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Jobs Growth through Self-Employment:

**Enhancements
to the
New Enterprise Incentive Scheme**

**Recommendations
from the
National NEIS Association Inc**

Recommendations presented to :

Senate Enquiry into Small Business Employment

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A word from National NEIS Association Board

It gives us great pleasure to draw to your attention to suggestions for structural improvements to the enterprise development sector.

The highly competitive environment that we work in, forces the rate of evolution of these programs. This causes us to be vigilant and carefully observe opportunities to improve NEIS and allied programs as well as the internal efficiencies of the organisations delivering NEIS.

This report highlights suggestions for improvements to programs and describes opportunities that we believe are immediately evident.

Increase in NEIS delivery and efficiency gains

In this document, we intend to show that NEIS has an extremely positive future and can be extended to produce even more active and vital businesses for the Australian economy. From the body of experience gleaned from the host of NEIS managing agents, we have identified some internal efficiency gains that are achievable.

In addition we will outline a method to capture elements of the enterprise market that are not presently being serviced by any of the current service providers (This includes both Federal and State services).

NEIS with a few adaptations is in the prime position to capture and service this market. A market that would clearly increase the tax revenue base, increases the employment options and contribute to Australia's world competitiveness.

It is our belief that enterprise is a fundamental element of Australia's improving economy.

Irene Dewsbery

Treasurer

National NEIS Association Inc.

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Executive Summary

The *New Enterprise Incentive Scheme* (NEIS), is an employment program targeted specifically at the very small, or micro, business sector which assists unemployed people to establish new enterprises. The Scheme has operated since 1986.

The National NEIS Association is proposing a series of enhancements to the program in time for inclusion with the Request for Tender (RFT) for the new round of the Job Network.

A History of Extraordinary Success

The paper catalogues excellent outcomes in terms of employment, regional and local economic development, community development and cost. Indeed, each NEIS created job could well bring with it a fiscal *saving*. Several major reviews of micro enterprise, small business programs and entrepreneurship come out in support for the maintenance and extension of NEIS.

NEIS and the 1999 – 2002 Job Network tender

The NNA shows how issues to do with quality and capacity to deliver should lie at the core of a new tender evaluation process. Along with development of a transparent and open tender process, a *NEIS Index* is proposed as a key aspect of tender evaluation for the Job Network. Full disclosure of how selection criteria will be applied in the RFT is recommended. Use of a location quotient is proposed to achieve an appropriate balance for allocations across Australia.

The NNA shows that to operate at optimal effectiveness up to 22,000 NEIS places per year could be allocated.

A new deal for small business facilitation and support

Support for a "pre-NEIS" training program is sought. More extensive marketing of the Commonwealth's role in NEIS is advocated. New business models, including "off the shelf" plans for a team of participants should be supported as part of the NEIS program.

There is potential for the Commonwealth to seek partnerships with the private sector and other levels of government to expand the NEIS program and widen the range of people it is able to support. The Government is asked to examine public procurement processes and public sector research and development activity, to see if opportunities identified by NEIS practitioners can be effectively and efficiently developed.

A Commonwealth small business mentor program is recommended. A *NEIS Plus* pilot program is proposed. Initially, the program would support high growth potential NEIS businesses, to capitalise on the substantial job growth potential of such firms. The concept has the potential to be expanded to other businesses, which meet the small corporate profile.

An argument is made that the Government should offer a special NEIS type program tailored to the needs of the *enforced self-employed*. Finally, a major upgrade to the Self-employment Development Scheme would result in a re-badged program, the *Business Preparation Scheme*. The revised scheme would be extended to offer greater monitoring, support, training and access to a structured mentor program.

NNA Recommendations

The National NEIS Association recommends the following initiatives. Fully developed, these proposals will provide an opportunity for participants, government and the broader community to benefit from the *NEIS Success Story*.

Program Enhancements

- Refinement of the Productivity Commission's baseline work on program costing to allow accurate comparison between NEIS and other employment programs.
- Further research to identify the economic benefits of the NEIS model, across a range of business types, locations and community profiles.
- National strategies linking commonwealth, state and territory governments, to provide and improve financial and other support for business mentor programs around Australia utilising the national NEIS network.
- The Office of Small Business utilise the NEIS Managing Agents network to trial the proposed "*Small Business Option*" over the next three years.
- That the trial be managed in partnership with DEWRSB and the NNA.
- The Commonwealth capitalise on the advantages of portfolio linkages between DEWRSB and the VET sector, to allocate funding for training in small business management skills using the NEIS model, through existing programs for School-Based Traineeships and NAC Traineeships..
- Provide access to the training and mentoring components of NEIS for existing micro business owners. This would entail some further development of work to the NEIS Curriculum.
- For the Commonwealth to initiate a national approach to entrepreneurship and self-employment by providing broader access to the NEIS network. Additional NEIS places could be sold to organisations such as downsizing businesses, workplace insurers, and rehabilitation providers.
- The NNA collaborate with DEWRSB to manage the task of renewing SEDS in its new guise as the *Business Preparation Scheme*.

Tender Enhancements

- The development and publication of complete eligibility and selection criteria in line with recommendations 4 to 8¹ of the ANAO review of the current tender.
- A more comprehensive *weighting system* for selection of Managing Agents, to replace the two-stage process used in the current model.
- The development of a *NEIS Index* as the central feature for tender evaluation. The NNA is prepared to contribute to the composition of a short-term working group to develop the index concept.
- The appointment of an independent expert group to support the DEWRSB tender evaluation team.
- Research into optimum numbers for NEIS places be undertaken.
- The value of the local relationship is recognized in both the selection process and allocation of places, particularly in regional areas.
- A three-step location quotient model is developed as the basis for allocation of NEIS places.
- NEIS Managing Agents, as Registered Training Providers, be encouraged in their efforts to access public funds from the VET sector for the provision of training in the area of small business development and planning.

¹Audit Report No.7, Performance Audit, Management of the Implementation of the New Employment Services Market, Department of Employment, Education, Training and Youth Affairs: Australian National Audit Office, Canberra, 1998

Issues Summary

This 'issues summary' provides an overview of the key issues dealt with by the National NEIS Association enhancement proposal. Enhancements are required in four key areas.

- 1. Establishing an appropriate allocation and distribution of Self-Employment Assistance places.**
- 2. Effective marketing of the Self-Employment option in the Job Network.**
- 3. Improvements required in the next Tender round for Self-Employment support in the Job Network.**
- 4. Proposals for enhancements to Self-employment programs.**

1. Establishing an appropriate allocation and distribution of Self-Employment Assistance places.

For places in current contracts, an equitable distribution method is required for each contract extension, with a demonstrated need for at least, an additional 1,000 places with a decision over allocation by the end of March 1999.

Places under the new contract round should reflect the fact that a market clearly exists for up to 22,000 self-employment assistance places. These should be made available through a combination of SEDS/BPS, NEIS, partial NEIS for unemployed non allowable clients, and NEIS plus.

Distribution should be undertaken through the proposed 'location quotients' to balance factors such as, population, unemployment, business starts. A move to this allocation method could occur over time, but equity and access are priority issues needing resolution.

Likewise, data on the distribution of places under current arrangements is urgently required for analysis.

2. Effective marketing of the Self-Employment option in the Job Network.

There is a need to differentiate and market employment and self-employment options in the Job Network and a communications strategy is required.

Such measure should incorporate:

- touch screens
- publicity
- information material
- tender process improvements
- Centrelink processes.

3. Improvements required in the next Tender round for Self-Employment support in the Job Network.

The Minister has rejected proposals by NSW NNA members to separately tender NEIS, and remove it from the Job Network. However, the issues of adequately differentiating between NEIS and other elements of the Job Network remains.

Outstanding issues include :

- Self-employment specific selection criteria.
- Expert advice on business facilitation during the next tender process for self-employment.
- A NEIS index open, transparent, published tender assessment process, including weightings.
- Establishing a viable price for NEIS delivery as part of any assessment process.
- Review of tender rules to ensure that the Government achieves the best possible value and outcome for its self-employment programs
- Processes and contract variations to better describe, improve and facilitate the work of NEIS Advisory Committees and support the work of Area Consultative Committee nominees on NEISACs

4. Need for enhancements to Self-employment programs.

The current Self-employment Development scheme (SEDS) is inadequate and could be subsumed by the National NEIS Association's proposed Business Preparation Scheme, involving a better mix of assessment, income support, monitoring and preparatory training.

At the very least, SEDs referral and monitoring processes, and the fees payable for such services, should be improved.

Self-employment has been shown to be an effective goal for many long term unemployed. Enhancements should recognise this.

Provision of business training, business planning and mentor support for unemployed "non income support" clients through NEIS Managing Agents is required.

Many marginalised and at 'risk' people could take advantage of self-employment, however, the current restriction on numbers means that those people and Australia as a country miss this opportunity. The Office of Small Business could work with the national NEIS network to redress this.

The bulk of the additional employment outcomes generated by NEIS over the longer term will come from the few (200–400 businesses a year) firms that successfully realise their high growth potential. Little is being done to ensure that these outcomes are not just left to chance or luck. (The NNA has proposed "NEIS Plus" in recognition of this).

The majority of recent reports relating to micro enterprises and business start ups refer to the need for management training and mentor support to help reduce the risk of failure and maximise growth prospects.

Yet, the Commonwealth has not yet found a way of ensuring that such services are available across Australia.

Introduction

The Department of Employment, Workplace Relations and Small Business administer the New Enterprise Incentive Scheme (NEIS). A new tender round for Managing Agents for the program is expected to be held in the first half of 1999. Based on the experiences and accumulated knowledge of its Managing Agent members, the National NEIS Association (NNA) believes that planning for this tender process affords the Commonwealth Government an excellent opportunity to enhance what has already proven to be a very successful program.

The NNA has decided to be pro-active and to invest the time and resources of its members to make a significant, constructive contribution to the Government's processes of evaluation and review in preparation for the next tender round by preparing a detailed position paper for discussion with the Government.

This paper describes opportunities for extracting greater value from the New Enterprise Incentive Scheme through its four essential functions:

- 1. A rigorous selection process revolving around the individual's entrepreneurial readiness, assessment of opportunity and an understanding of how the new business contributes to, rather than detracts from the surrounding local economy.**
- 2. Business planning and training in market development, research and development, financial analysis and operational planning (include the acquisition of small business management skills).**
- 3. Fifteen months of monitoring and support through training, provision of a comprehensive mentor scheme and access to a network of supporters and other entrepreneurs.**
- 4. The provision of financial support through an allowance for the first twelve months of business start-up.**

This paper explores the remarkable successes of NEIS over the past fourteen years and details a series of improvements that could be made to NEIS in the context of the 1999 — 2002 Job Network tender. The paper also suggests ways that NEIS could be enhanced to offer new opportunities for small business facilitation and support in Australia.

Our goal is to achieve sound and lasting improvements to an already excellent scheme. The NNA Executive has prepared this paper as a *starting point* for discussion. The outcome might well be new or differing approaches to the question of improvements to NEIS. However, if the result is that NEIS continues to serve the Australian community well, the purpose of this paper — accompanied by the work of the NNA Executive on behalf of their members — will have been achieved.

1. A NEIS History of Extraordinary Success

The *New Enterprise Incentive Scheme* (NEIS), is an employment program targeted specifically at the very small, or micro, business sector which assists unemployed people to establish new enterprises. The Scheme has operated since 1986. It provides participants with:

- (i) An evaluation of their entrepreneurial readiness, their business idea and its marketability.**
- (ii) A comprehensive program of personal, business development, and the preparation of a detailed business plan.**
- (iii) Twelve months of monitoring and mentor support.**
- (iv) An allowance that is the equivalent of unemployment benefits during the first twelve months of business start-up.**

The proposed business has to be new, viable and should not compete with current businesses or current ways of bringing a product or service to market, unless it is clear that local demand is able to sustain existing and new businesses. For the past ten years or so, the Commonwealth has delivered the program through the private sector by contracting Managing Agents at a regional level.

During that time the program has grown and continues to deliver positive employment, economic and social outcomes across Australia.

1.1 Employment

Since 1986, the Commonwealth Government has sponsored the start up of over 50,000 new micro enterprises in Australia through the New Enterprise Incentive Scheme².

Over the years compelling evidence³ has been collected showing that employment results through NEIS have always been positive and that the program consistently displays the following hallmarks:

- (i) The Department's Post Program Monitoring figures have regularly shown success rates (essentially, whether or not people return to the unemployment queue) of over 82% for all NEIS participants. Remarkably, these results hold up even for people who had previously experienced long term unemployment of greater than two years, where at least 77% still experience positive outcomes from the NEIS program⁴.
- (ii) Almost 90% of NEIS graduates experiencing success are in fact self employed, with the remaining few having found other employment through their NEIS experiences.
- (iii) Success rates for men and women are similar.
- (iv) Surveys administered to all NEIS participants have shown that, even at an early stage of business start up, that an additional 8 people are employed for every 10 NEIS businesses established. Even people who had been previously long term unemployed are able to create additional employment opportunities in their new NEIS supported businesses; at the rate of 5 additional jobs for every ten business start-ups⁵.
- (v) Around 70% of NEIS participants are completely off the public purse 3 months after ending the NEIS program, with others still receiving some measure of assistance through benefits other than that for unemployment, e.g. rent assistance.

² Letter to Paul Bolger, Minister's Office, DEETYA, 5 March 1997 and NNA working papers

³ Letter to Paul Bolger, Minister's Office, DEETYA, 5 March 1997 and Briefing Paper: The Impact of NEIS on the Public Purse, NNA Secretariat, 1997 supplemented by more recent NNA working papers

⁴ DEETYA PPM Statistics

⁵ Concept Paper, NNA Tender Support Document 'Microbusinesses as Employers', August 1997

1.1.1 A program suited to assisting the long term unemployed

The figures cited above demonstrate that NEIS offers a high prospect of success for anyone who is unemployed, including those who are long term unemployed. It is generally accepted that a person's chances of obtaining employment markedly declines as the period of unemployment grows.

But for around 20,000 Australians who had previously been unemployed for over a year, self-employment through NEIS has positively changed their future prospects.

Indeed, NEIS may well be a program especially suited to assisting the long-term unemployed. John Breen and Fiona Dunbar from the Victoria University of Technology, examined NEIS outcomes over time. They found that those who had previously been long term unemployed were actually more likely than other participants to still be generating their own self-employment over the longer term; "they are survivors once they do get into business⁶."

1.2 Regional and local economic development

1.2.1 Micro-enterprises create more jobs

In the Structure of Australian Business 1996 — 1997⁷, the Department of Employment, Workplace Relations and Small Business reports that micro businesses, those employing four or less people, accounted for 81% of all private sector non-agricultural businesses (751,500) in Australia. These businesses accounted for 25% of all employment in Australia. As employment patterns change in Australia, the significance of these micro-enterprises to jobs growth, also increases.

The report states that employment through firms employing over 100 people has noticeably declined. Whereas for micro enterprises, jobs growth has so outstripped employment lost in this sector that firms employing one to four people have made the "largest contribution to net employment gains." by comparison with all business.

Each year, the New Enterprise Incentive Scheme creates at least 6,500 up to 10,000 more of these employment generators right across Australia.

⁶ Encouraging Regional Development Through Self Employment: An Assessment of the NEIS Program, J Breen and F Dunbar, Victoria University of Technology, 1997, p6.

⁷ Australian Business at a Glance, DEWRSB, Access Economics and ABS, <http://www.dewrsb.gov.au/smallbus/austbus.htm>, 1998

1.2.2 Regional case study demonstrates success

JobsEast, the Area Consultative Committee for East Melbourne, undertook a major piece of research through their *Industry Link Project* during 1996–1997. The nature of their data collection enables the comparison of businesses founded through NEIS with 21,000 other businesses in the region⁸.

The NNA therefore has been able to focus on the region's micro-enterprises (up to 2 people employed in the business) and analyse a range of indicators.

- (a) Developing NEIS, businesses in the region are creating almost 14 additional jobs per ten businesses compared with the regional average of just over 7 jobs for all other micro-enterprises.
- (b) Growth and employment prospects and expectations for NEIS businesses in the first five years of operation were markedly higher than the average. For example, NEIS businesses expected to create new employment at double the rate of other micro-enterprises.
- (c) As a proportion of the total, NEIS sponsored businesses were 25% more likely to export their services or goods.

	NEIS Business	Non NEIS Business
Level of additional employment generated	13.7 additional employees for every 10 NEIS businesses	7.35 additional employees for every 10 businesses
Expected level of growth in the next 12 months	46.5% of businesses expect to grow	27.9% of businesses expect to grow
The percentage of those businesses who export	8.1% of businesses export	5.9% of businesses export

Table One: Summary of NEIS related Industry Link Project Findings
The principles underpinning these results stem from the nature of the NEIS program itself.

1.2.3A valuable vehicle for research

Businesses started through the New Enterprise Incentive Scheme over the past fourteen years now provide an excellent source of information about the development pattern of micro-enterprises in Australia and of the needs of such small businesses in pursuit of greater growth and effectiveness. For instance, the National NEIS Association has been able to generate advice for government about the human resources

⁸ Letter by Anita Buczkowsky, Acting Executive Officer to Peter Reeves, Assistant Secretary, Employer Services Branch, DEETYA, 14 October 1996 and NEIS Growth & Employment Trends Annual Report, NNA Secretariat, November 1996

management needs of micro-enterprises⁹ and about the effectiveness of labour market and employment services from the perspective of employers in very small firms¹⁰.

Over the last two years the NNA has worked closely with SEAANZ (Small Enterprise Association of Australia and New Zealand) and ANZABI (Australia and New Zealand Business Incubators) to identify joint research and facilitation projects which would verify the anecdotal evidence presented by Agents at our conferences and state meetings. The first formal step towards establishing this umbrella group was the 1998 joint conference in Tasmania which will be followed up in 1999 with conferences in Melbourne and Adelaide, culminating in an International Small Business Conference in Brisbane in the year 2000.

1.3 Community development

Australians are now familiar with the idea that increasing globalisation of economies and markets, technological change and social and environmental pressures are affecting Australian labour markets and our national economic health. Economists, social commentators and government agencies have all stressed the need for Australians and their institutions and structures to respond to these challenges.

The indicators for a successful response to these challenges needs to draw upon the concern we tend to express about the social, environmental, economic and even spiritual health of our local community. The Karpin Task Force proposed entirely appropriate indicators; "employment growth and improved living standards"¹¹.

These indicators should be assessed together. For instance, it is possible to conceive of a situation where plenty of jobs are created, but in such insecure, menial and poorly paid positions that the community's overall quality of life actually declines. Likewise, jobs growth in just one or two sectors might create a better quality of life for *some* but in a fashion that is not sustainable and certainly, from the total community's perspective, not an overall improvement.

⁹ HRM Needs of Small Business, NEIS Growth & Employment Trends Annual Report, NNA Secretariat, August 1997

¹⁰ Business Employment and Growth Facilitation Program, 1995 – 1997, NNA Secretariat

¹¹ Industry Task Force on Leadership and Management Skills (1995) *Enterprising Nation Renewing Australia's Managers To Meet The Challenges Of The Asia-Pacific Century*, Commonwealth of Australia, Canberra, p xviii)

The New Enterprise Incentive Scheme delivers positive outcomes against both indicators. In this very important sense, NEIS is *more* than a labour market program and *more* than a small business support program. NEIS is also an important contributor to local community development. NEIS businesses create rewarding jobs and help retain wealth in a local community. However, they are also anchor points for other community and business developments.

1.4 Cost

1.4.1 Previous estimates

In October 1993 an evaluation undertaken by the Department of Employment, Education and Training examined the cost effectiveness of NEIS. They found that "assuming offsets from the income support costs of \$8,132 per participant (as agreed by the Department of Finance), the cost per person employed consequent to NEIS is reduced to \$5,900¹²." The NNA, using the same calculations in May 1997, established that the net cost to the Commonwealth of each NEIS generated job had fallen to \$5,089¹³.

The NNA believes that even these figures overstate the cost of the NEIS program when taking a whole of government perspective. This is demonstrated through the work of the Productivity Commission, which provided valuable assistance through their review of small business programs in August 1998. They analysed NEIS in great detail and calculated the fiscal cost per job created¹⁴.

1.4.2 Each NEIS created jobs brings with it a fiscal saving

In an analysis more rigorous and extensive than any previously undertaken, the authors endeavour to take account of the impact on cost effectiveness figures of;

- additionality (some people would start their businesses and create jobs even if NEIS had not been available),
- distortion (the impact a NEIS business might have on the business opportunities of other, unassisted, businesses), and
- displacement (the degree to which the newer NEIS created jobs simply replace jobs already undertaken)¹⁵.

The assumptions made about these factors are conservative and draw upon the UK experience with the Enterprise Allowance Scheme (EAS),

¹² Evaluation of the New Enterprise Incentive Scheme, EMB Report 10/93, DEET, p40

¹³ Australia's Future: NEIS and Micro Business, May 1997, NNA Working Paper.

¹⁴ Design Principles for Small Business Programs And Regulations, Ralph Lattimore, Alan Madge, Barbara Martin and James Mills, Staff Research Paper Productivity Commission, Commonwealth of Australia, August 1998, Appendix E

¹⁵ See "Entrepreneurship and Job Creation", Sergio Arzeni, in The OECD Observer No. 209, 1998, p19

which, although similar to NEIS, was a less comprehensive program. Indeed, the architects of NEIS, the NNA included, have, in recent years, progressively improved and modified NEIS in order to avoid acknowledged weaknesses in the UK program.

It is already clear that business survival rates and secondary job creation results are likely to be higher than those assumed by Lattimore et al. Furthermore, NEIS businesses are less likely than EAS businesses to displace other activity or jobs. The program is orientated towards new businesses that do not directly compete with current businesses or current ways of bringing a product or service to market, unless it is clear that local demand is able to sustain existing and new businesses.

Even so, Lattimore's optimistic scenario shows that, rather than costing the Government anything, each new job created through NEIS actually comes with a fiscal *saving* of \$2,800!

More accurate estimates drawn from the Australian rather than UK program would mean that even the neutral estimate provided by the Commission would need to be revised to show a fall in cost. Therefore, the National NEIS Association claims, with confidence, that the Productivity Commission analysis has made a clear case for the NEIS program to be regarded as a program that:

- saves the government money; and
- delivers a positive return on its investment to the Australian community rather than a cost to government.

Subsequent refinement of the Commission's baseline work by DEWRSB will allow, for the first time, accurate comparison between NEIS and other employment programs. The NNA believes that this should occur as a matter of priority.

1.5 Support for NEIS

1.5.1 Support from Overseas

International research has continued to demonstrate the efficacy of the New Enterprise Incentive Scheme approach. In a UK Department for Education and Employment report, based on a study of programs in 17 OECD countries, Hilary Metcalf recently found that the main elements which appear to lead to a successful, cost-effective program are:

- self-screening (through compulsory participation in training, advice and/or counselling and through the development of a business plan);
- the provision of training, advice and counselling;
- continuing assistance once established in self-employment;
- delivery of assistance by the private sector;¹⁶

These are precisely the elements that have been developed and refined through the fourteen years of history of NEIS in this country.

1.5.2 "Going for Growth" - Mortimer's report

Recent reviews of Government programs in support of small business and job growth through self-employment are consistent in their support for the New Enterprise Incentive Scheme.

As an example, David Mortimer found that "NEIS is a DEETYA business mentoring program specifically designed to help unemployed people establish businesses. The program's primary objective is about labour market adjustment. However, it does have benefits for business development. We consider that the program has delivered net economic benefits, but ... The economic outcomes from the scheme should be more clearly identified." ¹⁷ The NNA has long supported such research. The Productivity Commission has now laid the groundwork for this and the NNA, along with the other founding members of Australia's umbrella group for small business facilitation and support (SEAANZ and ANZABI), is keen to work with DEWRSB staff to more adequately monitor and report the undoubted successes of NEIS.

¹⁶ Self-Employment for the Unemployed: The Role of Public Policy, Hilary Metcalf, Policy Studies Institute, Department for Education And Employment, United Kingdom, January 1998, ISBN 0 85522 718 4

¹⁷ Going For Growth, (Mortimer Report), Commonwealth of Australia, 1997, p166

1.5.3 Ministerial review of the micro business sector in Australia

The Micro Business Consultative Group was established by the then Minister for Small Business, Peter Reith, to advise him about policy options for the development of the micro business sector in Australia. This included identifying the major barriers that affected the establishment and growth of micro businesses and preparing strategies to tackle these barriers¹⁸.

In a report received by Minister Reith, the Group established that, as "with virtually all developed nations, Australia's micro businesses are the backbone of our economy ... In recent years, they have made the major contribution to employment growth. They are becoming the main source of employment for women, young Australians and employees affected by downsizing. A vibrant and dynamic micro business sector is indispensable to the future growth of the Australian economy."¹⁹ They proceed to report on a wide-ranging, eighteen months study of the sector and to make a series of major recommendations.

Of NEIS, they say "we support the New Enterprise Incentive Scheme (NEIS) offered by the Department of Education, Employment, Training and Youth Affairs. The Group would like to see existing micro business owner operators being able to obtain access to the range of assistance provided by this excellent program, particularly the management-competencies training component. This would entail either developing an initiative very similar to the NEIS program specifically for existing or intending micro business operators or extending the scheme to include micro businesses."²⁰ A formal recommendation to that effect was made to the Department, a recommendation also endorsed by the National NEIS Association.

1.5.4 Mentoring works

Mentoring was a particular strength of NEIS picked out for praise and support by the Micro Business Consultative Group. They found that people able to offer practical knowledge and advice built from their own base of experience were an important factor in efforts to improve the management and performance of micro businesses and their owners.

¹⁸ Under The Microscope Micro Businesses In Australia, Report Of The Micro Business Consultative Group, DEWRSB, Commonwealth of Australia, February 1998, p10

¹⁹ Under The Microscope Micro Businesses In Australia, Report of The Micro Business Consultative Group, DEWRSB, Commonwealth of Australia, February 1998, p10

²⁰ Under The Microscope Micro Businesses In Australia, Report of The Micro Business Consultative Group, DEWRSB, Commonwealth of Australia, February 1998, p79-80

Their recommendation is especially pertinent to NEIS and its nationwide network of Managing Agents:

"Commonwealth, state and territory governments should continue to provide and improve financial and other support to foster the development of mentor programs around Australia. Private-sector networks able to provide this advice should be established. They would provide mentors to assist individual micro businesses and/or direct them to appropriate forms of assistance."²¹

The National NEIS Association also endorses this recommendation.

²¹ Under The Microscope Micro Businesses In Australia, Report of The Micro Business Consultative Group, DEWRSB, Commonwealth of Australia, February 1998, p114

2. NEIS and the 1999 - 2002 Job Network Tender

Quality is important

In 1997 the NNA undertook a review of unit costs within the New Enterprise Incentive Scheme and related these to program outcomes²². A clear link between positive outcomes and the fee charged by NEIS Managing Agents was established. They identified a difference as great as 10 percentage points (88.8% compared with 78.4%) in positive outcomes between higher and lower fee charging Managing Agents.

The NNA argued that several factors would affect regional differences in pricing. These would include:

- the range and preparedness of local people wishing to create self-employment through NEIS,
- differences in delivery costs to more remote, less populated regions,
- variations in the cost of training venues,
- the local availability of skilled and experienced staff, and
- specialist provision to specific groupings, like areas with potential business people and employers from non-English speaking backgrounds.

Nonetheless, it seemed that Managing Agents deliver NEIS in similar communities yet could be charging different fees. They were quite likely to achieve different outcomes. The lower the fee infers a lower rate of positive outcomes.

The NNA used this review to argue that the new arrangements for the Job Network should take account of this relationship and ensure that the tendering process properly evaluated each proposed Managing Agency against a range of quality and outcomes orientated criteria. Further, the NNA has consistently argued that this assessment would require NEIS specific selection criteria over and above those more generally applied to all prospective Job Network providers.

It is the view of the NNA that the assessment processes for the first round of Job Network contracts were neither rigorous nor specific enough.

²² NNA Review of NEIS Program: PPM Positive Outcomes Versus Unit Cost of Delivery, NNA 1997

Interestingly at a time when the national average Managing Agency fee for each NEIS business started was \$2,945, over 82% of positive outcomes were reported. Whilst the NNA is not privy to a similar average pricing since the commencement of the Job Network arrangements, it can be reasonably assumed through anecdotal evidence, that the average fee currently charged by Managing Agents is lower in real dollars than the figure determined for 1996.

It is perhaps significant, that the Department is, for the first time unwilling to release post program monitoring figures. This is at a time when the NNA argues that it is possible that PPM outcomes could show a deterioration in line with the lower average fee thought to have been achieved through the Job Network tender.

2.1 Towards a more effective tender selection process

2.1.1 Eligibility and selection criteria

The National Employment Services Association (NESA) has developed a series of proposals for improvements to the tendering process for the Job Network²³. With just two caveats, the NNA endorses and supports NESAs principle recommendations to DEWRSB, including those made about NEIS:

- The NNA would caution that the New Enterprise Incentive Scheme, focused as it is on self-employment outcomes, requires a different set of capacities and programs from its Managing Agents. This must necessitate a tender selection and evaluation process that takes proper account of the distinctive nature of NEIS. In other words, some of the tender process will need to be NEIS specific.
- The NNA is also concerned about the relationship between Flex service providers and NEIS Managing Agents. It is clearly in everyone's interest to create incentives for referrals and cooperation across the Job Network. However, the NNA is not convinced the NESA proposal, that NEIS be an outcome for Flex providers, is the best way to achieve this. It is difficult to see how an approach like that could work in practice without significantly raising the cost to Government. For instance, does this proposal meet ‘value for taxpayers dollars’ and would it meet close scrutiny under “conflict of interest” if the Flex service provider is to be rewarded in full for the self employment created, for merely referring a client to SEDs?

²³ The Evolution of the Job network, Achieving Best Value, NESA Working Paper, February 1999

Governments at all three levels are gaining experience in competitively tendering out services previously performed *in house* or on a fixed price basis. It has become clear that the more precise the contractor is able to be about the nature of the service required and about the selection criteria to be used, the more effective and straightforward the tendering process will be. Timely, transparent and fulsome communication between the parties involved has also proven to be more effective than the more mechanistic and closed processes of the past.

These lessons are reflected in the Auditor General's²⁴ review of the last Job Network tender round. While the Australian National Audit Office (ANAO) is complimentary about the Department of Employment, Education, Training and Youth Affairs management of the project it makes recommendations relating to clearer and more effective communication for future tender rounds. They are also reflected in processes adopted by other Commonwealth agencies such as AusAID who now publish in advance clear guidance for tenderers about how their eligibility and selection criteria will be applied.

In line with recommendations 4 to 8²⁵ of the ANAO review of the past round, and through a process consistent with the suggestions of NESAs, the NNA supports the development and complete publication of eligibility and selection criteria.

The NNA recommends, for the NEIS program a more comprehensive *weighting* system than the two stage process used for the current contract. In the previous round capacity and quality assumed less importance than pricing in many instances once a certain threshold standard for capacity and quality had been passed. The NNA believes that it is possible to distinguish far more effectively between tender proposals based on the substance and merit of each proposal.

²⁴ Audit Report No.7, Performance Audit, Management of the Implementation of the New Employment Services Market, Department of Employment, Education, Training and Youth Affairs: Australian National Audit Office, Canberra, 1998

²⁵ Ibid.,p20

2.1.2 The National NEIS Association evaluation methodology

The NNA suggests creation of a NEIS index²⁶ as the central feature of tender evaluation. DEWRSB would build a model based on the following first draft set of criteria to properly reflect the evaluation from their perspective. This initial concept is presented in Appendix 1.

The NNA is prepared to contribute to a short-term working group to consider and develop a NEIS index concept.

2.1.3 The relationship between NEIS and the rest of the Job Network

What the NNA has suggested, then, is that a tender evaluation process consistent with the principles enunciated by NESA be applied to proposals relating to the delivery of NEIS, but using criteria specific to NEIS. The NNA would also support the development of an index containing general items and items specific to *each area* of the Job Network.

2.1.4A quality program at the right price

The National NEIS Association is suggesting that the tender selection process for 1999 should involve a far more comprehensive — and NEIS specific — set of criteria. When examining indicators from overseas programs, NEIS appears to be the best performed self-employment creation scheme in the World and every effort should be made to ensure that only Managing Agents able to maintain that standard are contracted for 1999 — 2002.

The key to achieving such an outcome will be the way that the criteria are *applied*.

A tender selection panel will need to possess capabilities sufficient to distinguish between a sound business facilitation process and flummery²⁷ appropriate business planning processes and *just* a Certificate of Small Business Management, financial stability and creative accounting.

²⁶ A useful starting point when developing the final NEIS Index would be the Street Ryan Business Index which was designed to evaluate the likely capacity of a business to meet its future obligations. This Index has been successfully “field tested”

²⁷ “agreeable humbug, empty compliment” The Concise Macquarie Dictionary, DoubleDay

The NNA would support appointment of an independent expert group to support the DEWRSB tender evaluation team. The group could be asked to assist with the setting of the internally derived benchmark for price and then on the application of selection criteria.

This proposal allows DEWRSB staff to utilise their own expertise more effectively. This is a common practice in many public tender processes. It was, for instance, a feature of much of the Compulsory Competitive Tendering (CCT) undertaken by local government in Victoria as municipal services were progressively competitively tested. In addition, such thinking was behind the decision to involve Managing Agents in the delivery of NEIS in the first place!

2.2 There should be 22,000 NEIS placements offered each year

The history of NEIS in Australia has shown that the program can readily assist more unemployed people engaging in generating their own employment through a business start-up than there are ever places available. There were 10,190 NEIS commencements, for instance, during the 1995 – 1996 financial year. This represented more than a 25% jump in places over the previous year. The doomsayers incorrectly predicted that post program positive outcomes would suffer a similar decline.

Outcomes remained stable as a proportion of the total. As a result, more self-employment, business wealth and additional employment generation capacity was created through NEIS that year than ever before.

In our previous submission to the Minister and the department, the NNA reported on the outcome of a member survey undertaken in October 1998, which indicated a significant under-allocation of places in this tender period.

Under the current contract and administrative conditions, the NNA has demonstrated that the optimum number of NEIS places/ new business startup capacity is between 8,500 and 10,500. Our members have indicated, for example that a further 1,000 places could be easily and effectively accommodated in this tender period.

It has been difficult, however, for government to develop a view on the overall demand for self-employment assistance likely to be generated in any given year.

In a report prepared for the Department of Social Security in 1994, the Roy Morgan Research Centre found that up to a third of those who were unemployed at the time would be very likely to "set up their own self-employment enterprise given the necessary advice and financial support."²⁸ Interestingly, respondents to the Roy Morgan research explained that the type of support required in both finance and business planning, was advice²⁹. That is, the type of assistance that NEIS Managing Agents set out to provide.

This research demonstrates that there is a substantial potential market for NEIS amongst the ranks of the unemployed. Without follow up research, though, to see how many of those who evince interest actually translate their interest into action, this evidence of intense background interest is still difficult to turn into an estimate of the number of places the Government could safely make available each year.

However, two overseas studies show that the market for NEIS can be accurately quantified.

In the first, the UK Department for Education and Employment engaged upon an extensive study of self-employment programs in 17 OECD countries also examined the impact of self-employment on policy and operational matters relating to the UK social security system. In this study, Hilary Metcalf found that between three and five percent of the unemployed is likely to seek self-employment³⁰.

Translated into Australian conditions, where a five years average of monthly unemployment figures to January 1999, Hilary Metcalf's findings show that between 20,679 and 34,464 could be reasonably expected to benefit from the NEIS program each year. Additionally, a study by Reynolds and White in the United States³¹, set out to establish what proportion of the population would ever be likely to actively engage in small business start-ups. They arrived at remarkably similar findings.

²⁸ Research on Innovative Assistance to Unemployed People, Roy Morgan Research Centre Pty Ltd, March 1994, p16

²⁹ *obid.*, pp23 - 24

³⁰ Self-Employment for the Unemployed: The Role of Public Policy, Hilary Metcalf, Policy Studies Institute, Department for Education And Employment, United Kingdom, January 1998, ISBN 0 85522 718 4

³¹ NEIS – The Government's Small Business Service Delivery Agent, Henry Botha, NNA Conference September 1995

Reynolds and White found one in twenty five adults were likely to be involved in trying to start a new business. They also found that unemployed people are twice as likely to be involved in business start-ups (8% of the pool of unemployed at any given time — and this a conservative figure.

Studies by NNA members in 1996 - 1997, cited in various conference papers have consistently found that up to 40% of Australia's unemployed are willing to consider self-employment). Further, around 40% of those who do investigate starting a new business go ahead and actually start a business.

Applied to the Australian context, these findings show:

STATE	Unemployed 18 years and above	Consider self-employment	Demand for NEIS places
NSW	212,590	17,007	6,803
Victoria	180,027	14,402	5,761
Queensland	137,439	10,995	4,398
South Australia	63,218	5,057	2,023
Western Australia	59,673	4,774	1,910
Tasmania	20,765	1,661	664
Northern Territory	4,610	369	148
ACT	10,967	877	351
TOTAL	689,307	55,142	22,058

Table Two: Average Unemployment rate over five years to January 1999, translated into demand for NEIS places. ABS unpublished data and the Reynolds and White calculations.

This research suggests that a small business facilitation and support program for Australia's unemployed, should run at 22,000 places per year. Indeed, it is important to recognise that NEIS has an optimal size each year - any more and positive outcomes fall away - any less and the Government may not extract full value from their strategic intervention in the marketplace.

The purpose of Government support for NEIS is to create self-employment that would not be generated in the normal course of events and in such a way that economic growth at a local or regional level occurs through business activity that would not have otherwise happened.

Research cited by the Productivity Commission³² and the UK Department of Education and Employment shows that the more intensely selective the program, the greater the impact of ‘additionality’, displacement and distortion. In other words, as supply is constricted it increases the likelihood that the proportion of those people winning places who might have moved to self-employment in any case will rise.

This suggests that in the Australian context overall support for the unemployed through the current NEIS and SEDs programs, along with the NNAs proposed enhancements to both, should ideally run at 22,000 places a year. The NNA recommends that Australian based research to help test and validate these findings be immediately undertaken.

2.3 A model for regional and local equity

As preparation for the new tender round proceeds, the question of where available NEIS places are best directed arises. An argument can be made, for instance, that NEIS should only be run in areas where the current level of business activity shows that new businesses and jobs would be more readily sustainable. A counter argument is that a successful NEIS business located in rural and remote areas with higher unemployment achieves far more in terms of social and community development in that it can act as an anchor for other activity.

There is broad agreement amongst Managing Agents that distribution via the previous tender process was flawed. While it seems possible that a relationship was established to population and the allocation of places across regions, evidence³³ from NEIS Managing Agents is emerging that the delivery of NEIS on a sub regional basis has more to do with where the program is run from than actual demand. Some Managing Agents, for instance, argue that parts of Melbourne are not at all well served.

³² Design Principles for Small Business Programs And Regulations, Ralph Lattimore, Alan Madge, Barbara Martin and James Mills, Staff Research Paper Productivity Commission, Commonwealth Of Australia, August 1998

³³ NNA Member Survey, NNA Executive, November 1998

Other Managing Agents suggest that where there are identified business opportunities in regional or rural settings, more places should be allocated because they would have greater flow on benefits.

Others point to the current requirement that no one NEIS Managing Agent should have more than 50% of the market for a particular region as one that should be approached more flexibly. They say that laudable as the general policy might be, it is just impractical in regions where fewer than twenty places are available for allocation. It is just too expensive in sparsely populated regions for a Managing Agent to support just ten or less participants a year.

This point assumes a special importance when one considers the long term, professional, relationship that NEIS contracts require of Managing Agents and their NEIS clients. It is expected that the new business owners continue to value and indeed seek the ongoing advice and opinion of the NEIS Managing Agent over the longer term. Such a relationship is qualitatively different to that expected of a one off fee-for-service employment consultant.

The Managing Agent has to maintain a continual regional presence and a set of close business relationships.

The efficiencies required to deliver this service mitigate against effective delivery for very small allocations. In such circumstances, the NNA would support the appointment of just one Managing Agent to service the market effectively and believes that, particularly in regional areas, although not exclusively so, the value of the local relationship should be recognised in both the selection process and allocation of places.

The NNA recommends the use of a series of location quotients as a way of properly reflecting such issues when allocating NEIS places across Australia.

2.3.1 The NNA location quotient model

A location quotient is a value for a characteristic of a sub-population showing the extent to which it is under-represented or over-represented compared with the same characteristic for the population as a whole. The Aboriginal and Torres Strait Islander Commission has used location quotients as a method for determining how funds for projects and programs should be distributed to ATSIC Regional Councils.

The form of a location quotient is shown in the following ATSI example:

Location Quotient sample Calculation:

0–14 Year Population in the Queanbeyan Region		
(A) Queanbeyan ATSI population aged 0–14 years	=	2,273
(B) Total Queanbeyan ATSI population	=	5,769
(C) Australian ATSI population aged 0–14 years	=	105,763
(D) Total Australian ATSI population	=	265,458
Location Quotient for 0–14 year olds in Queanbeyan	=	$\frac{A}{B} \div \frac{C}{D}$
	=	0.9889196

Location quotients of exactly 1.00 suggest that the regional score for a particular factor is the same as the Australian average. Scores of less than 1.00 show a lower than average need and scores of above 1.00 show a greater than average need. Conversion of a range of indicators to location quotients means that they are all changed to a similar order of magnitude, oscillating around 1.00, so that they may then be sensibly combined into a single factor.

A concept for a three-step model for the distribution of NEIS places is contained in Appendix 2

3. A new deal for small business facilitation and support

3.1 Making the New Enterprise Incentive Scheme even better

3.1.1A more effective response to local economic development

The literature about entrepreneurship shows that the person, their drive, vision and capacities, is a far more accurate indicator of success than the quality of the business idea. At present, NEIS offers essentially only one model for entry. That is, a potential participant has to offer a viable business idea as well as evidence of their own capacities.

The National NEIS Association recommends that further models be developed.

For instance, local Area Consultative Committees could be encouraged by the Department to form partnerships with the Managing Agents of their region to develop business plans on the basis of identified opportunity and need. Regional Assistance Program funds could help in this process. The Managing Agent would then select an intake of participants willing to work from the pre-prepared business plan to collectively resource and start-up a business.

Likewise, entry through other training and promotions activities could be considered.

3.1.2 "Pre-NEIS" training

NEIS Managing Agents, as Registered Training Providers, should be encouraged in their efforts to access public funds from the vocational education and training sector for the provision of training in the area of small business development and planning. With up to 40% of unemployed people willing to at least consider the prospect of self-employment there is clearly scope for a type of pre-NEIS program of basic orientation and skills building. Further, NEIS Managing Agents are in an ideal position to deliver this training.

3.1.3 Business Plan Assessments

In the NEIS process, the NEIS Advisory Committee has a significant quality assurance role to play –

- they are impartial and expert advisers on normal business practice/standards and business viability assessment;
- they provide a critical assessment checkpoint for NEIS eligibility; and
- they can also play the role of impartial expert advisers to Training Providers, in the process of assessing achievement of small business management competencies as indicated by the business plans submitted, for accredited Small Business Management Certificate 4 qualifications.

As such, it could be said that they play the role of quality assurance for NEIS. In the past, these panels were composed of a combination of 2 industry experts in small business, and a DEWRSB staff member who provided the expert knowledge on Departmental requirements. This combination of skills and knowledge served to assure the Department that this "quality" checkpoint took into account all aspects of normal business assessment standards as well as the specific additional requirements of NEIS when plans were assessed.

Following implementation of the Job Network, representatives from Area Consultative Committees have been asked to serve on final approval panels and to review business plans, virtually on a voluntary basis. Instead of serving on these panels, a DEWRSB staff member receives business plans after the panel has approved them. These arrangements for business plan assessments are not working.

The ACC nominees are people drawn from the ranks of small business practitioners and advisers. They therefore add to the ability of the NEISACs to play the first and third role outlined above – impartial expert assessment of business plans in light of normal business practice and standards, and "real world" business viability assessment. Even so, some Managing Agents have reported that the threshold for approval appears to have fallen markedly over the past eighteen months.

This suggests that -

- (a) a more objective assessment of this perception should be made and
- (b) that in the interim steps should be taken to raise the expertise of panel members, particularly those members nominated by ACCs.

DEWRSB staff is also expressing concern. They find that the panels, without the presence of a Departmental representative, are failing to pick up on the technicalities (licenses, proof of finance, business registration, planning permits and so on) that really need to be in place before approval for a Plan is given.

Consequently, DEWRSB workloads are increasing and the rate of commencements is being slowed.

In some instances, Business Plans have been requested for detailed assessment by departmental staff, on some occasions departmental staff has sat in on NEISAC meetings. In other cases, recommendations have been overturned by contract management staff without the benefit of full detailed information from the Business Plan, and in the face of industry expert advice.

As ACC nominees are not and never have been Departmental officers, it is unlikely that they will ever have as good a grasp on exactly how the Department intends the NEIS guidelines to be interpreted, as a Departmental officer would.

To our knowledge there was no information or briefing given to the NEISAC ACC nominees in any State explaining to them what the expectations and requirements of this role are from DEWRSBs perspective, and outlining to them the accountability and the scope of their authority, nor to whom they should pass on any concerns they may have about any issues which may arise. Individual Managing Agents have provided background information on NEIS to ACC nominees from their own resources.

This is not a new issue. Managing Agents and ACCs have already argued that if panels and assessors are to function effectively, they should be properly trained and adequately remunerated.

The Department clearly has a need to be assured that Managing Agents are undertaking detailed quality assessment of Business Plans for compliance with NEIS guidelines. The ability of ACC nominees to play this role on the Department's behalf and thereby minimise the need for time-consuming double checking by DEWRSB staff except at audit, would be much improved if there was clear communication about the role and expectations of ACC nominees.

The NNA believes that, as a minimum, the Department should commit funds for the professional development of external assessors and panels. At the least, this would require an induction process with printed resources to explain the background, role expectations, authority of the position, and information regarding the referral point for problems and issues, as well as ongoing briefing and training.

Likewise, the question of payment should be clarified. The contractual relationship lies between the ACC nominee and DEWRSB. Ensuring that it is the Department that pays for the services provided, rather than Managing Agents should reinforce this. The current arrangements, where the Managing Agent, in effect, pays the person who is meant to independently vet and monitor aspects of their work, would surely fail the probity test that DEWRSB has committed itself to developing and refining for the Job Network.

Indeed, without such links, there exists the prospect that many ACC nominees may never have had any contact with the Department at all!

The NNA also endorses the suggestion made by some Area Consultative Committee that nominees of ACCs and the Department on panels should be offered a greater fee for service, rather than the current \$20 a plan. A fee of at least \$50 per plan or \$500 per day is warranted.

The National NEIS Association therefore recommends:

- (i) **That the role of ACC nominees on NEISACs be retained in the second tender round.**
- (ii) **That the price per Business Plan paid to the ACC nominees be increased to \$50, or \$500 per day**
- (iii) **That this fee be paid to the ACC nominees by DEWRSB to assist in clarifying accountability.**
- (iv) **That DEWRSB ensure that all ACC nominees to NEISACs are provided with an information kit and a briefing on their appointment. This briefing should set out their role expectations, scope of authority, accountability and lines of communication with the Department regarding issues/ problems etc. ACC nominees should be provided with regular briefings on departmental issues/ concerns, interpretation guidelines etc. regarding NEIS by DEWRSB on a regular (at least quarterly) basis.**

3.1.4 Spreading the message about small business, entrepreneurship and employment growth, towards a new marketing strategy

The National NEIS Association applauds recent efforts by the Department of Employment, Workplace Relations and Small Business to develop additional, and effective, promotional materials for NEIS.

The NNA has undertaken steps to improve the understanding that Centrelink staff have of NEIS and SEDS.

Proposed actions include:

- Circulation of local Centrelink contact officer details to Managing Agents
- NNA support for training and promotional initiative undertaken by Centrelink for its staff
- Local visits and contact by Managing Agents with Centrelink
- Participation by Centrelink staff at National NEIS Association conferences

Recent alterations to portfolios, has strengthened the linkages between the offices for Small Business, Employment and Vocational Training. The opportunity now exists for the Commonwealth to not only market its involvement in self-employment creation, but also highlight its commitment to the micro-enterprise sector, with NEIS as a showcase of that involvement.

This also represents an opportunity to enhance the program under the *Small Business Option* - self-employment and small business as programs that are, yes, part of Job Network, but also about growing regional Australia, small business growth and innovation through entrepreneurship. The program is already well marketed regionally by Managing Agents, and would be complemented and enhanced by further DEWRSB and Education & Training support.

3.2 Expanding the self-employment option

3.2.1 Towards a partnership between the Commonwealth and Business in support of self-employment development

NEIS contains four key program elements:

1. A rigorous selection process revolving around the individual's entrepreneurial readiness, assessment of opportunity and an understanding of how the new business contributes *to*, rather than detracts from the surrounding local economy.
2. Business planning and training in market development, financial analysis, research and development and operational planning, and the acquisition of small business management skills.
3. Twelve months of monitoring and support through training, the provision of a comprehensive mentoring scheme and access to a network of supporters and other entrepreneurs
4. The provision of financial support through an allowance for the first twelve months of business start-up.

This mix has been shown to work³⁴. Indeed, there is evidence to show that because of this judicious mix, NEIS has worked better than other self-employment support schemes around the globe. NEIS works for people who have been unemployed (and quite possibly have become effectively unemployable) over two years or more. There is every reason to believe that similar support could be at least as effective for other elements of that cohort of the Australian population that considers establishment of their own micro-enterprise each year.

This would capitalise upon the emerging entrepreneurial spirit in our business community, to build upon those employment opportunities that are being generated through micro-enterprises in ever increasing numbers and to reduce the risk of failure so often associated with small business start-ups.

It is recommended that as a priority the Office of Small Business, become involved with NEIS over the next three years to develop and trial the *Small Business Option* to markets other than the unemployed using the NEIS Managing Agents network.

3.2.2 Including others

- (a) **Young entrepreneurs.** The Commonwealth has recently supported initiatives by Schools and VET providers to more actively engage young people in the wider range of career options offered by small business and self-employment.

DEWRSB and VET could complement these initiatives through the allocation of places for both a School-Based Traineeship and NAC Traineeship utilising the NEIS training model.

- (b) **Unemployed people NOT on benefits.** Spouses, recently retrenched works and others might well decide that self-employment is an appropriate course of action. NEIS training and mentoring should be made available to these people, particularly to those who are intending to be partners with a NEIS eligible participant.

The NNA recommends that Managing Agents be paid a fee for providing a business planning and training process and a mentor for twelve months, even if the participant is not eligible for a benefit or allowance.

³⁴ OECD Observer, various editions

- (c) **The broader Australian entrepreneurial community.** Many NEIS Managing Agents offer their services and programs on a fee for service basis. Numerous reports about Australian business have highlighted the need for small business owners and managers to seek assistance and skills at an early stage in the life of their business.
- (d) The opportunity exists therefore for the Commonwealth to respond to calls ensuring that NEIS is open to fee for service participants and by engaging in a marketing and promotions program to launch this new national service to small business. In return, NEIS Managing Agents would be obliged by the Government to offer this service at a price endorsed, possibly even regulated, by Government. Indeed, this negotiated price would be one key ingredient in the process of announcing this new Commonwealth service.
- (e) **Workplace insurers and rehabilitation providers.** Just as self-employment is a viable option for many unemployed people, so it is for others seeking a return to work. Across Australia large public and private sector insurers grapple with viable rehabilitation options for people unable to return to the job they had when they left their workplace. A well designed, well run program of support for those willing to consider self-employment would be ideal in many cases.

The NNA recommends the Commonwealth open NEIS to these organisations, by selling additional places in the scheme. It would allow the Commonwealth to announce a new and powerful partnership between government and business, bringing great credit to the Commonwealth in return for a minor expenditure in administration.

3.2.3 NEIS expansion to meet the needs of redundant and retrenched employees across Australia

Over the past decade very large numbers of individuals, including those from middle and senior management from most industry sectors, have been made redundant, been retrenched or become unemployed when employer firms have collapsed financially. Many of these individuals have valuable skills and have set themselves up in small consultancy businesses.

However, they may lack a range of skills, information, networking capacity, access to finance or other attributes which impede their capacity to effectively support themselves, their families and potential employees. Some of these people are using their retrenchment and superannuation packages on a daily basis to supplement their inadequate income from their enforced self-employment. The results could well be detrimental if in later years these people run out of capital, but find that they still require an income to support their families and their own retirement.

Anecdotal evidence of the numbers of people retrenched as part of the rationalisation of major businesses is common. Company mergers, government body corporatisation, and the out-sourcing of non-core services have seen workforces reduced during the 1990s. Data on retrenchments is limited, although the ABS Labour force Survey (Cat No. 6203.0) for February 1998 that of the 842,000 unemployed 34.3% (or 289,000) were job losers or stood down from work.

The total of job losers was 263,800. A further 132,600 left their jobs (for a variety of reasons). Of the total who had worked for some time during the 2 years prior to February 1998 and who were then unemployed (almost 400,000) significant percentages were from those people in the older age groups (45 years and over, at 21%) and from the professional and managerial occupations (17%).

These people have registered as unemployed. It is likely that there are also very large numbers of older, professional/managerial people who have left or lost jobs and are seeking to produce self-employed income. In Victoria alone: -

- Commonwealth Government employment has dropped by almost 50,000 jobs (seasonally adjusted) between August 1991 and August 1997 (from 114,600 to 66,100).
- State Government Employment has dropped by 95,000 between August 1990 and May 1997 (from 312,500 to 217,500).
- Local government employment has dropped by 14,000 between August 1990 and August 1997 (from 45,600 to 31,400).

In spite of a small increase in private sector jobs overall, total wage and salary earner jobs decreased by 55,000 over the seven years for August 1990 to August 1997. There was a small amount of net job growth from May 1996 to August 1997, but many industry sectors lost jobs. The main losers of jobs were those in Manufacturing, Electrical Goods Wholesale, Wholesale Trade, Transport, Communication, Finance and Insurance, Property and Business Services, and Personal and Other Services.

Those who work at home take up some of the shortfall of wage and salary earner jobs. (See Cat 6275.0. Persons Employed at Home, Sept 1995.) These numbers increased by 80,000 between April 1989 and September 1995 from 266,000 to 343,000. Of these 343,000: -

- Over half had recently began working at home (i.e. within 5 years)
- Two-thirds were self-employed or employers
- Almost 30% were professional/managerial and a further 53% were clerical, sales and service white collar workers

In the three and a half years since September 1995, there have been significant additional numbers of redundancies and retrenchments across Australia. We can realistically expect the numbers of people who are self employed and working at home to have significantly increased. To this number can be added those who are self employed but working in small offices, and those who are unemployed but have the potential to be self employed.

It is therefore reasonable to assume that: -

- There are large numbers of professionals and para professionals who are within the enforced self employed sector; and
- That the longer-term implication of this is that many of these people may already be technically unemployed and are eking a subsistence existence by *dipping* into their lifelong savings.

As NEIS has already demonstrated, people in similar circumstances, (84% of them in fact) can be helped to achieve far brighter futures for themselves and their families. If NEIS Managing Agents were allocated additional places NOT for Job Network clients, but for people defined by an agreed process as being in enforced self-employment and at risk, considerable social and economic benefit could be provided.

3.2.4 Further government support for NEIS businesses

The government could offer support for the establishment and development of NEIS start-up businesses in two key areas. The first would be to facilitate the involvement of NEIS businesses in public procurement processes. That is, the Commonwealth could choose to demonstrate faith in businesses started by NEIS participants and add them to lists of approved suppliers, even if, in other circumstances, a NEIS business might be regarded as too small and too new to qualify.

The second opportunity is presented through the research and development commissioned each year by Commonwealth Government departments from the private sector. Government departments could be required / encouraged to ensure that a percentage, say 10%, of R & D work should be tendered exclusively to micro – enterprises with less than five employees. This would serve to not only help demonstrate Government support for small business development but would also act as a fillip to the NEIS start-ups that would undoubtedly be amongst the tenderers for such work.

The success of the New Enterprise Incentive Scheme over the past decade with people classified as being long term unemployed (40% of NEIS graduates are LTU, with 75%+ positive outcomes), is well documented. Consequently, as part of the new tender round, additional assistance for the longer-term unemployed, that is, those generally classified as requiring intensive assistance from the Job Network, should be explored. The NNA believes that this could most usefully occur through a change in the current arrangements for long-term unemployed.

Those deemed eligible for the Flex 3 classification should be given the option to register for employment or self-employment. This, of course, should be based on appropriate counselling and support. If self-employment is chosen as an option, referral to a NEIS Managing Agent occurs. The Agent would be required to support the client through the provision of intensive support and training in the form of a micro enterprise orientation program (sometimes called pre-NEIS) and a rigorous assessment of the viability of the client's business idea or proposal.

3.3 Mentoring Support Service

The New Enterprise Incentive Scheme has entailed the establishment of extensive mentoring networks. These mentors could be made available to the broader entrepreneurial community for very little additional cost to the Department.

For instance, in the US State of Maryland, the Dingman Center's New Venture Mentoring and Management Counseling program provides experienced entrepreneurs and executives who assist emerging growth companies in solving various business problems. An initial consultation provides the entrepreneur with an opportunity to meet the mentor and to ensure that the match is appropriate. Thereafter, the mentor and entrepreneur meet for as long as the needs of the business dictate.

While State and local programs already exist, none offer the breadth and range of coverage of Commonwealth's NEIS program. It really would be a case of more effectively utilising resources already put into place by the Commonwealth, thereby demonstrating the Commonwealth's commitment to development of the micro business sector.

3.4 NEIS Plus

The Productivity Commission reports that a number of studies have shown that most growth is due to a relatively few highly successful small firms — known as 'gazelles' (Storey 1994). For example, Storey and Johnson (1987) estimated that ten years after the establishment of a group of small firms in northern England, a mere 4 per cent of the firms accounted for 50 per cent of the jobs that had been generated. They also cite similar US results where, for example, a study of small firms commencing operations in Minnesota between 1979 and 1984 showed that by 1986 (after the firms had been operating for two to seven years). 9 per cent of the survivors accounted for more than 50 per cent of the total employment created (Reynolds and Miller 1988)³⁵.

3.4.1 There is high growth potential

Bob Arnall and Ken Dundas found that "whilst most NEIS enterprises have a limited potential to grow, the participants do exhibit nonetheless entrepreneurial characteristics³⁶." They found that many NEIS business commencements tended to be in the "lifestyle" arena, with few showing the characteristics of "High Potential Ventures". Even so, they found clear evidence of ongoing employment growth through NEIS businesses and proposed that there be development of training and support more clearly directed towards entrepreneurship and the nurturing of high potential ventures.

3.4.2 Identifying fast growth businesses

NEIS is supported as a program for job growth. However, there is fully documented evidence³⁷ that focusing just on the early stages of business start-up, can be detrimental to long-term success. This is because the true jobs potential for any business comes *after* it has been established. Indeed, the literature suggests, for those firms that are "High Potential Ventures", something like three years after start up.

A considerable body of knowledge³⁸ exists about the identification of and

³⁵ Design Principles for Small Business Programs And Regulations, Ralph Lattimore, Alan Madge, Barbara Martin and James Mills, Staff Research Paper Productivity Commission, Commonwealth Of Australia, August 1998, Chapter 2, section 2

³⁶ An evaluation of a self-employment generation scheme, Bob Arnall and Ken Dundas, Faculty of Business and Computing, University of New England, 1994, p3

³⁷ New Venture Creation, 4th edition, Geoffrey Timmins, Publisher, 1994, and others

³⁸ New Venture Creation, 4th edition, Geoffrey Timmins, Publisher, 1994, and others

support for fast growth businesses. The NNA believes that a second stage, or NEIS Plus is called for in order to ensure that the initial investment in NEIS is properly capitalised upon and that every effort is made to extract as much jobs growth from the scheme as possible.

The literature suggests that between 300 to 600 NEIS graduates across Australia are likely to display fast growth characteristics, although the potential of such businesses is enormous. The opportunity lies in properly identifying the potential that exists across the NEIS network and then properly supporting that growth.

As with the NNAs position at 3.2.1 the potential to extrapolate the opportunities to micro-businesses outside the NEIS program are significant.

3.4.3 Implications for the Regional Assistance Program

As already indicated, portfolio linkages now established provide an opportunity to develop a national project. Possible funding sources identified include the Regional Assistance Program (RAP). Funding could be targeted to:

- (a) Design a trial program of support for fast growth NEIS graduates through Managing Agents.
- (b) Prepare appropriate evaluation tools
- (c) Conduct and evaluate a trial "NEIS Plus" program
- (d) Determine the extrapolation potential to other micro-businesses in the community

The NNA recommends that the proposal be prepared in partnership with DEWRSB and that the NNA manage the project.

4. The Business Preparation Scheme

4.1 The Current Self-employment Development Scheme

The NNA has already made proposals to Carolyn Hogg, National Manager, Employment Services regarding improvements to the current Self-Employment Development Scheme (SEDS)³⁹. In essence, greater consistency between referral arrangements for both NEIS and SEDS has been recommended along with obstacles to the smooth operation of the program. Significant improvements have been submitted and implemented on a regular basis.

The NNA and departmental staff have discussed a range of options to increase program levels to those achieved in previous years. The NNA understands the department is currently researching data so that the options already canvassed can be implemented. It appears that current arrangements mitigate against appropriate monitoring and support for SEDS participants.

A Managing Agent is required to:

- assess whether or not someone is likely to have created ongoing self-employment for themselves in twelve month's time
- recommend a period of approved activity which departmental staff often approve for only three months.

The participant however, is not obliged to meet again with the Agent who made the assessment. These structures do not support a consistent methodology to ensure that the self-employment development activity does take place and that it is supported.

³⁹ NNA Members Bulletin No. 66, December 1998

4.2 A new arrangement for the new millennium

The US Federal Government has provided funds to support the Self-Employment Assistance Program in California, Delaware, Maine, New Jersey, New York and Oregon. Just like Australia's Self-employment Development Scheme, the program "waives the requirement that individuals actively look for employment; instead, the person must be working full time on starting a business." However, the notable departure from SEDS is that participants "*are required to obtain entrepreneurial training, business counseling and technical assistance*⁴⁰."

It is time to "rebadge" and rework SEDS. The Business Preparation Scheme proposed by the NNA will improve the profile and positive outcomes of the scheme.

4.3 Effective assessments and support

The NNA has already proposed that SEDS be treated in the same way as NEIS for referral purposes. In essence, this suggests that someone could "self refer", certainly, that Centrelink need not be the sole referral point.

From the assessment onwards, the Business Preparation Scheme will be more rigorous. The Managing Agent will be required to use the assessment to plan and design an appropriate program to support the client's move to self-employment.

Instead of sending the client off somewhere else, the Managing Agent would take direct responsibility for monitoring performance against the "Approved Activity" throughout the life of the agreement with the client. This would also entail provision of a mentor service, which would be different in flavour to the services provided through NEIS, since these clients are likely to require more time to develop their ideas, grow in confidence and undertake market research.

⁴⁰ <http://www.entrepreneurmag.com/page.hts?N=1257&Ad=S>

4.4 Improving the outcomes

Business Preparation training should also be available to participants. This of course is entirely consistent with everything that is known about small business success and failure rates. Training, support and access to good quality information DO work.

4.5 An enhanced role for NEIS Managing Agents

The core objective of the new Federal Government Job Network is to connect people to jobs.

Via the inclusion of NEIS in the Job Network the Government recognises that for some people the right job is the one which they create for themselves by establishing a small business. Added benefits from this are that they are highly likely to also create new jobs for others in the process.

Self-employment requires significantly different skills, experience and processes from those, which are appropriate for job seekers. It also requires different skills, experience and processes of NEIS providers from those, which are appropriate for Flex providers. This is the reason for needing specialist NEIS providers, with the experience, skills and ability to deliver small business evaluation, training, and support.

When a client chooses to actively explore the self-employment pathway this is a significant divergence point within the services range offered by the Job Network. This should be clearly recognised and accommodated in the Job Network structure. Experience with the first tender indicates that this divergence point/nexus is not currently as clearly established as it could be within the Job Network. Consequently, there is a degree of confusion and overlap between elements of the Network, which could be improved, in the second tender round.

Symptoms of this overlap/confusion identified by NEIS Managing Agents are

- Flex Providers not offering information to job seekers about self-employment and the NEIS pathway.
- Flex Providers not encouraging job seekers to consider self-employment as an option (because there is no incentive in the outcome payment system to do this).
- An almost total lack of referral of clients to NEIS providers by Flex Providers

- Active conflict between NEIS and Flex pathways, where clients can quite commonly be in a Flex 3 activity agreement and in NEIS training activity at the same time over a period of at least 3 months. This jeopardises both activities, for the client and for both Providers involved.

Clients should be informed about the option of self-employment and the services available to support that option via NEIS and SEDS.

Clients should be referred at the earliest possible stage to a specialist NEIS provider with the appropriate small business training and development background. Necessary to evaluate the business idea guide the client through the business development process, provide quality business training and business planning assistance, and then follow through with mentoring and ongoing support through the crucial first year - and thereafter.

Experience with the operation of the first tender round indicates that there are some relatively simple improvements to the system which if introduced into the second tender would markedly improve its effectiveness and cost efficiency by reducing confusion and overlap between service pathways.

One major point of overlap is that between NEIS and Intensive Assistance. While this is true for all of the Flexes, the periods of time during which a client can be in both Flex 3 and at the same time working with a NEIS Training Provider are long - up to 12 months.

This overlap can be minimised simply by introducing an exit trigger from Flex 3 at the point when a client enters a NEIS training activity and goes onto IES as being on approved Training activity status with a NEIS training provider. The NEIS Training Activity status should over-ride a Flex 3 activity agreement and should provide a trigger for Flex 3 Exit. This removes confusion and overlap in the Job Network between NEIS and Flex 3 at a critical divergence point, and also removes the possibility of a client being breached, for instance for refusing a job offer from a Flex 3 Provider because they are pursuing NEIS.

Should a client not choose to pursue or not be approved to start a business and go onto NEIS, they should be eligible to return to Intensive Assistance at that point, with a clear and realistic commitment to pursuing paid employment.

Flex 3 providers consulted on this proposal are also in agreement that it clarifies the NEIS/Flex 3 status nexus simply and effectively. It would be an improvement to the Job Network from their perspective.

4.6 Recommendations for System and Operations Enhancement

- The Job Network should continue to include a range of specialist NEIS providers, with the proven experience, skills and ability to deliver high quality, small business evaluation, training, and support.
- The second tender round should differentiate between NEIS tenders, and other JN tenders in the criteria used, (i.e. business facilitation skills and experience) and the inclusion of relevant experienced personnel on the assessment panel for tenders.
- All Flex providers should be required to inform clients of the self-employment options offered by NEIS and SEDS at first interview.
- All Flex Providers should be required to give clients a list of the specialist NEIS providers in their region at first interview.
- IES Entry to approved training activity status with a NEIS training provider should be introduced as a new trigger for exit from Flex 3 status. (i.e. entry in IES NEIS Training Activity status should over-ride a Flex 3 activity agreement and should provide a trigger for Flex 3 Exit)

The NNA is volunteering Managing Agents for the task of renewing SEDS in its new guise as the Business Preparation Scheme. The Association proposes that the service include a three stage fee structure in the range of:

1. Assessment and activity agreement	\$150
2. Monitoring, support and mentor	\$500-\$800
3. Business Preparation training	\$500-\$800

Appendix 1
NEIS Index Concept - Stage One

Criteria 1 - Quality

Ratings	Criteria
1. Quality system	
5	= ISO 9000 in place, integration with DEWRSB systems achieved
4	= Other externally accredited system in place, integration with DEWRSB systems achieved
3	= Internally documented system in place, plan to integrate with DEWRSB systems
2	= In process of implementation
0	= Considering adoption No system in place
2. Participant selection	
5	= ISO 9000 in place, integration with DEWRSB systems achieved
4	= Other externally accredited system in place, integration with DEWRSB systems achieved
3	= Internally documented system in place, plan to integrate with DEWRSB systems
2	= In process of implementation
0	= Considering adoption No system in place
3. Training & support package	
5	= etc.
4. Mentoring program	
5	= etc.
5. Management and administrative support	
5	= etc.
Total quality score is the total score ÷ 5 = 0 - 5?	

Criteria 1 - Capacity

1. Resources

5 = Complete set of training materials, participant workbooks, computers, standards for training venues and so on

4 – 3 = etc.

2. Personnel

5 = Team leader, other key members, mentors, guest speakers, administration described, qualified and experienced

4 – 3 = etc.

3. Delivery mechanisms (type, range, flexibility)

5 – 3 etc.

Total capacity score, the total score \div = 0 - 5?

Criteria 3 - Financial Capability

1. History

5 = Financial analysis using conventional tools demonstrates long term profitability

4 = Risk of difficulty over the long term

3 = Short term risk

2 = etc.

2. Tender documentation

5 – 3 etc.

3. Regional variations properly reflected

5 – 3 etc.

Total finance score, the total score \div 3 = 0 - 5?

(a) Stage one total score =

Quality + Capacity + Financial Capability \div 3 = 0 - 5?

The Department would determine and publish in the request for tender (RTF) the score out of five to be achieved for a tenderer to be deemed technically suitable. Technically unsuitable tenderers would be eliminated at the conclusion of stage one⁴¹.

Appendix 2 NEIS Index Concept - Stage Two

⁴¹ Note that the NEIS Index could be designed to describe and test many more criteria than those suggested above and that the sample has been prepared as an indicative example only

Part One: Price

The Department should utilise expert advice to established a benchmark costing. This benchmark would not be published, but the RTF would advise that tender prices more than 20% (for example) over or under the benchmark are either too expensive or too high a risk and will be eliminated. This approach is in line with a commercial approach to tender evaluation and is supported by NESAs.

(b) Price rating

5	=	Benchmark price less 0 – 10%
4	=	Benchmark price over 10% or less
3	=	Benchmark price less 10 – 20%
2	=	Benchmark price over 10 – 20%
1	=	20% or more over the benchmark
0	=	20% or more under the benchmark

Tender proposals scoring 0 or 1 would be eliminated at this juncture.

Part Two: Final Rating

The NNA proposes that price should be weighted at 20% of the total rating given to tenderers. Using the NEIS Index the following formula would apply:

The final rating score out of twenty-five equals the sum of the stage one score multiplied by four, plus the price rating. Or:

$$(a) \otimes 4 + (b) = \text{Final rating out of 25}$$

Appendix 3

The National NEIS Association Location Quotient model

A three step model is proposed.

Step One

Generate, on a sub-regional basis, a location quotient drawing upon three factors, utilising generally available data from the ABS:

- (a) Unemployment as a proportion of the population (chosen because NEIS is at least partly a labour market program)
- (b) Number of business establishments as a proportion of the population (Chosen because it serves as an indicator of general economic performance and to counterbalance factor (a))
- (c) Annual business start-ups as a proportion of the population (Chosen to help reflect whether or not there are signs of entrepreneurial activity and to modify factor (b))
- (d) These factors would be combined into a single index. The factors would be treated as being cells in a vector and the Euclidean Norm of this vector would be calculated. That is, each factor would be squared, the three of them would be added together and the square root of this sum would be the Location Quotient for each Job Network sub-region in Australia.

This quotient would be used to allocate most of the places that have been allocated to NEIS nationally to each sub-region.

Step Two

The DEWRSB tender evaluation team would allocate places to potentially successful tenderers on the basis of the overall numbers available in each sub-region. In the case of whole regions where fewer than twenty places would be available, the team would waive the obligation to ensure that more than one Managing Agent was allocated places.

The team would then check to ensure that the potential for an even spread of places across regions and sub-regions had been maximised prior to confirming allocations to successful tenderers.

Step Three — Addressing Disadvantage

Target groups identified as requiring additional support and greater access to NEIS could be assisted in two ways. The first would be to detail the Department's concerns — on a regional basis — and then require tenderers to respond in a way that can be assessed through the evaluation process proposed by the NNA. The second would be to offer specific tenders in some parts of Australia. That is, a contract could be offered for tender in, say, each capital city for a NEIS Managing Agency capable of meeting the specific needs of women. Or a contract could be offered for an Agency able to support potential NEIS participants from non-English speaking backgrounds in regional centres in Queensland. Neither strategy is exclusive and the best results are likely if the Department elects to operate both proposals.

The findings of the 1995 NEIS pilot program for migrants for instance, are still relevant today. Tenderers could reasonably expect to demonstrate their capacity to deliver a program that catered for clients cultural and language needs. This program should recognise the diverse backgrounds, skills and experiences of NESB migrant clients and offer more intensive support.

While uncertain about the percentage of places that should be retained for this "second round" of allocations, the NNA is supportive of comments made by the deputy Premier of Western Australia, Hendy Cowan MLA. Some places should be "allocated in accordance with a demonstrated capacity to use these, based on regional needs and identified business opportunities"

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