



The financing of disadvantaged entrepreneurs

Are enterprise programmes overcoming the finance gap?

Julia Rouse and Dilani Jayawarna

Manchester Metropolitan University Business School, Manchester, UK

Abstract

Purpose – This paper asks whether enterprise programmes are overcoming the finance gap faced by their disadvantaged participants. Specifically, the paper seeks to assess the level of finance invested by participants on a leading UK enterprise programme, the New Entrepreneur Scholarships (NES).

Design/methodology/approach – The paper draws on a postal and e-survey of participants on a leading UK enterprise programme, reporting on 472 respondents. Three capital structure variables (personal investment, external private investment and grants) are employed to analyse the importance of various types of funding in NES businesses. These figures are compared with published data about use of different types of finance, including principal sources of funding, in UK start-ups. Descriptive statistics of perceptions of under-capitalisation, and needs for additional funding, are also reported.

Findings – NES Scholars make significantly lower start-up investment than is typical in UK small businesses, particularly in terms of personal finance. Finance provided by the programme is important but does not compensate for poor access to personal and loan investment. Perhaps as a consequence, almost half of the Scholars were under-capitalised.

Practical implications – Implications for policy are discussed at length. In particular, practical options for addressing the under-capitalisation of businesses started under enterprise programmes are analysed, including increasing and targeting grant finance, providing soft-loans, improving access to existing sources of public funding for small businesses, easing access to private finance, providing more support for the self-employed through the welfare and tax credit systems and paying childcare subsidies.

Originality/value – The paper presents novel analysis of the capital structure of businesses started under an enterprise programme and employs this to explore the critical question of whether – and in what ways – these firms are under-capitalised. It also presents new analysis of the policy options available for improving finance to disadvantaged groups. It fills gaps in the literatures relating to small business finance and small business and social inclusion.

Keywords Business enterprise, Social inclusion

Paper type Research paper

Introduction

Economic development policy in most western economies (Storey, 2003) and many developing countries (Karides, 2005) now includes initiatives to promote business start-up (Storey, 2003), particularly to people from disadvantaged groups or areas (OECD, 2005). In the UK, policy-makers have identified four key barriers that cause low rates of entrepreneurship in disadvantaged and under-represented groups: inadequate specialist support; a lack of affordable access to childcare; poor access to finance, and; a low rate of enterprise in disadvantaged areas which creates a lack of role models (SBS, 2004). Initiatives are underway to address each of these barriers. Among these is the New Entrepreneur Scholarship (NES) programme, a business start-up and financing



initiative aimed at disadvantaged communities. This paper draws on a recent evaluation of the NES programme to explore its efficacy in addressing one of the key barriers to entrepreneurship: inadequate access to finance.

Analysis is conducted in relation to three questions. First, how well financed are NES businesses compared with other start-ups in the UK? Second, how efficient is NES and other grant financing in compensating for lower access to personal and loan investment by its participants? Third, do NES Scholars perceive that their businesses are under-capitalised? The paper begins by providing details about the NES programme. Evidence about the financing of business start-ups is then reviewed and hypotheses outlined in relation to our key research questions. After describing the study methodology, we present our novel data and review the implications for policy from our findings before concluding.

The NES programme

The UK Government's commitment to increasing enterprise in disadvantaged communities and among groups currently under-represented in small enterprise is outlined in a formal policy document, the Government Action Plan for Small Business (SBS, 2004). There it is stated that the Government seeks to match levels of entrepreneurial activity in disadvantaged and under-represented groups with those of more affluent cohorts. Initiatives employed to pursue this goal include the NES programme, an initiative that provides support to people from disadvantaged areas and backgrounds to start a new business.

NES has been championed by the Chancellor of the Exchequer as part of his regional regeneration and social inclusion agendas. Funded by the Learning and Skills Council (LSC) and operational in England only, NES has supported over 3,500 "Scholars" and will run until at least the end of 2008. Management of the programme is contracted to a partnership led by the National Federation of Enterprise Agencies (NFEA) and includes the Association of Business Schools (ABS) and the Prince's Trust. The programme is administered through regional partners and delivered by a variety of local agencies.

The NES programme is similar to other enterprise programmes currently operating in Britain (e.g. the Prince's Trust Business) in that it provides a modular package of pre-start-up guidance and training, start-up funding and on-going mentoring. The exact model of support varies regionally; one notable approach employs action learning sets to develop the social capital of participants (Taylor *et al.*, 2004). NES Scholars are drawn from all ages and backgrounds but must live in areas defined as deprived – ranked up to 8,121 in the UK's Index of Multiple Deprivation (ODPM, 2004). The programme selection procedure also favours applicants from disadvantaged circumstances, who are judged to need programme assistance to make start-up a viable option.

While most other programmes offer grants and loans on a discretionary basis, NES Scholars each have access to a specific non-repayable start-up fund. The value of this has varied over time. Following a recommendation from an evaluation of the pilot programme (Watson *et al.*, 2003), the start-up fund was established as £3,500. However, in 2004 this was reduced to £2,500 and, in 2005, it was decreased to the current level of £1,500. It should be noted that most respondents to the study reported here took part in the NES programme when £3,500 of start-up capital was available.

This fund is now reduced to £1,500 and, so, current Scholars are likely to start their businesses with £2,000 less funding than the study respondents.

The financing of business start-ups

Almost all new businesses require investment (SBS, 2004) to purchase the goods and services to build the basic infrastructure of a new business and to provide working capital until turnover can cover business costs and personal drawings. For growth businesses, expenses may exceed income for long periods, generating a need for an appropriate pattern of finance sequencing (Mason and Harrison, 2003). In a survey structured to represent the UK small business population, Fraser (2004) reported that mean investment during business start-up is £71,000 and median investment is £15,000. This reflects both wide variety in the amount of finance required to start a business in the UK and that, typically, significant investment is necessary.

A diverse range of finance is employed by small businesses. These are commonly categorised into three types: personal investment, including personal savings and gifts from family and friends; private external finance, including overdrafts, loans, asset finance (leasing and higher purchase), asset-based finance (factoring, invoice discounting and stock finance) and equity finance, and; public investment, in the form of enterprise grants, subsidised loans and public equity finance. Possible additional sources of funding are welfare benefits, including tax credits that supplement low earnings (Marlow *et al.*, 2003; Rouse, 2004).

Despite the wide range of finance options, it is commonly reported that some small businesses struggle to access the finance they need, particularly at start-up (e.g. Hood, 2000; Carter *et al.*, 2003). Difficulties in accessing loan, equity and asset-based finance are relatively well researched, although there is no consensus concerning the reality and cause of the external "finance gap" (Carter *et al.*, 2005). There are suggestions that poor access to private external finance relates to demand-side problems, particularly a lack of information about available sources, rather than a lack of available credit (Fraser, 2004). However, there is also acknowledgement that viable business starters may struggle to demonstrate their credibility to private financiers due to an absence of a track record or assets to act as security (Fraser, 2004; Mason and Harrison, 2003) and that some groups may be assessed by lenders as representing a high risk or may even face direct discrimination (Carter *et al.*, 2005). Flows of finance may also be influenced by the human and social capital within networks and, so, relate to social structures in complex patterns (Carter *et al.*, 2003).

Access to personal finance is less well researched, despite consistent findings that, due to difficulties in accessing external private finance, this is the most commonly used and, often, the primary source of finance at start-up (Fraser, 2004). The available research does indicate that, as much personal finance is accrued in employment (Wynarczyk *et al.*, 1993), it is less likely to be available to those suffering labour market disadvantage (Marlow *et al.*, 2003). It also seems likely that people whose families and communities have lower earning power will be less able to access informal sources of support. Such social disadvantage is caused by complex social structures (Bradley, 1996). Groups affected may include those concentrated in lower sections of the employment market (including the working classes, some minority ethnic communities, the young and women) and the economically inactive (including the unemployed, carers and the disabled). As NES Scholars are drawn from deprived areas

and disadvantaged groups, our first proposition is that fewer of them will invest personal and external private finance in their businesses than is typical in the UK small business population. Our second hypothesis is that personal finance and external private finance will be the principal source of funding for a lower proportion of NES Scholars, compared with the UK start-up population.

Public investment is available in the UK through the small grants made by enterprise programmes and, on a larger scale, from the Small Firms Loan Guarantee scheme (SFLG) and the Regional Venture Capital Funds (RVCFs). The SFLG scheme provides credit to businesses judged to be viable that cannot attract a private loan due to the absence of a financial track record or assets to act as security. RCVFs are joint public-private venture capital funds structured to bias risk towards public funds and limit public returns to attract private sector investment in growth businesses (Mason and Harrison, 2003). Both of these programmes are only available to businesses judged to be viable and are based on the notion that private sector refusal reflects “market failure” (Fraser, 2004; Mason and Harrison, 2003). This seems to be a different logic to that governing enterprise programmes, which actively seek to support groups lacking in the resources known to promote business viability. Patterns of usage of these programmes by disadvantaged groups is unknown but, judging by the paucity of funding attracted by Prince’s Trust Business participants (Meager *et al.*, 2003), it seems likely that they are serving a different market to enterprise programmes. As a consequence, we expect that NES Scholars will attract only moderate public investment – typically limited to the maximum grant available from the NES start-up funds. However, due to Scholars’ poor access to personal investment, we still expect that grant/subsidised loan investment will be higher than personal investment in NES business. This is our third proposition. It indicates a different structure of funding than is typical in UK businesses, in which personal investment is by far the greater source of investment at start-up (Fraser, 2004).

Due to the limited availability of grant funding available to NES Scholars we expect that the NES programme will not compensate for lower levels of access to loan and personal finance among disadvantaged groups. Consequently, we hypothesise that total investment will be lower among NES Scholars than in UK start-ups. This is our fourth hypothesis.

Of course, investment needs vary widely in relation to the type and growth rate of the enterprise. Meager *et al.* (2003, p. 128) argued that Prince’s Trust Business programme participants probably did not *require* additional funding. They noted that respondents did not vocalise under-capitalisation as a problem and their businesses were “low margin, small scale, predominantly service sector activities which probably also had low capital requirement”. The finding that enterprise programmes tend to start low margin, low capital investment businesses is common (Kellard *et al.* 2002; Rouse, 2004; MacDonald and Coffield, 1991). Rather than proving that enterprise programme participants require little funding, this may be evidence that low capital resources restrict the type and scale of enterprises that can be started (Marlow and Carter, 2004). Thus, there is an alternative hypothesis - that low capitalisation leads the disadvantaged into “survival self-employment” (Rouse, 2004; MacDonald and Coffield, 1991). Contrary to the survey conducted by Meager *et al.*, the NES evaluation explicitly asked Scholars if they had enough money to start a viable business. As total

investment in NES businesses is likely to be low, our fifth hypothesis is that the majority will perceive that their businesses are under-capitalised.

The next section of this paper will outline the methods used to test these hypotheses.

Methodology

Data is presented from a national survey of all participants on the NES programme up to August 2004. This survey employed both a postal and web survey to increase the quantity of communication and points of possible contact with Scholars. To maximise the response rate, both surveys were professionally produced in colour and reviewed by learning support experts. The survey was also piloted in two waves.

Scholar contact details were collected from NES regional partners. After “cleaning”, this generated a sample of 2,315 Scholars. As the number of NES Scholar places sponsored up to August 2004 is approximately 3,000, more than two thirds (77.2 percent) of Scholars were included in the survey population.

Postal questionnaires were sent with a covering letter and reply-paid envelope, followed by a reminder letter including an invitation to take part in the web-survey. Scholars for whom a current e-mail address was available were also sent two e-mails to remind them to participate in either the postal or web surveys.

A total of 448 paper-based questionnaires were returned. In addition, 81 usable responses were made to the web survey. The total of 529 responses represents 22.9 percent of the survey population. The demographics of respondents broadly reflected NES Scholar characteristics as reported in an analysis of programme monitoring data (Stanworth and Purdy, 2004). This paper draws on the 472 respondents who reported how much money they invested or, if they had not yet started-up, expected to invest, in starting their businesses. Data on reports of under-capitalisation are also reported.

Descriptive statistics are presented concerning the use of different types of funding by NES Scholars. Specifically, the percentage of Scholars using each source of funding are reported, as are statistics about the principal source of finance employed. These are compared with data concerning all UK start-ups, as reported by Fraser (2004). The amount of money invested in relation to each type of finance is also reported for NES Scholars. To determine if there is a statistical significance in the difference in usage of various types of finance, and in the principal sources of finance employed, one sample bivariate *t*-tests were performed. Descriptive statistics of perceptions of under-capitalisation, and needs for additional funding, are also reported. As far as we are aware, there is no national data on perceptions of under-capitalisation at start-up with which to compare this aspect of our data.

Hypothesis testing

Hypothesis 1 predicts that fewer NES Scholars will make personal investment and external private investment in their businesses than is typical among UK start-ups. Hypothesis 2 predicts that personal and external private investment will be the primary source of finance for fewer NES Scholars than among all UK start-ups. In Table I, data is presented concerning the role of each type of finance in NES businesses and UK start-ups, thereby enabling us to test our first two hypotheses.

In terms of personal finance, Table I demonstrates that while over half (57.4 per cent) of NES Scholars invested personal savings, this is a lower figure than the 69.4 per

Types of finance	Usage of each type of finance		Principal form of funding	
	NES scholars (%)	UK start-ups ^a (%)	NES scholars (%)	UK start-ups ^a (%)
Personal savings	57.4	69.4	15.0	65
Gifts from friends/family	5.5	0.8	0	–
Friends/family loan	11.2	12.7	2.1	6
Bank loans	15.5	20.4	6.6	10
Credit card ^b	17.2	3.3	3.0	–
Overdraft		1.6		–
Grants/subsidized loan ^c	91.7	3.1	70.8	–
None	2.5	6	2.5	6
Home equity	–	6.5	–	3
Other	0	3.5	0	8

Notes: ^a“Financing for small and medium-sized enterprises” (Fraser, 2004); ^binvestment from credit cards and overdrafts was treated as a single variable in the Big NES Survey, but as separate variables by Fraser (2004); ^cto allow comparison, the survey responses to grants and subsidised loans, including Princes Trust loan and other enterprise fund loans were considered when calculating the per cent usage by the NES Scholars; – indicates that the data is unavailable or too low to be reported

Table I.
Types of finance used by
NES businesses and UK
start-ups

cent of UK start-ups investing personal savings, as reported by Fraser (2004). More significantly, the proportion of NES Scholars using personal savings as their principal form of funding (15.0 per cent) is much lower than the majority (65 per cent) of start-ups for whom personal savings is the main form of funding at start-up. A one sample t-test further confirmed that there is a significant difference between the percentage usage of personal savings ($t = -12.36$; two-tailed $p < 0.05$). The percentage difference between entrepreneurs who used personal savings as their principal source of funding is also statistically significant at two tail probability $p < 0.000$ ($t = -47.96$).

In terms of gifts from family and friends, a higher percentage (5.5 per cent) of NES Scholars relied on this type of finance than all UK start-ups (0.8 per cent). A one sample t-test further confirmed that there is a significant difference between the percentage usage of gifts from friends/family ($t = 6.77$; two-tailed $p < 0.05$), indicating that NES Scholars use this type of funding more than UK start-ups. However, this was not the principal source of finance for any group. Given the gap in use of personal saving – the primary source of personal finance used by UK start-ups - we can conclude that, overall, fewer NES Scholars invested personal finance than is typical among UK start-ups and that personal finance was also the principal source for a lower proportion of NES Scholars, relative to UK start-ups. This is despite the higher usage of gifts from family and friends by NES Scholars.

In terms of external private finance, a slightly smaller proportion of NES Scholars (11.2 per cent) used a loan from family/friends compared to UK start-ups (12.7 per cent). This was also the principal source of funding for a lower proportion of NES Scholars (2.1 per cent), compared to 6 per cent of UK start-ups, indicating that significant loans from family and friends are less accessible to NES Scholars than in the total UK start-up population. However, these differences are not statistically significant ($p > 0.05$).

NES Scholars also used bank loans less frequently than UK start-ups (15.5 per cent compared to 20.4 per cent respectively) and the proportion relying on bank loans as their main source of funding is lower among NES Scholars (6.6 per cent) compared to UK start-ups (10 per cent). However, although there is a 4.9 percentage point difference in the usage of bank loans by NES scholars and the UK start-ups, and a 3.4 percentage point difference in terms of using bank loans as the principal source of funding, these differences are not statistically significant ($p > 0.05$).

A relatively high proportion of NES Scholars (17.2 per cent) relied on credit cards and/or overdrafts at start-up, compared with 3.3 per cent of UK start-ups who rely on credit cards and 1.6 per cent on overdrafts. A small proportion (3.0 per cent) of NES Scholars relied on credit cards and/or overdraft as their principal source of funding, whereas the proportion of UK start-ups relying primary on these sources was too low for Fraser (2004) to report. A statistical comparison is not feasible for usage of credit card/overdrafts because of the mismatch in the measures employed in the two studies.

Overall, our first two hypotheses, that NES Scholars will rely on personal finance and external private finance less commonly, and less often as their primary source of funding, than all UK start-ups are confirmed. However, it is noteworthy that NES Scholars seem more dependent on credit cards and/or overdrafts, which are relatively expensive (although flexible) forms of external private finance, compared to all UK start-ups.

Hypothesis 3 assumes that grant/subsidized loans financing will be higher than personal investment in NES businesses, suggesting a different structure of funding than in all UK start-ups, in which personal investment is the most significant source of funding (Fraser, 2004). The data presented in Table I indicates that 91.7 per cent of NES Scholars employed a grant and/or subsidized loan, compared to just 3.1 per cent of UK start-ups. This was also the principal source of funding for 70.8 per cent percent of NES Scholars, whereas the proportion of UK start-ups relying on this type of funding was too low for Fraser (2004) to report and was combined under "other" (8 per cent). A one sample t-test further confirmed that there is a significant difference between the percentage usage of grants/subsidised loans ($t = 86.37$; two-tailed $p < 0.000$) made by NES scholars and UK start-ups. Even if we assumed that principal use of grants/subsidized loans is equivalent to the 8 per cent of UK start-ups using "other" as their primary source of funding, there would be a significant difference compared to NES Scholars as indicated by the bivariate statistics ($t = 63.13$; two-tail $p < 0.000$).

Table II outlines the mean investment made from each source of funding by NES Scholars. The amount invested from grants and/or subsidised loans is £5,480 – a

Types of finance	Finance used by NES scholars	
	Mean investments	% of total investment
Personal savings	2,557	22.7
Gifts from friends/family	117	1
Friends/family loan	369	3.3
Bank loans	2,194	19.5
Credit card/overdraft	532	4.7
Grants/subsidized loan	5,480	48.8

Table II.
Amount of investment
made in NES businesses
by type of finance

much higher figure than made from personal savings (£2,557) and gifts from family/friends (£117). This further confirms our third hypothesis, that NES Scholars will be more dependent on grant/subsidised loan financing than UK start-ups and, so, demonstrate a different capital structure to mainstream businesses.

Hypothesis 4 assumes that total investment by NES Scholars will be lower than among UK start-ups, as reported by Fraser (2004). Table III shows that mean investment in NES businesses is £11,837, compared to £71,000 made in UK start-ups. Median investment in NES businesses is £5,825, compared to the £15,000 median investment made in UK start-ups. These figures confirm that typical investment in NES businesses is much lower than among UK start-ups. The particularly strong difference in the mean figures also suggests that investment in NES businesses is more concentrated around the median point than in all UK start-ups. One tail *t*-statistics further confirmed that the difference in total investment by NES scholars and UK start-ups is statistically significant at $p < 0.000$ ($t = 52.61$). Hypothesis 4 is, thus, strongly supported.

Scholars are divided as to whether they received enough money to start a *viable* business: 55.4 percent said they did, 45.6 percent said that they did not (Table IV). There is not sufficient evidence to support hypothesis 5, that most Scholars will perceive under-capitalisation, although it is still clear that a large *minority* of Scholars do perceive that their businesses are under-capitalised.

Scholars who reported needing more funding were asked how much additional investment they required. The median figure given is £5,000, that is 85.8 per cent more funding than the median investment actually made (£5,825). The mean for additional funding requested by those reporting under-capitalisation is £9,724, that is 82.1 per cent of additional funding compared to the mean total investment figure of £11,837. This suggests that, of those who perceive under-capitalisation, there is a feeling that almost twice as much funding is required to start a viable business than is available. Unfortunately, we could find no national data on perceptions of under-capitalisation at start-up with which to compare our data.

Respondents were asked what goods or services they needed to buy with the extra investment. Of the 227 who said they did not have enough money, 208 responded. In

Investment at start-up	NES scholars	UK start-ups ^a	One-tail <i>t</i> -stat
Mean	£11,837	£71,000	$t = 52.61$ (sig. = 0.000)
Median	£5,825	£15,000	

Note: ^a“Financing for small and medium-sized enterprises” (Fraser, 2004)

Table III.
Average investment by NES businesses and UK start-ups

	Under-capitalisation ($n = 515$)		Additional funding required by Scholars ($n = 202$)	
	Yes 45.6%	No 55.4%	Mean £9,724 82.1%	Median £5,000 85.8%
% of the total investments made	–	–		

Table IV.
Under-capitalisation and the additional funding required by scholars reporting under-capitalisation

addition, 43 of the respondents who reported having enough money to start a viable business indicated extra goods and services they required, perhaps indicating confusion about their financial needs. The most common needs cited were for additional or better quality equipment (45.7 per cent), marketing (31.7 per cent), rent and/or repair of premises (22.9 per cent), transport (17.1 per cent), training (17.0 per cent) and stock (13.6 per cent). It is noteworthy that few respondents cited the need for working capital to cover on-going costs such as utility bills, wages, personal drawings and debt repayments. It is possible that these needs were not included in calculations of under-capitalisation.

Overall, our analysis suggests that NES businesses start with much lower levels of total investment than is typical of UK start-ups. This is largely due to low levels of personal investment made by NES Scholars. Grant investment is important to these business starters: they are much more dependent on it than typical UK start-ups. Clearly, however, it does not fully compensate for lower access to personal finance and loan finance.

Scholars are divided on the question of whether their businesses are under-capitalised. Of the substantial minority who did report that they had too little capital to start a viable business, the perceived need for additional investment was typically substantial: the median request for £5,000 represents an additional 82.1 per cent of median total investment made in businesses (£5,825). If NES Scholars' perceptions of their needs are trusted, this data suggests that a substantial minority of NES businesses are severely under-capitalised. It also indicates that for around half of all Scholars, the available finance *is* adequate to start a viable business. This reminds us that the financial needs of small firms, including those started under enterprise programmes, are heterogeneous.

Implications for policy

The UK government aims to increase rates of business ownership among disadvantaged groups and within deprived areas and acknowledges that poor access to finance is a barrier to enterprise in these communities (SBS, 2004). Enterprise programmes, including NES, aim to promote access to enterprise and include financial assistance. However, the evidence reported here, and elsewhere (Meager *et al.*, 2003; Kellard *et al.*, 2002), suggests that enterprise programme participants typically start with relatively few capital resources, compared with typical UK start-ups (Fraser, 2004). In this paper we have shown that NES businesses have poor access to significant personal investment, in particular. This reflects the disadvantaged circumstance of NES Scholars and, in particular, the limited ability of those suffering labour market disadvantage to save and develop equity in investments such as home ownership. NES businesses are more dependent on grant investment than typical UK businesses but this does not compensate for their poor access to personal and loan finance.

There is disagreement as to whether low investment necessarily indicates under-capitalisation. As with other studies of enterprise programmes (Rouse, 2004; Meager *et al.*, 2003; Kellard *et al.*, 2002; MacDonald and Coffield, 1991), the NES evaluation (Rouse and Boles, 2005) revealed that the businesses started are small in scale and Meager *et al.* (2003) argued that such small enterprises require little investment. However, as commonly observed in relation to women's enterprise (Carr, 2000), this argument does not take account of the impact that poor capitalisation has on

the scale of enterprises started. We found that almost half of NES Scholars reported that they did not have enough capital to start a *viable* small business. It is possible that low levels of capitalisation severely constrain the types of businesses that can be started under enterprise programmes and may lead some participants to adapt to “survival self-employment” (Rouse, 2004; Kellard *et al.*, 2002; MacDonald and Coffield, 1991).

Policy-makers have a range of options available to redress the low level of investment made in businesses started under enterprise programmes. The most obvious option is to increase the level of grant finance available – a move that is counter to the current trend of degrading NES finance to £1,500 per Scholar. However, as there is no clear evidence that all enterprise programme participants require additional funding, it would seem wasteful to offer increased grant funding to all NES Scholars. Instead, any additional grant investment should be targeted at Scholars with particularly poor access to personal and loan investment and/or those starting businesses with higher capital requirements.

A second option is to supplement grants by providing access to a soft-loan scheme. These are already employed in programmes in the UK such as the Prince’s Trust Business and were supported under the Phoenix Fund through the development of Community Development Finance Institutions (CDFIs). Further research into the cost of managing these loan funds is required to assess the financial cost of this option, relative to grant funding. An evaluation of the Phoenix Fund intervention to support community-based initiatives indicates that they can be highly successful in reaching target groups, although this benefit has to be offset against the higher cost of operating small-scale loan funds. One solution is to consolidate the “back office” aspects of different community funds, to create economies of scale. A policy environment that creates dependence on short-term funding to sustain these funds also tends to increase costs, while also eroding the stability of the sector. Funds, therefore, require long-term commitment. It is also recommended that they be based on local research about need and demand for funds and that they can only be developed in tandem with locally available business advice, to support applicants and clients (GHK, 2004). The Phoenix Fund also supported a project to increase the availability of venture capital in deprived areas. However, in the absence of evaluation evidence, it is difficult to assess whether this is a solution worth pursuing.

A third possibility is to improve access by enterprise programme participants to loan and investment funds already supported by public intervention, particularly the Small Firms Loan Guarantee scheme and the Regional Venture Capital Funds. In order to affect this change, we need improved understanding of why NES Scholars and other enterprise programme participants seem to make little use of these initiatives. A fourth option is to ease enterprise programme participants’ access to private loan finance, perhaps using strategies such as training to improve their “investment readiness”. Such initiatives could draw on projects already underway within Business Link, although they may be unable to overcome some barriers to loan finance, such as the need to offer a track record or collateral.

Unfortunately, we currently have limited knowledge of the impact that borrowing to start in business might have on enterprise programme participants. In particular, evaluation studies do not tell us whether the pressure to make repayments inhibits business survival and whether debt is manageable after business failure. Qualitative

studies, however, do warn that for some enterprise programme participants, debt can become a major problem (MacDonald and Coffield, 1991; MacDonald, 1996; Rouse, 2004). Clearly, before making policy innovations, further research is required to assess the impact that different kinds of loan funds have on businesses and their owners.

A further option available to policy makers seeking to ease access to financial resources among disadvantaged groups is to assess how low paid self-employment can be supported through the welfare and tax credit systems. Evidence to date is extremely limited but suggests that these systems may not be well designed to serve the self-employed (Marlow *et al.*, 2003; Rouse, 2004). Some improvement has been made through the introduction of the self-employment option on the New Deal programme. However, further action could be taken to extend provision to welfare and tax credit claimants not entitled to enter the New Deal. In particular, carers and the disabled transitioning from economic activity and the self-employed who are in low pay or making no drawings at all. Again, further research into the experiences of these groups in terms of their attempts to draw on the current welfare and tax credit systems would be advisable before implementing changes.

A final means through which policy makers may ease financial pressures at business start-up is by providing childcare subsidies. Rouse and Kitching (2006) found that the cost of childcare is rendered invisible in business planning if enterprise programmes do not acknowledge it as a legitimate cost, yet business owners with childcare responsibilities are unable to sustain their businesses without adequate access to childcare. NES Scholars did not relate their need for additional start-up capital to childcare costs, perhaps because they have constructed this cost as “personal” rather than as a business cost. Rouse and Kitching suggest that enterprise programmes should offer childcare grants to those transitioning to self-employment and that on-going subsidies to help the low-paid self-employed to pay for childcare should be available under the tax credit system, as they are in relation to low-paid employment.

Overall, there is no “right way” to improve access to finance for enterprise programme participants. In part, this is because it is not clear that all participants require additional funding. We also have relatively little existing knowledge about the relative value of grant, loan, welfare, tax credit and childcare grant programmes. This analysis suggests that further research should ask three questions of each of these potential initiatives:

- (1) How do they impact on access to sustainable inclusion in small enterprise by disadvantaged groups?
- (2) How do they ameliorate the risk of social exclusion due to indebtedness after business failure?
- (3) What are their costs/do they represent value for money from the public purse?

Conclusion

In this paper, we have demonstrated that the level of finance made in NES business is significantly lower than in UK start-ups and this is due to poor access to personal and loan investment. In particular, it seems that the disadvantaged areas and circumstances from which Scholars are drawn severely limits their ability to make personal investment in their businesses. Half of NES Scholars reported that their businesses were not under-capitalised. However, a significant minority did make such

a report and, of these, the need for additional investment seems considerable. Like other businesses started under enterprise programmes (Meager *et al.*, 2003; Kellard *et al.*, 2002), NES businesses tend to be small and marginal (Rouse and Boles, 2005). This raises concerns that the low level of capital available constrains the scale and ambition of businesses started.

Further research is required to understand the conditions in which perceptions of under-capitalisation emerge and to analyse how low levels of capitalisation impact on business operation and viability. This is an important question for policy makers, who are currently assuming that low – and, in the case of NES, decreasing – levels of start-up funding are adequate to give disadvantaged groups access to sustainable small business ownership. Given that the business started under this programme are already very small, it is difficult to imagine how the erosion of NES start-up funds will not further constrain the scale, and possibly the viability, of businesses started.

There are various options available to policy makers seeking to increase the level of investment made by enterprise programme participants. These include: increasing grant payments and, possibly, targeting these increases on the most disadvantaged participants or businesses with higher capital requirements; introducing a soft loan scheme; improving access to existing public finance initiatives for small firms; enabling participants to access private loan funds; tailoring the welfare and tax credit systems to people transitioning to self-employment and in low-paid self-employment, and; introducing childcare grants and subsidies. To choose between these options, further research is required to assess their relative costs and benefits, in terms of promoting sustainable inclusion in small enterprise, protecting against the risk of financial exclusion due to increased indebtedness and providing value for money from public investment.

References

- Bradley, H. (1996), *Fractured Identities: Changing Patterns of Inequality*, Polity Press, Cambridge.
- Carr, P. (2000), *The Age of Enterprise*, Blackhall, Dublin.
- Carter, S., Shaw, E., Wilson, F. and Lam, W. (2005), "Gender, entrepreneurship and bank lending: the criteria and processes used by bank loan officers in assessing applications", working paper, Strathclyde University, Glasgow.
- Carter, N.M., Brush, C.G., Greene, P.G., Gatewood, E. and Hart, M.H. (2003), "Women entrepreneurs who break through to equity financing: the influence of human, social and financial capital", *Venture Capital*, Vol. 5 No. 1, pp. 1-28.
- Fraser, S. (2004), *Finance for Small and Medium-sized Enterprises: A Report of the 2004 UK Survey of SME Finances*, Warwick University, Coventry.
- GHK (2004), *An Evaluation of the Phoenix Fund Support for Community Development Finance Institutions*, report for the Small Business Service, HMSO, London.
- Hood, N. (2000), "Public venture capital and economic development: the Scottish experience", *Venture Capital*, Vol. 2 No. 4, pp. 313-41.
- Karides, M. (2005), "Whose solution is it? Development ideology and the work of micro-entrepreneurs in Caribbean context", *International Journal of Sociology and Social Policy*, Vol. 1 No. 2, pp. 30-62.
- Kellard, K., Legge, K. and Ashworth, K. (2002), *Self-employment as a Route Off Benefit*, Department for Work and Pensions Research Report No 177, HMSO, London.

- MacDonald, R. (1996), "Welfare dependency, the enterprise culture and self-employment survival", *Work, Employment and Society*, Vol. 10 No. 3, pp. 431-47.
- MacDonald, R. and Coffield, F. (1991), *Risky Business? Youth and the Enterprise Culture*, Falmer Press, London.
- Marlow, S. and Carter, S. (2004), "Accounting for change: professional status, gender disadvantage and self-employment", *Women in Management Review*, Vol. 19 No. 1, pp. 5-17.
- Marlow, S., Westall, A. and Watson, E. (2003), *Who Benefits? The Difficulties of Women Making the Transition from Unemployment to Self-Employment*, New Economics Foundation/Prowess, London/Norwich.
- Mason, C. and Harrison, R.T. (2003), "Closing the regional equity gap? A critique of the Department for Trade and Industry's Regional Venture Capital Funds Initiative", *Regional Studies*, Vol. 37 No. 8, pp. 855-68.
- Meager, N., Bates, P. and Cowling, M. (2003), *Business Start-up Support for Young People Delivered by the Prince's Trust: A Comparative Study of Labour Market Outcomes*, Department for Work and Pensions Report 184, HMSO, London.
- ODPM (2004), "Index of multiple deprivation", available at: www.neighbourhood.statistics.gov.uk
- OECD (2005), *Local Economic and Employment Development, Entrepreneurship: A Catalyst for Urban Regeneration*, OECD, Paris.
- Rouse, J. (2004), "Enterprise, identity and structure: a longitudinal study of youth enterprise experiences", PhD thesis, Kingston University, Kingston-upon-Thames.
- Rouse, J. and Boles, K. (2005), *The Big NES Survey 2004: An Evaluation of the Experiences of New Entrepreneur Scholars*, Manchester Metropolitan University, Manchester.
- Rouse, J. and Kitching, J. (2006), "Do enterprise programmes leave women holding the baby?", *Environment and Planning C: Government and Policy*, Vol. 24 No. 1, pp. 5-19.
- Small Business Service (SBS) (2004), *A Government Action Plan for Small Business*, HMSO, London.
- Stanworth, J. and Purdy, D. (2004), "Combating social exclusion – the entrepreneurial dimension", paper presented to the 27th ISBA Conference, Newcastle/Gateshead, November.
- Storey, D. (2003), "Entrepreneurship, small and medium sized enterprises and public policies", in Acs, Z. and Audretsch, D. (Eds), *Handbook of Entrepreneurial Research*, Kluwer Academic, Boston.
- Taylor, D.W., Jones, J. and Boles, K. (2004), "Building social capital through action learning: an insight into the entrepreneur", *Education + Training*, Vol. 46 No. 5, pp. 226-35.
- Watson, A., Owen, G. and Stuart, N. (2003), *Assessing the Effectiveness of New Entrepreneur Scholarships*, HMSO, London.
- Wynarczyk, P., Watson, R., Storey, D., Short, H. and Keasey, K. (1993), *The Managerial Labour Market in Small and Medium-Sized Enterprises*, Routledge, London.

Corresponding author

Julia Rouse can be contacted at: j.rouse@mmu.ac.uk

To purchase reprints of this article please e-mail: reprints@emeraldinsight.com
Or visit our web site for further details: www.emeraldinsight.com/reprints

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.