

6 Self-employment and entrepreneurship by the unemployed

Governments have long-supported business creation schemes for the unemployed as a route back to quality work. While unemployment has returned to pre-COVID levels overall, some groups continue to experience difficulties in securing quality work. This chapter presents data on the proportion of unemployed people who seek to return to work through self-employment, as well as the proportion that are successful at transitioning from unemployment to self-employment. Data on the unemployed are presented at both the European Union (EU) and EU Member State levels. Selected OECD countries are covered to the extent possible.

Key messages

- **This chapter presents a snapshot of self-employment by job seekers** in European Union (EU) Member States using data from Labour Force Surveys. It also presents a brief overview of policies and programmes to support job seekers business creation in the EU. A more detailed discussion on welfare bridge measures is contained in Chapter 9.
- **Less than 3% of job seekers in the EU indicate that they would prefer to return to work as self-employed.** In 2020, there were 14.9 million unemployed people in the EU and only about 362 000 people indicated that they would prefer to return to work as a self-employed worker. This proportion varies greatly across countries. In Luxembourg, more than 10% of job seekers indicate a preference for self-employment.
- **Those who have been unemployed for short durations are the most likely to report that they would like to become self-employed.** More than 3% of those who have been unemployed for less than three months indicated they are interested in self-employment compared to less than 2% of those who have been unemployed for more than 24 months in 2020. This suggests schemes that support job seekers in business creation should try to reach and support those with entrepreneurial ambitions quickly.
- **About 3% of job seekers in the EU tend to become self-employed in the following year, slightly more than the share who indicated a preference.** This suggests that there could be benefits to promoting basic entrepreneurship training schemes more broadly to provide basic business management skills to a broader group of job seekers.
- **In the EU, men were about 1.5 times more likely than women to move from unemployment into self-employment over the past decade.** This is in-line with their declared preferences for self-employment.
- **Overall, nearly one-in-ten businesses created by job seekers have at least one additional employee in their first year.** While this is slightly below the share of businesses started by non-job seekers, it indicates that some businesses have the potential of having an economic impact.
- **Governments looking to strengthen business creation support for the unemployed could consider using of strong selection criteria** to target support on those with high motivation levels and a reasonable chance of success.

Supporting job seekers in business creation and self-employment

Supporting unemployed people in returning to work through business creation and self-employment is a common component of active labour market measures in EU Member States and OECD countries. The main rationale is that business creation and self-employment offer a route back into work, but participation in schemes and self-employment can also help job seekers avoid skills attrition and the erosion of their professional networks. This is particularly important for young people because long unemployment spells can reduce lifetime earnings and impact significant life decisions (e.g. starting a family) (OECD/European Commission, 2020_[1]). Further discussion on the rationale for policies to support job seekers is provided in Chapter 9.

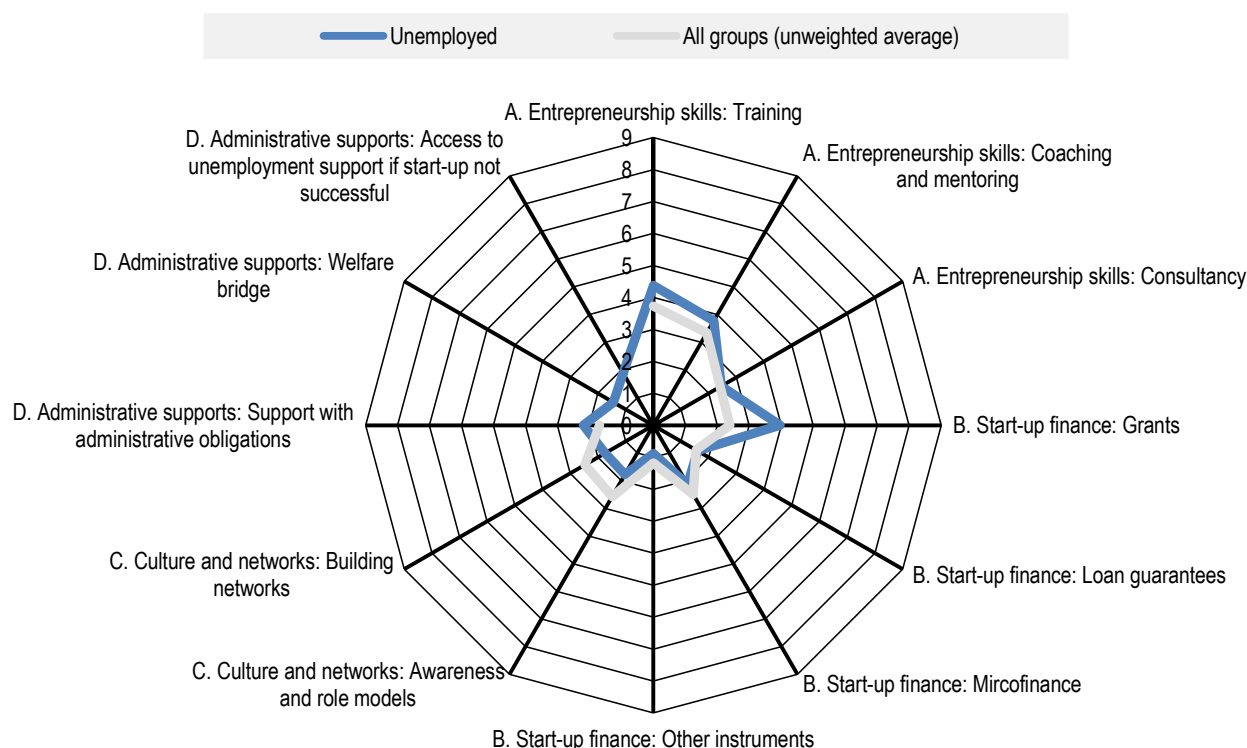
EU Member States commonly offer a suite of support schemes to help job seekers become self-employed. About half of Member States clearly call for actions to support the unemployed in moving back to work through self-employment in their national employment strategies. However, these types of

strategies tend to be high-level and do not offer detailed objectives and plans for creating entrepreneurship opportunities for job seekers. In most countries, a system of schemes delivered at local and sub-national levels are used to deliver on employment strategies.

EU governments commonly offer entrepreneurship training, coaching and grants to job seekers who are interested in becoming self-employed. The vast majority of EU Member States offer dedicated training programmes and coaching to help job seekers develop a business idea and build skills to increase their chances of success (Figure 6.1). In nearly all cases, training and coaching are delivered by specialised trainers and these offers are promoted through employment offices. Most are delivered as part of packages that include some form of financial support, most commonly grants. The quality of these offers is variable, and few assess their impact. This is one important area where governments can improve. For further discussion and examples of the impact schemes for job seekers please see Chapter 9.

Figure 6.1. Entrepreneurship training and grants are the most common supports

Availability and quality of entrepreneurship schemes for job seekers in EU Member States, 2023



Note: The figure presents an unweighted average of policy and programme assessment scores for EU Member States. Each policy instrument (e.g. entrepreneurship training) is characterised according to a 9-point scale as described in the Reader's Guide. The figure shows the average score for schemes for job seekers relative to the score for all inclusive entrepreneurship groups combined (i.e. women, immigrants, youth, seniors, job seekers and people with disabilities). Some of the policy instruments displayed are designed specifically for job seekers so there is no comparative policy assessment score for all inclusive entrepreneurship target groups. The policy scores were discussed and verified with governments and stakeholders in national workshops and a written procedure.

Source: (OECD, 2023^[2])

New developments in supporting business creation by job seekers

Business creation support for job seekers has not changed substantially in recent years. The amount of financial support for business creation available to job seekers was increased in Latvia (Box 6.1). In addition, the Latvian State Employment Agency has made increased efforts to include digital

entrepreneurship in entrepreneurship training programmes for job seekers. These are often designed and delivered with non-government actors such as Latvian Information and Communication Technology Association and private sector tech companies. In addition, a new multi-year policy framework (*Estrategia Española de Activación para el Empleo 2021-24*) was launched in Spain in 2021 within the context of the Recovery, Transformation and Resilience Plan (Ministry of Labor and Social Economy, 2021^[3]) to boost the promotion entrepreneurship within active labour market policies.

Box 6.1. Recent developments in business creation support for job seekers, Latvia

Several adjustments were made to the measures for supporting job seekers in business creation. These are outlined in amendments to the Regulations of the Cabinet of Ministers No. 75 “On the procedures for organising and financing active employment measures and preventive unemployment reduction measures and the principles of selection of measures implementers”, which were introduced in November 2021. Amendments include:

- An increase in the amount of a monthly grant (paid for 6 months) from EUR 500 to EUR 750;
- A new non-repayable grant of EUR 5 000 has been introduced for the implementation of the business plan after the first year of economic activity (provided certain criteria are met);
- Requirements for compulsory training were removed;
- A pre-selection process has been introduced for business idea applications prior to developing full business plans; and
- New funding has been made available for the adaptation of the place of implementation of the business plan up to EUR 1 000 if the person has a disability.

Seeking self-employment as a route back into work

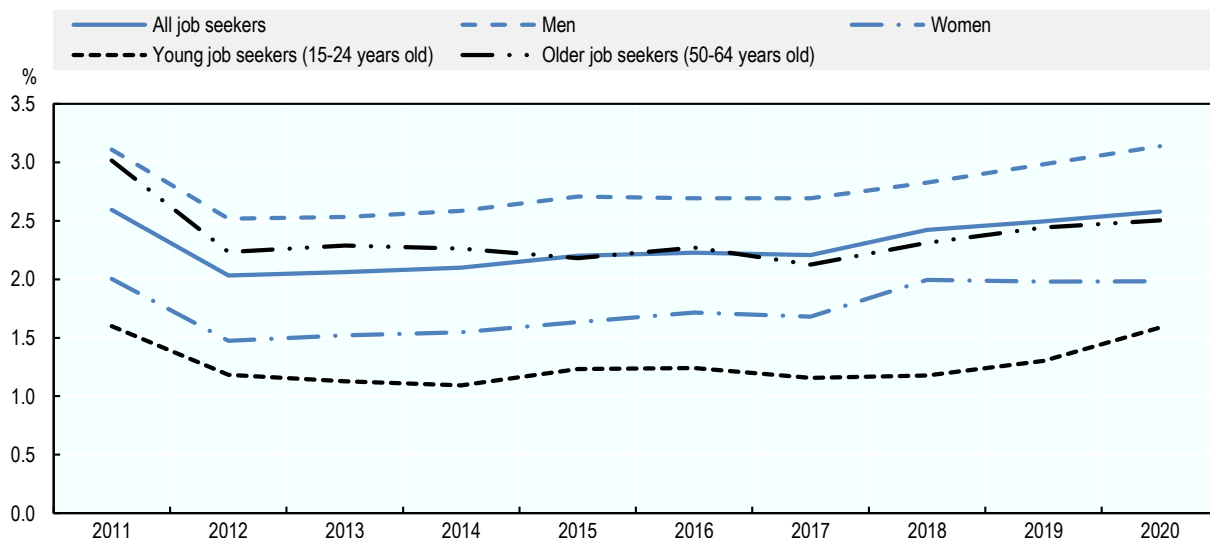
Less than 3% of job seekers are looking to return to work through self-employment...

Very few unemployed people in the EU indicate that they would prefer to return to work as self-employed over working as an employee. There were 14.9 million unemployed people (18-64 years old) in the EU in 2020. Of these, it is estimated that only 362 000 people – 2.6% of unemployed people – would prefer to return to work as self-employed (Figure 6.2). This proportion has increased slightly since 2012, likely due to declining unemployment rather than an increase in the number of people interested in becoming self-employed.


Among the population of job seekers in the EU, the share of people interested in pursuing self-employment varies by gender and age. Male job seekers are generally about 1.6 times more likely to indicate a preference for self-employment relative to females and this has been quite consistent over the past 20 years. Yet the share of male job seekers reporting this preference remained below 3.5% in 2020. Core age job seekers (30-49 years old) are more likely than younger (20-29 years old) and older (50-64 years old) job seekers to prefer self-employment.

Figure 6.2. Few job seekers want to be self-employed

Proportion seeking to return to work as self-employed in the EU (15-64 years old unless stated otherwise)



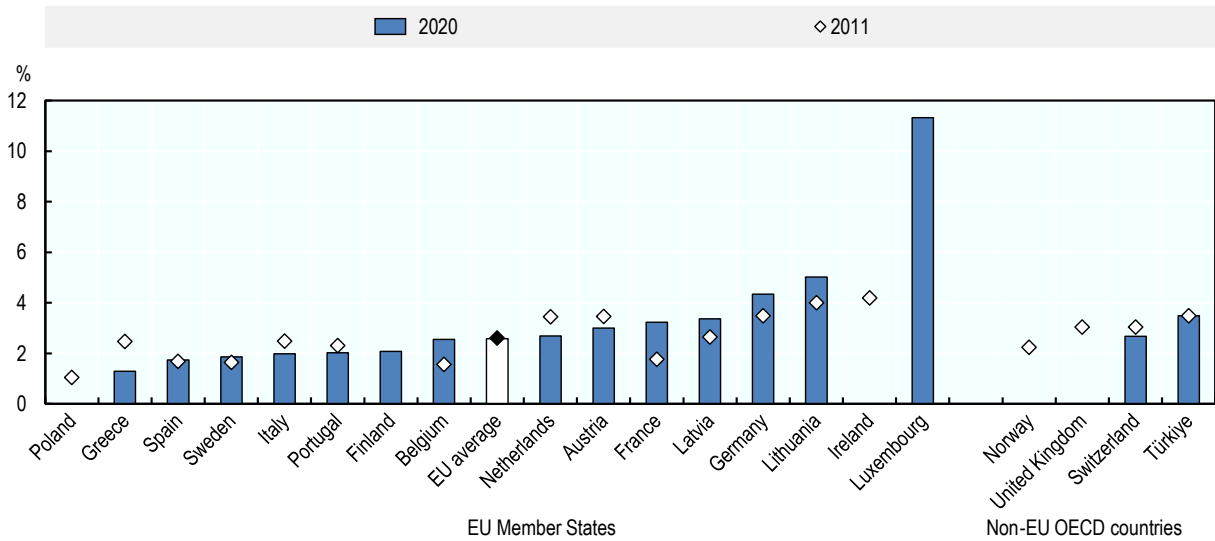
Source: (Eurostat, 2023^[4])

StatLink  <https://stat.link/rpxzgu>

The slight increase in the share of job seekers indicating a preference for self-employment over the past decade was observed in nearly all EU Member States. In 2020, this share ranged from just above 1% in Greece to more than 11% in Luxembourg (Figure 6.3). There is a weak negative association between the preference for self-employment among job seekers and the overall self-employment rate (Figure 6.4). It is, therefore, not true that job seekers are more likely to report a desire to be self-employed in countries where there are high self-employment levels.

Figure 6.3. Preference for self-employment among job seekers increased in half of EU Member States

Proportion seeking to return to work as self-employed in the EU (15-64 years old unless stated otherwise)

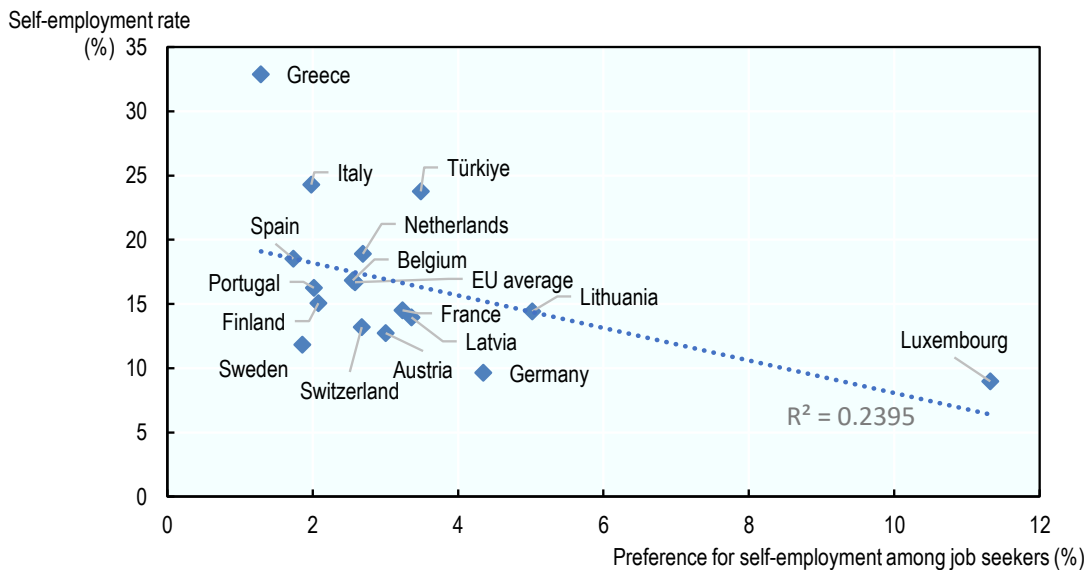


Source: (Eurostat, 2023^[4])

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Figure 6.4. Preference for self-employment among job seekers is negatively associated with self-employment rate

Correlation between the share of working population in self-employment and the share of job seekers indicating a preference for self-employment, 2020



Source: (Eurostat, 2023^[4])

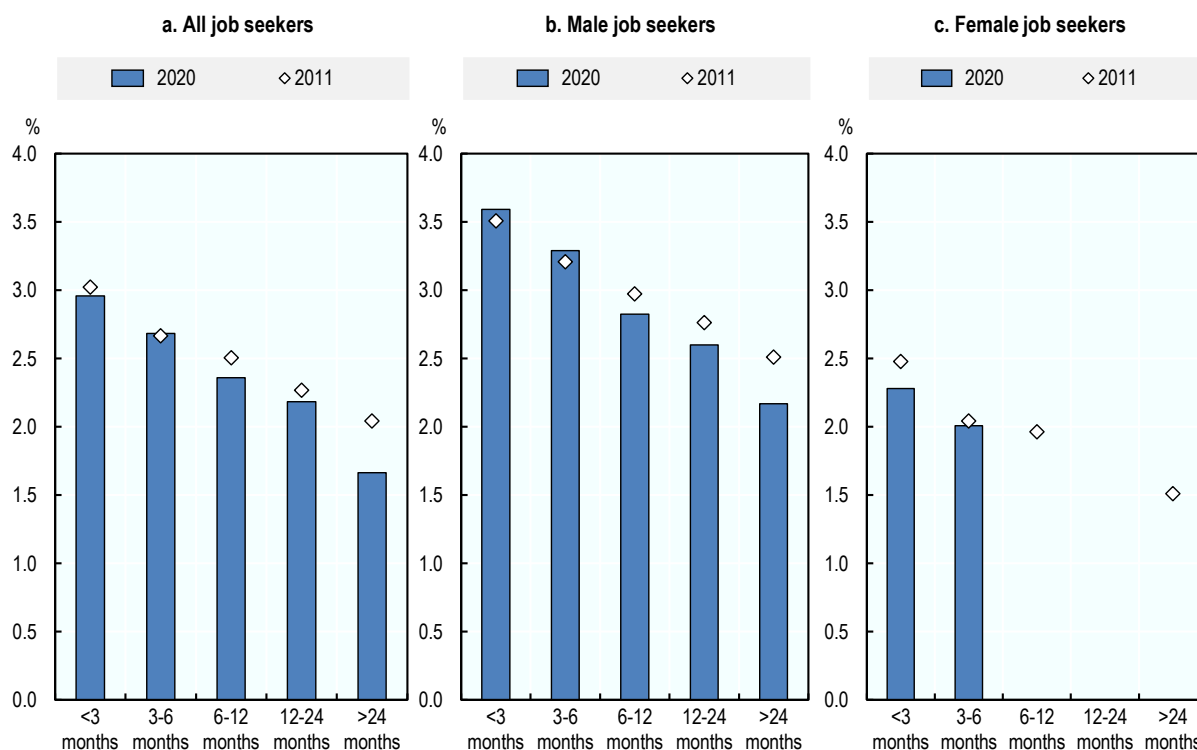
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Preference for self-employment declines as the duration of unemployment increases

The likelihood of job seekers expressing a preference for self-employment declines as time in unemployment increases. About 3% of job seekers who have been unemployed for less than three months indicated that they prefer to return to work as a self-employed worker rather than as an employee (Figure 6.5). This is nearly double the share of job seekers who have been unemployed for more than 24 months. This decline as duration of unemployment spell increases is steady; there does not appear to be a point in time when the preference drops dramatically. This is likely due to greater levels participation in active labour market programmes by unemployed people who are recently unemployed and more motivated to return to work (Helbling, 2019^[6]; Bejaković and Mrnjavac, 2018^[6]) as well as deteriorating professional networks and skills attrition as the length of unemployment spell increases. However, the pattern was slightly different in 2020 than 2011 due to a greater drop-off in the preference for self-employment as the length of unemployment increases.


Figure 6.5. Preference for self-employment declines with duration of unemployment

Proportion seeking to return to work as self-employed in the EU (15-64 years old unless stated otherwise)



Note: Caution is needed in interpreting the data in Panels a and b by gender because some of the estimates are low quality because they are based on small samples.

Source: (Eurostat, 2023^[4])

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Moving into self-employment from unemployment

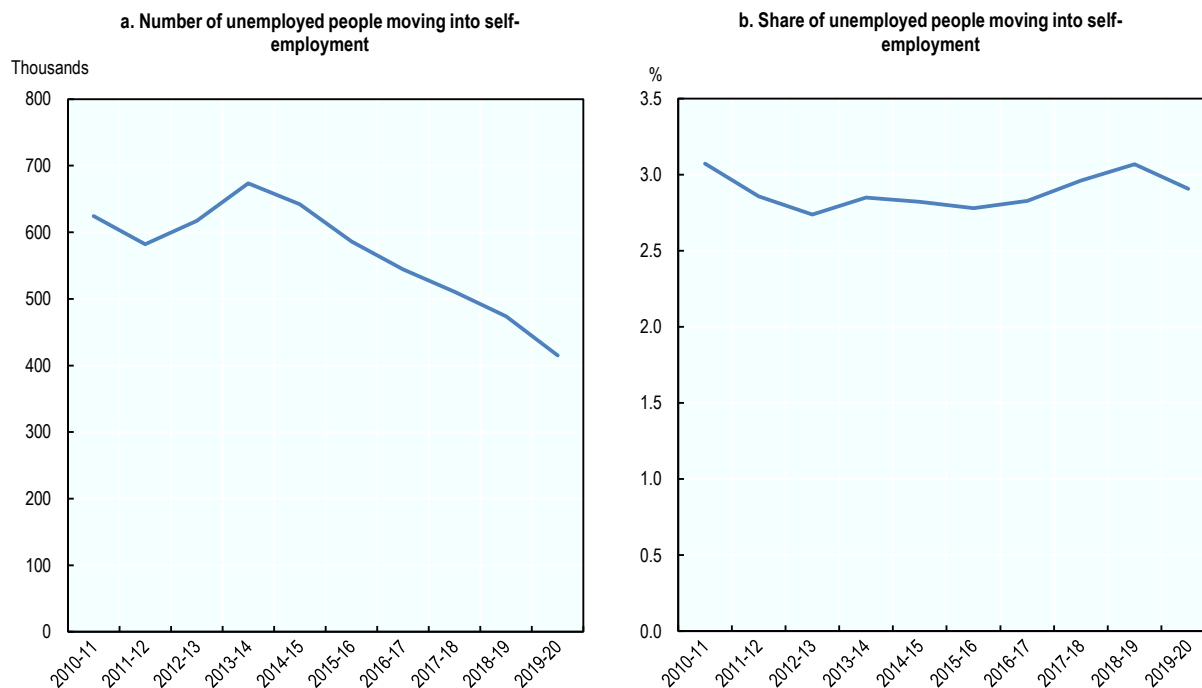
More unemployed people move into self-employment than the number seeking it

The number of job seekers becoming self-employed has declined since 2014 but the proportion of unemployed remains constant. About 415 000 job seekers in the EU became self-employed in 2020, down from nearly 675 000 in 2014 (who were unemployed in 2013) (Figure 6.6). Yet due to a decline in the number of unemployed people over this period, the proportion who move into self-employment has remained at about 3%.

However, the number of job seekers who become self-employed is greater than the number who indicate a preference for returning to work as self-employed. As noted above, about 415 000 job seekers became self-employed in 2020 but in 2019, only 335 000 unemployed people self-reported that they would prefer to return to work as self-employed rather than as an employee. This increase is likely due to some job seekers having difficulties finding salaried employment that met their expectations (e.g. salary, working location, hours and conditions) and therefore became self-employed. It is also possible for job seekers to have identified a potential entrepreneurial activity and decided to pursue it without having originally sought to become self-employed.

Unemployed men appear to be slightly more likely than unemployed women to become self-employed, which is consistent with stated preferences. While data are limited due to the quality of estimates, unemployed men appear to have been about 1.5 times more likely than unemployed women to move into self-employment between 2011 and 2020.

Figure 6.6. The number of job seekers in the EU becoming self-employed is declining but the proportion remains at 3%

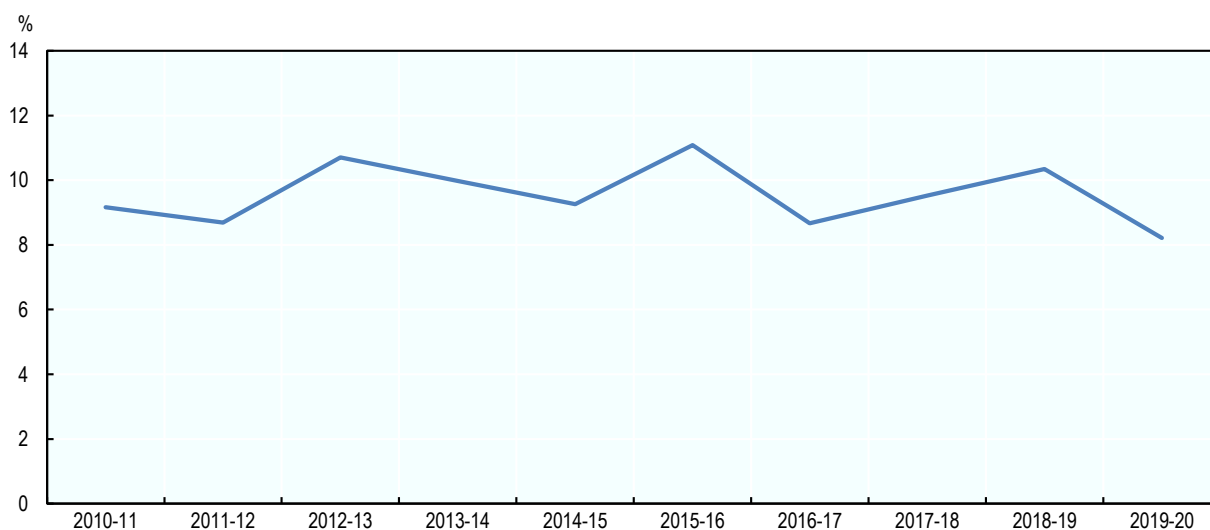


Source: (Eurostat, 2023^[4])


Job seekers in the EU who become self-employed create jobs for others in their first year of self-employment. Over the past decade, about 10% of job seekers who became self-employed created at least one other job in the first year of becoming self-employed (Figure 6.7). Evidence from some countries found slightly higher levels of job creation. For example, evaluations of the start-up subsidy schemes in Germany found that between 20% to 35% of the supported start-ups had at least one employee within their first three years (Caliendo and Kritikos, 2010^[7]). Nonetheless, this was slightly below those who were not job seekers at the time they created their business. Moreover, businesses started by job seekers tended to have fewer employees on average and they do not catch up over time (Caliendo, 2016^[8]). This was also found in research from the United States (Hurst and Pugsley, 2011^[9]). For further discussion on the performance of businesses created by job seekers, please see Chapter 9.

Figure 6.7. One in ten job seekers who become self-employed create a job in the first year

Share of self-employed workers with employees in the EU who were unemployed in the previous year



Source: (Eurostat, 2023^[4])

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Conclusions

While only a small proportion of job seekers become self-employed, there is some evidence that they can be successful. The policy rationale for supporting job seekers in self-employment is often built on two arguments. First, the provision of entrepreneurship training, coaching and finance can provide a pathway to sustainable work for some. Second, entrepreneurship schemes for the unemployed can reduce skills attrition and potentially lead to job experience (i.e. via self-employment) and create opportunities for individuals to expand their professional networks. These may help job seekers find employment more easily.

While only a small proportion of job seekers return to work as self-employed, there is evidence that they create jobs for others. Over the past decade, an average of 566 000 job seekers per year in the EU became self-employed, and of these about 10% created employment for others during their first year of self-employment. Interest in becoming self-employed is highest among those who have recently become unemployed, suggesting that governments should seek to move these people into entrepreneurship support schemes quickly while they are motivated. However, more job seekers become self-employed

than those who indicate a desire to become self-employed, suggesting that there could be benefits to promoting basic entrepreneurship training schemes more broadly to provide basic business management skills to a wider group of job seekers. Priority actions for governments in strengthening business creation support for the unemployed include:

- Use of strong selection criteria to target support on those with high motivation levels and a reasonable chance of success; and
- Promote entrepreneurship training more broadly, including digital business management, since many job seekers become self-employed without indicating a preference for this type of work.

Further discussion on self-employment and entrepreneurship from unemployment can be found in Chapter 9, including case studies, success factors identified by programme evaluations and policy recommendations. Additional examples are also included in the country profiles in Part III of this publication.

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