on the project in Ireland (Breen and Halpin, 1988). Based on institutional files and a survey of program participants, the authors estimated dead weight at 50%, implying that half of the business ventures established under the auspices of the program would have occurred anyway. They also estimated that 90% of the business volume of the new enterprises was captured from other operating firms in the Irish economy. The

U.S. Demonstration Projects are designed to provide good estimates of dead weight, but not of displacement (because of sample sizes).

## 7. Approaches to Evaluation

Evaluation reports have been completed for a number of the operational self-employment projects and most of the projects include evaluations provisions in their operational plans. Evaluation schemes for these projects fall into three general categories, as discussed below. Most of the published studies also include estimates of displacement and dead weight, although these estimates are generally based on data gathered outside the general evaluation design.

### 7.1 Simple Descriptive Statistics

This general category includes all evaluations which are not based on an experimental or quasi-experimental design. Descriptive statistics available for evaluation typically include socio-economic data pertaining to the characteristics of participants, and statistical comparisons between participants and the general population.

Descriptive statistics may include information about the type of businesses established under the auspices of the program, and characteristics and survival rates of business ventures. This information is drawn from institutional files and may be augmented with survey data from participants.

Descriptive statistics are a major component of any evaluation effort. They provide to ability to generalize about the characteristics of program participants and business establishments. While descriptive statistics facilitate comparisons among groups and sub-populations, evaluations based exclusively on descriptive statistics are inherently limited in scope and can support only speculation as to net treatment effects and program impacts.

### 7.2 Treatment Versus Comparison Groups

Any comparison between entrepreneurs inside and outside an established program represents the implicit use of a comparison group. This kind of comparison is difficult to conduct because of differences between demographic and economic characteristics of the two groups, and because of differences in the nature and scope of business ventures associated with different kinds of entrepreneurs.

Formal use of a comparison group constitutes a quasi-experimental design which can be used to support estimates of net impact. Comparison groups are utilized in several completed evaluation reports. For example, the Australian report (1988) relies on an informal comparison group to derive estimates of differences in survival rates between new business ventures

inside and outside the program. These differences are then attributed to the receipt of services by program participants.

Several aspects of quasi-experimental designs utilizing comparison groups should be noted:

- \* Comparison groups are typically created ex post, i.e., characteristics of program participants are used to identify a group of non-participants whose experiences can be observed and used to infer what would have happened to program participants if they had not received program services. Since the match between treatment group members and members of the comparison group is always somewhat arbitrary, evaluation results will be different depending on how the comparison group is defined.
- \* The identification of a valid comparison group is problematic for other reasons. For example, if the comparison group is composed of comparable individuals from a geographic location where the program is not being offered, comparison of outcomes is confounded by the fact that comparison group members may be operating in a different economic climate, which may explain observed differences in outcomes.
- \* Creation of a comparison group avoids the ethical and equity issues associated with the creation of a true control group. If the self-employment option is being offered as a normal part of an established social program, there are ethical considerations associated with the random assignment of individuals to the control group, and the accompanying denial of services to these individuals, for the sake of program evaluation. Several evaluation reports cite ethical issues associated with the creation of a control group as a justification for the use of a comparison group instead.

### 7.3 What We Have Learned from Recent Demonstration Projects

Some generalizations can be made based on recent demonstration projects for unemployment insurance recipients operated by the U.S. Department of Labor. These projects include the provision of self-employment options to claimants as well as offers of re-employment bonus payments and other services designed to speed claimants' return to employment.

Use of a control group facilitates application of the scientific method in program evaluation. Recent U.S. legislation authorizing demonstration programs has frequently required program evaluation using a control group in order to provide a definitive analysis of program outcomes.

Creation of a control group requires random assignment of potential participants to treatment and control status. In



addition to ethical/equity issues cited above, there are number of practical complications associated with assignment to control groups. For example, creation of a true control group for the evaluation of self-employment projects requires that individuals who are motivated to become entrepreneurs be randomly assigned to treatment or control status. Since these individuals are relatively rare, creation of a control group may require denial of services to a significant proportion of motivated volunteers.

Another issue associated with this approach to program evaluation is contamination of the control group. For example, assistance in the preparation of a business plan may be part of program services. If random assignment is conducted after individuals have prepared a business plan, control group members have, in fact, received some program services. Subsequent establishment of a viable business by control group members may have been influenced by program services and is therefore not a clear indication of outcomes in the absence of the program. Research designs for the U.S. demonstrations attempt to control for this factor to the greatest extent possible.

U.S. self-employment demonstration projects for the unemployed are designed around random assignment of volunteers to treatment and control status. Program evaluation is supported by data from established institutional files, data on services and participant characteristics gathered during the operational phase of the projects, and information from a series of follow-up surveys of participants. The projects are designed to address a number of policy-related issues, including:

- \* The relationship between the type and intensity of business services and survival rates of business ventures;
- \* The extent to which businesses created by treatment group members differ from business ventures created by the control group in terms of survival rates, employment slots, business volume and profitability;
- \* The number of employment slots created by surviving business ventures;
- \* The costs and benefits of the program with reference to the unemployment insurance system, the government sector as a whole, and society at large,
- \* The extent to which subsidized business ventures would have occurred in the absence of the program ("dead weight"); and
- \* The extent to which services can be targeted to specified sub-groups of the unemployed (e.g., dislocated workers).

Final evaluation reports from the U.S. Demonstration projects will be available in 1993.

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