

6 Self-employment and entrepreneurship by the unemployed

Governments have long-supported business creation schemes for the unemployed as a route back into work and many of these schemes were expanded in the wake of the COVID-19 pandemic. There are examples of large and successful schemes but only a small proportion of unemployed people in the European Union seek to return to work through self-employment. 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

- **The data presented in this chapter are largely based on Eurostat Labour Force Survey data covering the self-employed.** These data are complemented with country-specific statistics to provide additional insights.
- **Unemployment increased rapidly following the onset of the COVID-19 pandemic.** The seasonally adjusted monthly unemployment rate in the European Union (EU) increased from 6.6% in January 2020 to 7.7% in August 2020, before falling to 6.8% in August 2020. Inactivity also increased as many workers feared infection, faced reduced working hours and had higher demands at home due to the lockdowns and closures (e.g. home schooling) enacted as a part of the public health strategy against COVID-19.
- **Overall, few unemployed people in the EU self-report that they would prefer to move back to work via self-employment.** In 2020, there were 14.9 million unemployed people in EU countries and only 358 000 (less than 3%) were seeking to return to work as a self-employed person.
- **In recent years, however, more unemployed people became self-employed than the number who reported that they would return to work via self-employment.** In 2020, 415 000 people in the EU became self-employed after being unemployed in 2019, representing 3% of the unemployed. This is about 57 000 more people than the number of unemployed people (in 2019) who reported that they were seeking to become self-employed. Unemployed men appear to be about 1.5 times more likely to move into self-employment than unemployed women.
- **The likelihood of seeking to return to work via self-employment was lower among women and appears to increase slightly with age.** Less than 2% of unemployed women in 2020 were trying to return to work via self-employment relative to about 3% of men. In 2020, unemployed seniors (50-64 years old) were the most likely age group to seek to return to work via self-employment (3%) while unemployed youth (20-29 years old) were the least likely (2%). However, this estimate for youth does not consider those starting a business from inactivity (e.g. transitioning from education to work).
- **Those who have been unemployed for only a short duration 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 that self-employment and start-up initiatives for the unemployed should try to reach and support those with entrepreneurial ambitions quickly.
- **Many countries launched new business creation schemes – or extended existing ones – to provide incentives and support to the unemployed as a policy response to the COVID-19 crisis.** About one-fifth of countries surveyed in a joint OECD-European Commission questionnaire on labour market policy responses to COVID-19 reported that start-up incentive programmes for the unemployed and other disadvantaged groups were expanded in 2020.
- **Even before COVID-19, governments in EU and OECD countries commonly used initiatives and programmes to support self-employment among the unemployed.** Common interventions include training and workshops, financial support for start-up activities and reductions in social security contributions. Evaluations tend to show that the survival rates of the businesses started through these programmes are close to unsupported businesses.

Policy context

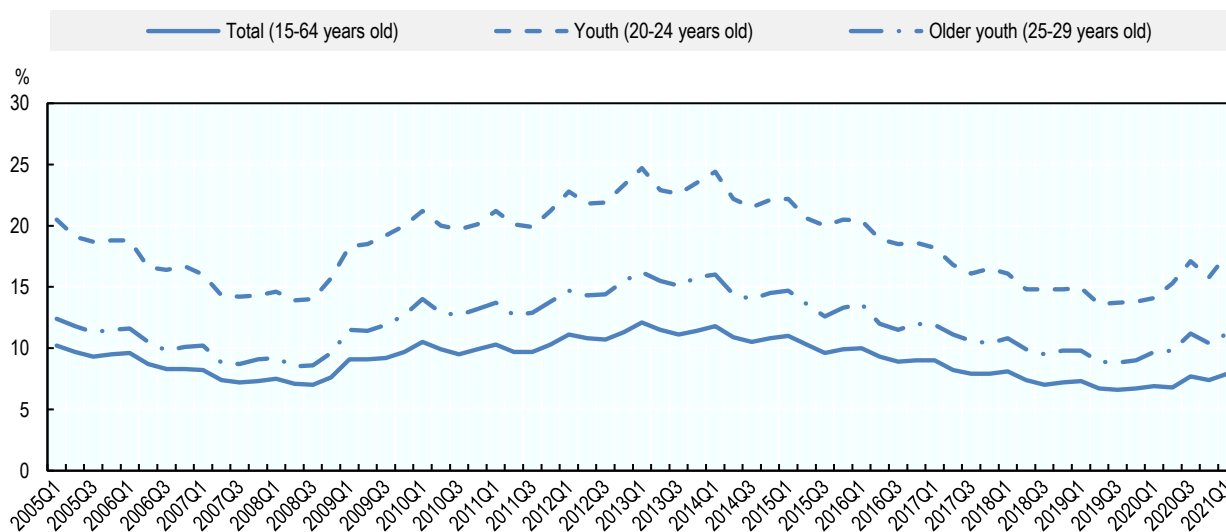
Unemployment increased following the onset of the COVID-19 crisis

There were 14.9 million unemployed people (15-64 years old) in 2020, increasing from the previous year for the first time since 2013. This growth in unemployment was uneven across countries and regions, reflecting differences in economic structure and policy responses to the COVID-19 pandemic. Those countries with greater concentrations of workers in sectors that were impacted by social distancing and lock-down measures tended to have greater increases in unemployment. Governments were able to mitigate some of these effects with various measures ranging from wage subsidies to a moratorium on layoffs. Among European Union (EU) Member States, unemployment rates increased strongly in Lithuania and Spain over the course of 2020 – 3 percentage points (p.p.) and 2.3 p.p., respectively (OECD, 2021^[1]). At the same time, the share of the population that was active in the labour market (15-64 years old) in the EU also declined by about 1 p.p. in 2020 after continuous growth over the last decade (Eurostat, 2021^[2]).

Unemployment among youth surged at the beginning of the COVID-19 crisis. As is often the case in recessions, youth are among the most impacted as they are usually the most recently hired, least experienced and more likely to work in heavily impacted sectors. Following both the financial crisis of 2008-09 and the COVID-19 crisis, the increase in the unemployment rate for those 20-24 years old was more than double the increase in the overall unemployment rate, while slightly older and potentially more experienced youth (25-29 years old) fared slightly better (Figure 6.1). For additional discussion on the impacts on COVID-19 on unemployment, please see Chapter 1. The OECD Employment Outlook 2021 (OECD, 2021^[1]) and the OECD policy brief on designing active labour market policies for the recovery (OECD, 2021^[3]) also contain more in-depth discussion.

Figure 6.1. Unemployment among youth rose sharply after financial crises

Share of people in the labour force who are unemployed in the EU



Source: (Eurostat, 2021^[2])

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Policy support for business creation out of unemployment

Support for business creation is a common element of active labour market measures across EU Member States and OECD countries. The rationale for such support is to provide an alternative pathway back into work for the unemployed. Moreover, moving into self-employment can help people avoid skills attrition and the erosion of their professional networks. Creating a business activity can also help boost an individual's self-esteem since they have an opportunity to generate income for themselves, be an active and contributing member of society, and reduce their chances of falling into poverty. This is particularly important for young people where unemployment spells can negatively impact their career trajectory and life path (OECD/European Commission, 2020^[4]). The opportunity cost of not supporting groups such as youth who are not in employment, education or training (i.e. NEETs) is extraordinarily high, particularly during times of high unemployment. For example, following the 2008-09 financial crisis, it was estimated that the direct economic cost of NEETs to the EU economy in 2011 was EUR 153 billion (Eurofound, 2013^[5]). This cost would be expected to grow an individual's lifetime since people typically become more productive with experience, and this does not include social costs.

While it is possible for people to create highly impactful businesses from unemployment, most aim to create a sustainable self-employment activity without high-growth expectations. In general, self-employed individuals that enter from unemployment have lower growth and chances of survival of their business than those that enter from employment (OECD/European Union, 2014^[6]). However, some people may gain new skills and expand their networks through a business creation programme but ultimately return to paid employment. These outcomes should also be viewed as successes.

There is some evidence that self-employment can be a “bridge” to paid employment. The decision to become self-employed is not fixed and many transition to another work status at some point in their careers (Daly, 2015^[7]). A recent study comparing self-employment transitions in Italy, United Kingdom and the United States shows that individuals leaving solo self-employment are more likely to continue self-employment as an employer or find paid employment than become unemployed (Box 6.1). The results also show that flexibility was a main driver in job satisfaction among the self-employed but that this could lead to under-employment for some. In addition, many of the respondents agreed with a need for stronger social protection due to income insecurity and fewer non-wage benefits. Similarly, evidence from Canada over the period 2002-13 shows that 45% of formerly self-employed workers transition to paid employment (Grekou and Liu, 2018^[8]). There is also some evidence showing that those who transition from unemployment to working as an employee through self-employment earn more than those who went directly to employment. Norwegian entrepreneurs who have returned to paid employment have been found to earn, on average, 19% more than employees who transitioned to another paid employment position in the period 2006-12 (Luzzi and Sasson, 2016^[9]).

Box 6.1. Self-employment and alternative work arrangement trends: Italy, United Kingdom and United States

A new study examines the changing nature of self-employment in Italy, the United Kingdom and the United States over the period 2000-17. Using OECD macro-level data and three online surveys (LSE-CEP Survey of Alternative Work Arrangements in the UK from February 2018 covering 20 000 individuals; Princeton Self-Employment Survey in the US from April 2017 covering 10 000 individuals; fRDB Survey of Independent Workers in Italy from May 2018 covering 15 000 individuals), the study examines several policy issues including:

- Under-employment among the self-employed;
- Transitions in and out of self-employment;
- Social protection

The survey found flexibility to be a main driver in the job satisfaction among the self-employed; however, uncertainty and flexibility in hours worked leads to under-employment for some. The study found about 30% of solo self-employed workers and about 23% of self-employed employers would prefer to work more hours per week but face constraints due to the unavailability of additional work. Moreover, 18% of British and American and 12% of Italian solo self-employed workers were part-time because they cannot find more work.

The cross-country study also found some common patterns in transitions in and out of self-employment. Unemployed workers are more likely to become solo self-employed than those working as employees. Between 2016 and 2017, almost 6% of unemployed workers in the UK became solo self-employed compared to only 2% of employees. Unemployed people were also more likely to move into solo self-employment between these two years in the US (4% of unemployed vs. 2% of employees) and Italy (3% vs. less than 1%). Conversely, the self-employed in the three countries were less likely to become unemployed than employees.

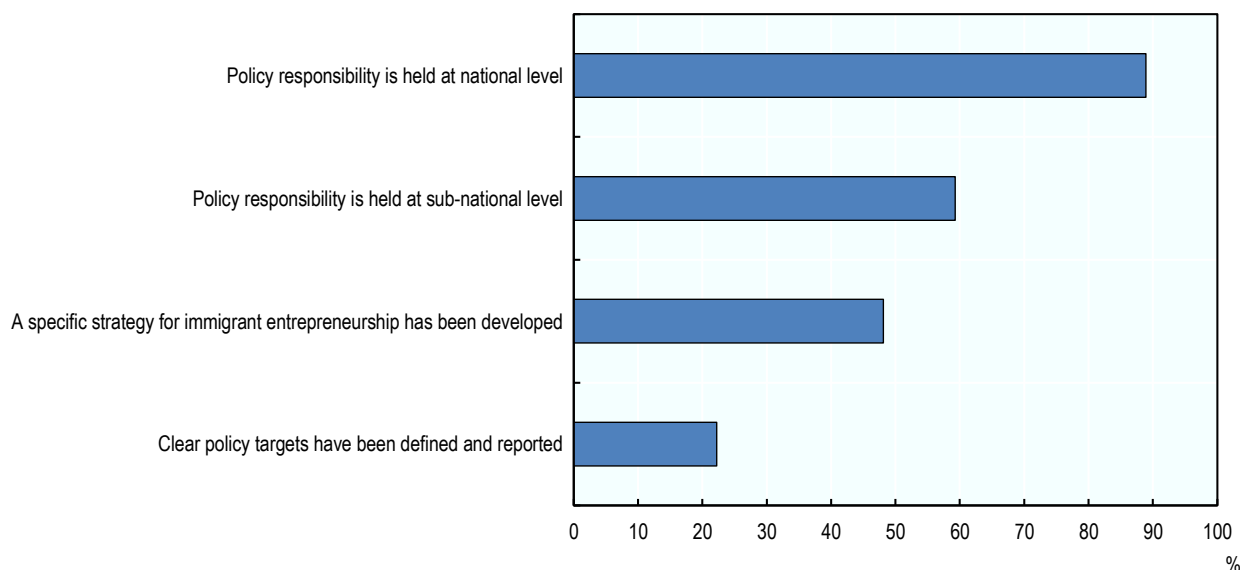
There appears to be a strong demand for stronger social protection among self-employed workers due to greater income insecurity and fewer non-wage benefits. In the UK and US surveys, 80% of self-employed workers indicated support for the creation of a fund designed to help self-employed workers obtain work-related benefits (i.e. retirement savings and health insurance). When asked to rank the desirability of potential benefits, self-employed workers reported the top choice as retirement savings in Italy (42% among solo self-employed workers and 34% for self-employed employers) and the UK (40% and 45% respectively), while those in the US preferred health insurance (52% for solo self-employed workers and 44% for self-employed employers). The report also highlights the many challenges associated with designing a social protection scheme for self-employed workers, such as who is responsible for the employers' contributions.

Source: (Boeri et al., 2020^[10])

EU Member States often support business creation for the unemployed at both the national and sub-national levels. Support is commonly offered as part of the suite of active labour market measures and schemes are implemented at national, regional and local levels (Figure 6.2). About half of Member States explicitly note in employment strategies that there are specific actions to support the transition from unemployment to self-employment. However, these types of strategies tend to be quite general and are not likely to have clearly defined policy objectives and targets relative to other target groups such as women or youth. Clearly the policy priority is to minimise unemployment and to improve transitions back into work. Self-employment is one potential route back into work so governments should seek to open that possibility without pushing people to pursue it unless the individual wishes to.

Figure 6.2. Governments in the EU commonly offer schemes to support the unemployed in business creation

Share of EU Member States, 2020



Note: It is possible for countries to have clear policy responsibility at both the national and sub-national levels; these are not mutually exclusive.
Source: (OECD, 2020^[11])

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Schemes to support the unemployed in business creation can improve labour market outcomes for some

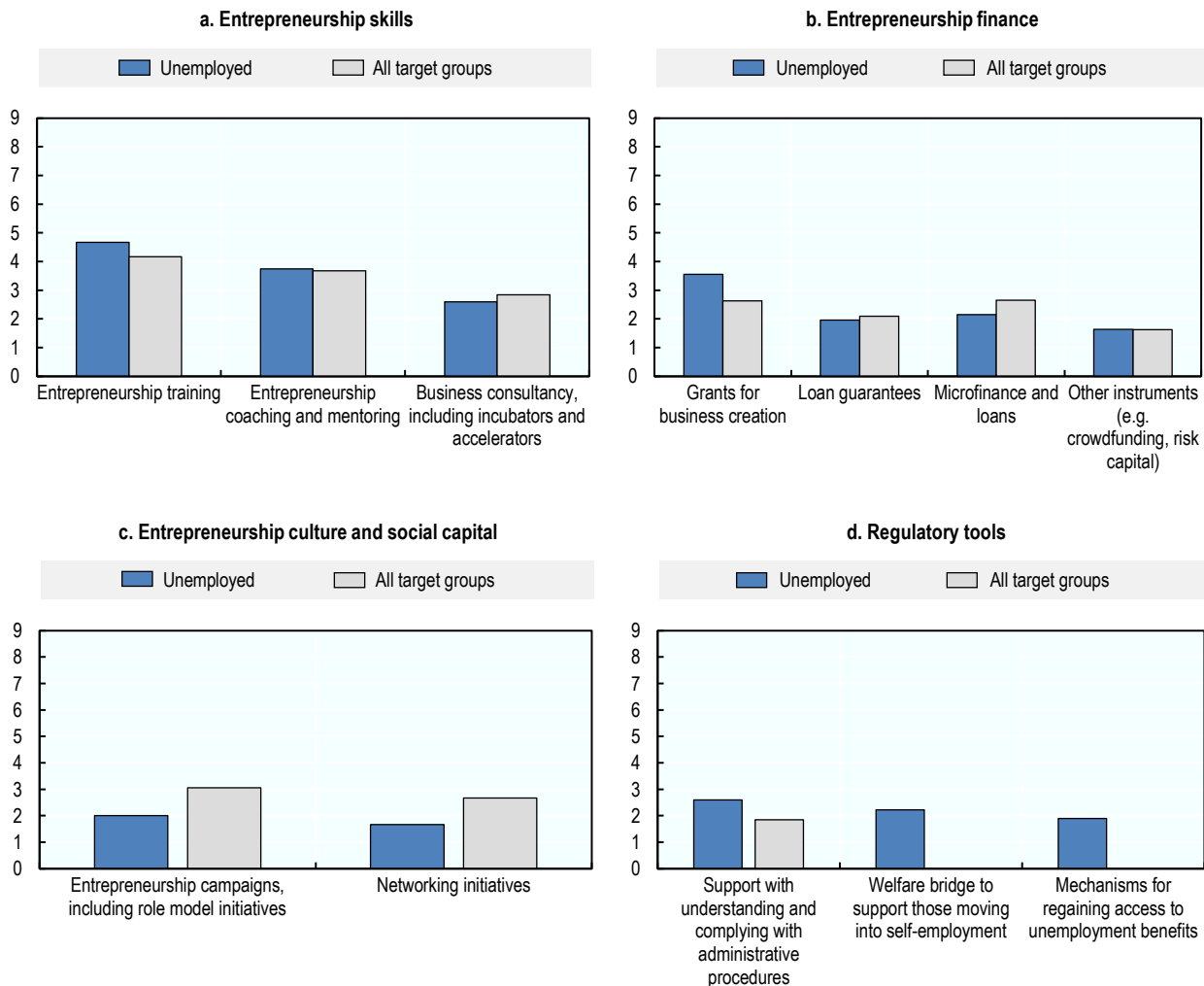
Schemes that support the unemployed in business creation are widespread in the EU. The OECD inclusive entrepreneurship policy assessments across the EU found that schemes to support the unemployed in business creation often include at least two of the following actions: i) increasing awareness about possibilities of entrepreneurship, ii) facilitating the acquisition of entrepreneurship skills, iii) financial supports for business start-up, iv) financial support following business start-up, v) the provision of business development services, and vi) broad regulatory changes. Using the OECD's 9-point assessment criteria (see Reader's Guide), many activities are of higher quality than the average inclusive entrepreneurship scheme (Figure 6.3). A common success factor is that the different actions are typically combined into comprehensive packages that addresses the complementary and multiplicative nature of the barriers faced in business creation.

Overall, the accumulated evidence suggests that well-targeted programmes have the potential to improve the labour market outcomes for the unemployed. Successful schemes have been found to have two critical success factors – a strong focus on training paired with well-designed financial incentives (OECD/European Union, 2014^[6]; OECD/European Union, 2017^[12]). Training addresses the depreciation of human and social capital that can occur during unemployment as well as the lack of business experience, while the financial incentives such as start-up subsidies help to remove barriers faced by entrepreneurs transitioning from unemployment in acquiring the financial capital needed during the founding period (Caliendo, 2016^[13]).

Comparatively speaking, there is some evidence showing that business start-up supports can be more cost-effective than other labour market supports for the unemployed (Caliendo, 2016^[13]). This is particularly true when additional job creation and innovation are considered. For example, a recent study found a German start-up subsidy scheme cost, on average, around EUR 4 900 per participant – considerably lower than other active labour market policies such as a public employment scheme at EUR 8 200 per participant in 2009 (Caliendo, Künn and Weissenberger, 2020^[14]). In addition, businesses started with support from this scheme created one full-time job per participant is created, on average, after 40 months. A similar scheme in the Czech Republic show similar results (Dvouletý, 2017^[15]). In the period 2012-15, the average cost of the start-up initiative for the unemployed increased as did the average unemployment support (for a six-month period). In 2012, the average cost per self-employed worker was CZK 26 430 (approximately EUR 980), which was lower than the average unemployment support provided over six months – CZK 35 352 (approximately EUR 1 310). Although in subsequent years the costs associated with supporting programme participants increased, the direct costs were not significantly more than the average unemployment support. In 2015, for example, the average costs per participant was CZK 45 815 (approximately EUR 1 700) compared to CZK 37 026 (approximately EUR 1 370), on average, in unemployment support for six months. One possible explanation for these outcomes is that applicants to start-up support schemes are typically required to submit a business proposal that is reviewed, which could lead to a selection bias.

Figure 6.3. Entrepreneurship schemes for the unemployed focus on building skills and offering finance

Average OECD assessment scores for inclusive entrepreneurship schemes across EU Member States, 2020



Note: The panels in this figure present an unweighted average of policy assessment scores for EU Member States. Each policy instrument (e.g. Entrepreneurship training) is assessed a score out of 9 as described in the Reader's Guide. The figure shows the average score for schemes for immigrant entrepreneurs relative to the score for all inclusive entrepreneurship groups combined (i.e. women, immigrants, youth, seniors and the unemployed). Some of the policy instruments in panel d are designed specifically for immigrant entrepreneurs so there is no comparative policy assessment score for all inclusive entrepreneurship target groups.

Source: (OECD, 2020^[11])

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Governments face a risk that some of the subsidised individuals might have started a business even without public support. Therefore, a central question to gauge the effectiveness of policy schemes supporting business creation for people in unemployment is the relative size of the “deadweight” loss (i.e. the supported person would have started a business without any support, therefore the expenditure is a loss), as well as “displacement” effects (i.e. the new business does not have a positive net impact, it simply substitutes for another by capturing its market). Evaluations find wide ranging estimates of deadweight loss, according to the country and the characteristics of the programme. For example, deadweight costs are often reported to be between 20% and 70% of programme costs (OECD/European Union, 2014^[6]). These figures suggest that deadweight costs might be substantial and policy evaluations cannot merely

look at number of firms created as a measure of programme success. However, studies in Germany show overall that deadweight effects for start-up subsidies occur at a much lower scale than expected (Caliendo, Künn and Weissenberger, 2020^[14]; Caliendo, 2016^[13]; Caliendo and Kritikos, 2007^[16]). When the impact on business survival during the first six months is not considered, the share of subsidised businesses that may be affected by deadweight effects dropped from 49% to 21% and when a narrower definition for unemployed people was applied, the effects fell from 23% to 9% (Caliendo, 2016^[13]). Moreover, the deadweight costs of entrepreneurship supports are not higher than other active labour market policies and are substantially lower than direct employment creation measures (e.g. public sector jobs) (Carling and Gustafson, 1999^[17]). Displacement effects are seldom investigated in evaluations but need to be considered, especially for large programmes and/or programmes that are maintained during periods of low unemployment.

Building entrepreneurship skills

About two-thirds of EU Member States offer tailored entrepreneurship training for the unemployed.

Entrepreneurship training programmes for the unemployment typically have three objectives. First, they seek to develop more positive attitudes towards self-employment and business creation since many may not have previously considered self-employment as a potential labour market activity. Second, they seek to provide the basic skills needed to start and manage a small business activity. This often includes for example, basic business and financial planning, accounting and identifying opportunities. Third, entrepreneurship training programmes tend to support broader skills development since many participants will find paid employment rather than starting a business. For example, this could include basic computer skills, which can be applied to both self-employment and wage employment.

The quality of entrepreneurship training is highly variable across EU Member States. There are some very high quality examples such as the training that is packaged with financial support in the welfare bridge schemes in Germany, which have been able to close nearly all of the gaps (e.g. survival rates, employment creation) between those supported out of unemployment relative to unsupported entrepreneurs (Caliendo et al., 2015^[18]; Caliendo and Künn, 2011^[19]). However, there are also very small schemes that appear to have very little impact. In general, entrepreneurship training programmes tend to have high take-up levels and are linked to other types of support such as coaching and financial support.

Tailored entrepreneurship coaching and mentoring is also very commonly offered across the EU.

However, it is quite rare to find stand-alone coaching schemes for people starting businesses out of unemployment. Instead, coaching tends to be embedded into packages of support. It is often a critical element in support packages because coaches can help new entrepreneurs implement skills learned in training programmes and can also be important driver of expanding professional networks (OECD/European Union, 2014^[6]).

Business consultancy is also used to support the unemployed in about one-third of EU Member States.

Evaluations of business consultancy typically show that treatment groups have higher survival rates and business growth, including for those starting businesses out of unemployment. For example, an evaluation of “guided preparation” for self-employment in North Jutland, Denmark found that the scheme improved survival rates and also appeared to be cost-effective (Rotger, Gørtz and Storey, 2012^[20]). The evaluation also found that the scheme was effective for those starting from unemployment.

Facilitating access to start-up finance

The most common instrument used to support business creation by the unemployed is grants for business creation.

About three-quarters of Member States offer specific grants for business creation for the unemployed. Loan guarantees and microfinance are less frequently offered. Fewer than half of Member States offer tailored microfinance and only about one-third offer loan guarantees. It is difficult to understand the effectiveness of schemes that facilitate access to finance for people starting businesses from

unemployment since few schemes are evaluated. Older evaluations indicate that fixed-period income support programmes are more effective than other labour market training efforts (Carling and Gustafson, 1999_[17]). (See also Welfare Bridge schemes under regulatory supports on the next page).

Promoting self-employment and expanding entrepreneurship networks

Business creation is promoted less frequently to unemployed people than other target groups.

Governments typically promote self-employment directly to unemployed people through information packages provided by public employment services rather than through public campaigns. In addition, there are examples of targeted efforts to promote business creation when large numbers of employees are made redundant, particularly where the majority of workers are highly skilled. For example, when Nokia launched the Bridge Programme in partnership with the governments and public employment services while it was restructuring its Finnish operations in 2011-14 (OECD/European Union, 2017_[12]). The Bridge Programme aimed to mobilise as much of the internal expertise of Nokia as possible and the entrepreneurship track was seen as being tailored for start-ups mostly in the technology and financial sectors. Those who became entrepreneurs through the Bridge Programme could arrange agreements with Nokia for technology licensing or idea releases (Autio et al., 2014_[21]). Once participants were ready to launch their business, they could apply for a start-up grant of up to EUR 25 000. Those working in teams of up to four people could receive up to EUR 100 000. Overall, the average grant provided was approximately EUR 27 000, and it is estimated that Nokia provided a total of nearly EUR 10 million in Bridge Programme grants (Autio et al., 2014_[21]). Other financial supports were also available, including a loan guarantee programme where Nokia backed credit accounts. Support was also provided to help participants access public entrepreneurship programmes, including the Start-up Grant. Approximately 90% of the companies that were started through the Bridge Programme were still operating in 2014 or operations continue in another company, or in a new company that was set up to replace the Bridge start-up (Autio et al., 2014_[21]).

Networking support is often included as part of bundled support packages. However, governments typically take a different approach when supporting the expansion of professional networks for those moving from unemployment to self-employment relative to other target groups such as women or youth. Entrepreneurship networks for women, youth and other groups tend to facilitate networking within groups but support for the unemployed place a greater emphasis on building linkages with business support organisations and other entrepreneurs.

Supporting business creation from unemployment with regulatory tools

Regulations have a strong role in influencing incentives and disincentives for entrepreneurship, especially for those moving from unemployment to self-employment. Regulatory changes to improve conditions for entrepreneurship can increase rates of firm formation, firm survival and growth. Positive effects of improving general conditions for entrepreneurship are well-documented, especially factors such as lowering tax rates for entrepreneurs, decreasing administrative costs and regulations.

Welfare bridges are a long-standing tool for supporting job seekers in business creation. Welfare bridge schemes allow an individual to keep receiving unemployment insurance payments for a fixed period of time (e.g. six months) – or an allowance instead of unemployment insurance payments – while they set-up their own enterprise. It is also common for these types of schemes to include training, coaching and other types of financial support such as small grants. These types of schemes are used in countries such as Belgium, Denmark, France, Germany, Hungary, Italy, Poland and Spain. Some of these schemes are well-evaluated and evidence often shows that participants were less likely to return to unemployment than non-participants, and that their businesses often have survival rates and job creation rates that are on-par with non-supported start-ups (OECD/European Union, 2014_[6]).

Another approach to supporting entrepreneurs in the context of business start-up is to provide exemptions to payroll taxes. This approach is commonly used in conjunction with a welfare bridge

schemes but evaluations tend to find mixed results. Some evaluations from France find that these tax exemptions can improve five-year business survival rates (Cabannes and Fougere, 2012^[22]), while others find lower survival rates than unsupported firms (Vari-Lavoisier, 2011^[23]). Both of these evaluations note the role of eligibility criteria. Strong selection criteria increase survival rates since only higher quality businesses can make use of the benefit and weaker selection criteria lead to lower survival rates but are more consistent with the overall policy objective of supporting those who need assistance.

Recent developments

Schemes to support business creation by the unemployed have a long history in the EU and major innovations are rare. However, small adjustments to schemes and measures are made frequently, notably adjustments to eligibility criteria and amounts of financial support offered. An OECD-EU survey of 46 countries and regions on active labour market policy responses to the COVID-19 pandemic indicates that nearly-one quarter of governments had expanded start-up incentive programmes targeted at unemployed and other disadvantaged groups (OECD, 2021^[24]). This includes, for example, an amendment to Law No XII-2470 in Lithuania in April 2020 to lower the age at which unemployed people can access additional financial support for business creation from 50 years old to 45 years old (OECD, 2020^[11]). It anticipated that this change will lead to business creations by more than 100 additional unemployed people. Moreover, other countries such as Finland extended the timelines of financial support to jobseekers who are creating a business – the maximum duration of the start-up grant moved from 12 months to 18 months for any Finnish start-up beginning operations in 2020 (Ministry of Economic Affairs and Employment (Finland), 2021^[25]). Such actions are consistent with the EU Recommendation on Effective Active Support to Employment following the COVID-19 crisis (EASE) in March 2021, which outlined three components for Member States policy packages for the post COVID-19 recovery. The first component outlined the importance of hiring incentives and entrepreneurial support, including suggestions for start-up grants, loans and equity as well as support services to promote entrepreneurship especially among youth, women and social entrepreneurs in the EU.

There are also examples of more substantial regulatory changes over the past five years. In Slovenia, the Employment Service of Slovenia ended the subsidy that it offered to unemployed people who were interested in creating a business in 2014. A noticeable drop-off in business creation from unemployment was observed. However, this trend has reversed with the creation of new business forms that facilitate short-term contract work and favourable tax treatment for sole proprietors which was enacted in 2015 (Širok, 2019^[26]).

Countries are also giving greater visibility to entrepreneurship support in their employment strategies, particularly in the context of rising unemployment due to the COVID-19 pandemic. For example, the Spanish public employment service (under the Ministry of Labour and Social Economy) launched the *Plan Reincorpora-T* for the period 2019-21 on 5 April 2019. It seeks to prevent and reduce long-term unemployment through 63 measures that include a focus on promoting and supporting business creation. The total cost of these measures in 2020 was estimated to be nearly EUR 1.5 billion (OECD, 2020^[11]).

Seeking self-employment from unemployment

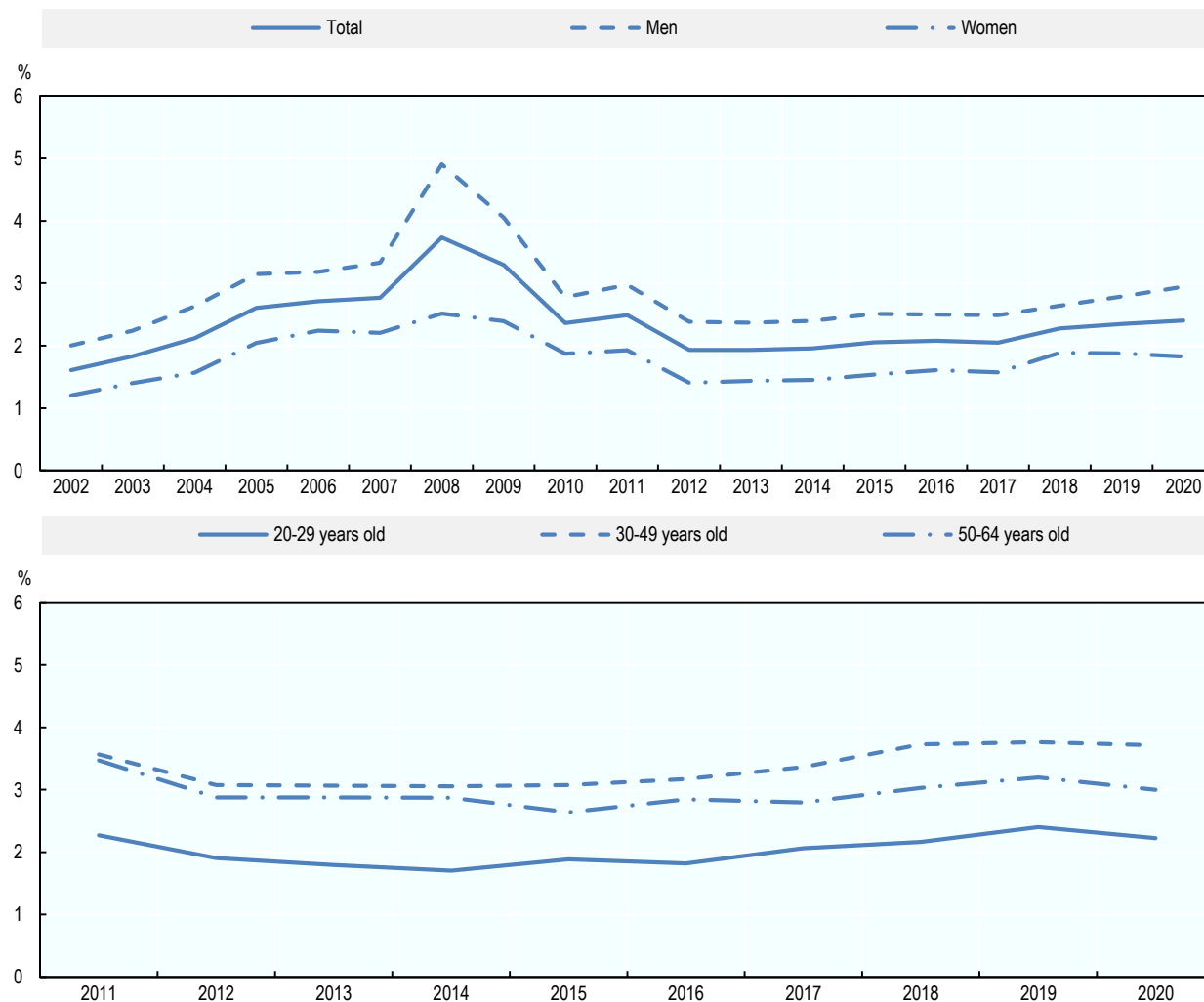
Less than 3% of the unemployed want to return to work through self-employment

Very few unemployed people in the EU prefer to return to work as a self-employed person. Of the 14.9 million unemployed people in 2020, only 358 000 were seeking to return to work as a self-employed person. This represented about 2.5% of the total number of unemployed people (Figure 6.4). This proportion could be expected to increase in the short-term given the spike in unemployment due to the

COVID-19 pandemic. With the increase in unemployment and few job opportunities, it is likely that a greater share of the unemployed will consider self-employment as a viable option to return to work. During the previous unemployment crisis in 2008-09, the number and share of unemployed people who sought to become unemployed increased by about 30% in the first year of the crisis.

Figure 6.4. Few unemployed people seek self-employment

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



Source: (Eurostat, 2021_[2])

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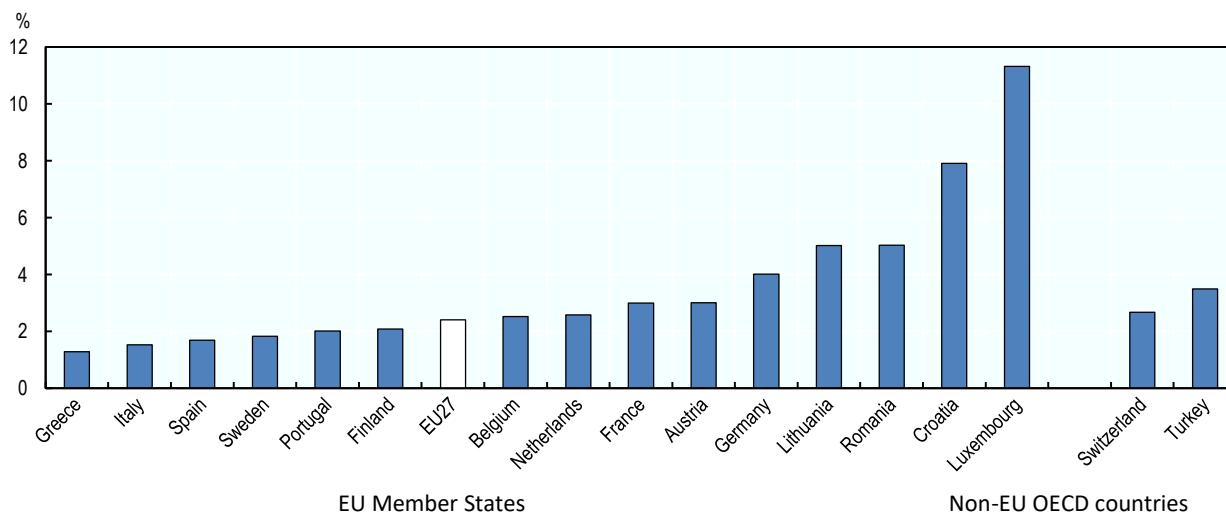
Unemployed men are more likely than unemployed women to try to return to work as self-employed. In 2020, about 3% of unemployed men reported that they were trying to become self-employed relative to less than 2% of unemployed women. Over the past decade, this gender gap in the share of unemployed people seeking to become self-employed remained relatively constant. However, this gap may be expected to grow as a result of the COVID-19 pandemic for two reasons. First, as discussed in Chapter 1, women were more likely to have lost employment and self-employment during 2020. Second, during the previous unemployment crisis in 2008–09, the share of unemployed women seeking to become self-employed did not increase to the extent that it did for men.

Interest in returning to work through self-employment also varies by age. Young unemployed people (20–29 years old) are the least likely target group to seek self-employment with slightly more than 2% seeking to start a business activity in 2020. This was below the overall average for all ages. However, core-age people (30–49 years old) and seniors (50–64 years old) are more likely than the overall average to seek self-employment. In 2020, nearly 4% of core age people indicated that they were trying to start a business activity and about 3% of seniors did. The share for all ages has trended upwards for all age groups since 2015, but it is unclear how the COVID-19 pandemic will impact interest in self-employment by age.

The proportion of unemployed people that sought to become self-employed varied considerably across EU Member States. The share of unemployed people seeking to become self-employed ranged from about 1% to 11% in 2020 (Figure 6.5). The proportion was highest in Luxembourg (11%), which has a high self-employment rate relative to other EU Member States, while the proportion is low in countries that tend to have high unemployment rates. This includes, for example, Greece, Spain and Italy where the share was less than 2%. Self-employment as a way to leave unemployment was also low in countries such as Finland and Sweden (about 2% in each country) where the cultural norm is to prefer salaried employment to self-employed. The low proportion of unemployed people seeking self-employment in Sweden can also be partly explained by the strong social security system, which secures living conditions for all.

Figure 6.5. Unemployed seeking self-employment varies by EU Member State

Proportion of unemployed (15–64 years old) seeking self-employment, 2020



Note: Data are not available for the Czech Republic, Ireland, Latvia, Poland and the Slovak Republic.

Source: (Eurostat, 2021^[2])

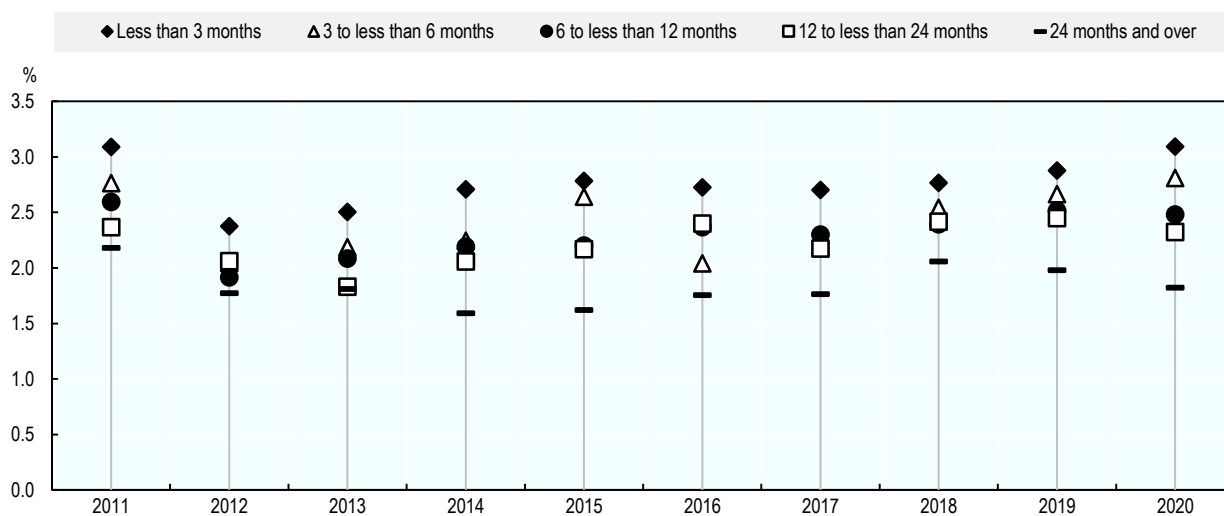
Entering self-employment from unemployment

Likelihood of seeking self-employment decreases with duration of unemployment...

The interest of unemployed people seeking self-employment declines as the duration of unemployment increases. 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 (Figure 6.6). This gap is likely due to a greater likelihood of short-term unemployed participating in active labour market programmes and higher levels of motivation (Helbling, 2019^[27]; Bejaković and Mrnjavac, 2018^[28]), as well deteriorating professional networks and skills attrition. The shares have been quite stable over the past decade overall, with the exception of the share of those unemployed for less than three months which has trended slightly upwards since 2012.

Figure 6.6. Recently unemployed people are most likely to try to become self-employed

Proportion of unemployed (15-64 years old) seeking self-employment in the EU by duration of unemployment



Source: (Eurostat, 2021^[2])

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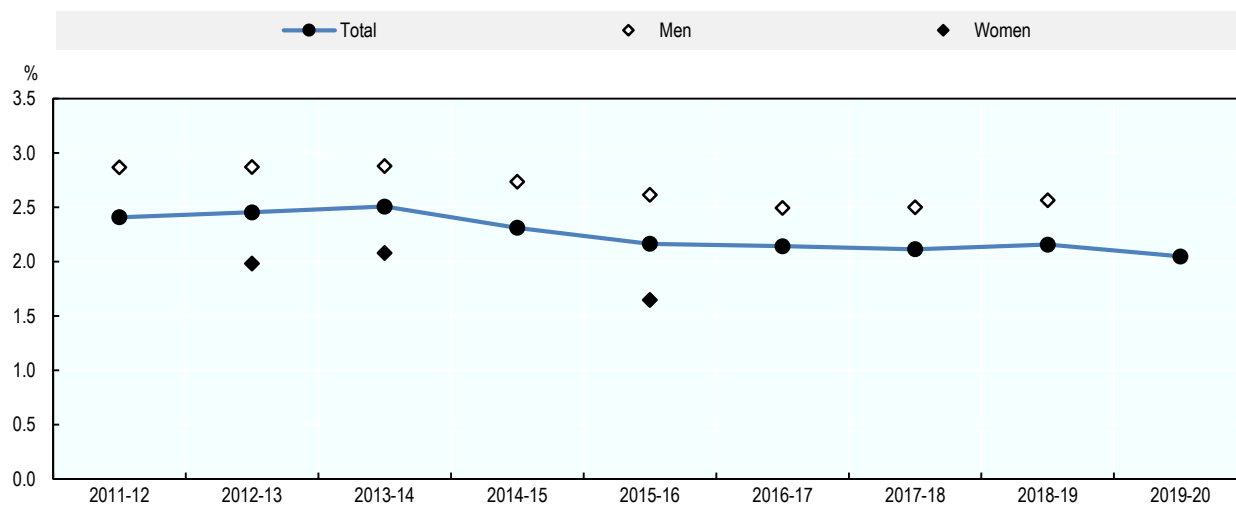
...and more unemployed people become self-employed than those reportedly seeking it

Approximately 415 000 people in the EU became self-employed in 2020 after being unemployed in 2019, representing about 2% of the unemployed (in 2019) who indicated that they were seeking to become self-employed (Figure 6.7). However, only 358 000 unemployed people in the EU reported that they were seeking to return to work through self-employment, indicating that slightly more people move into self-employment from unemployment than those who seek it. This is likely due to the inability to find salaried employment that met their expectations (e.g. skills, experience, working conditions, wages), and they consequently became self-employed. It is also possible that an unemployed person identified a potential entrepreneurial activity and decided to pursue the business opportunity without it being initially sought out.

Consistent with intentions, unemployed men appear to be slightly more likely than unemployed women to become self-employed. While data are limited due to the quality of estimates, unemployed men were about 1.5 times more likely than unemployed women to move into self-employment between 2011 and 2020.

Figure 6.7. More unemployed people become self-employed than those seeking it

Percentage of unemployed men and women (15-64 years old) moving into self-employment in the EU



Note: The estimate of the share of unemployed people who moved into self-employment between 2019 and 2020 has a low reliability. Similarly, all estimates for women have a low reliability as do those for men from 2011-13 and 2016-19.

Source: (Eurostat, 2021^[2])

StatLink  <https://doi.org/10.1787/888934281220>

Conclusions

The main policy rationale for supporting job seekers in self-employment is to provide an alternative to working as an employee. This additional route to work may help people return to work more quickly, which is often a policy objective during times of high or growing unemployment such as the current COVID-19 pandemic. This is particularly important for young people who have been impacted disproportionately by the pandemic. Unemployment spells faced early in careers can increase the likelihood of unemployment throughout careers and also reduce lifetime earnings.

Although few job seekers return to work as a self-employed person, there is a body of evidence that shows that those who become self-employed can be successful. The accumulated evidence suggests that well-targeted programmes with considerable training content have the potential to improve the labour market outcomes of those targeted, including by moving some back into working as an employee. There is some evidence showing that these types of schemes are more effective during economic downturns, supporting the decision of governments to increase support for business creation among job seekers during the economic recovery following the COVID-19 pandemic. Comparatively speaking, business start-up supports can be more cost-effective than other labour market supports for the unemployed. However, a central question to gauge the effectiveness of schemes supporting business creation for job seekers is the relative “deadweight effects” and “displacement effects” of schemes. Evaluations have obtained wide-ranging estimates of deadweight, according to the country and the characteristics of the programme but indicate that deadweight costs might be substantial and policy evaluations should not only look at number of firms created as a measure of programme success. Displacement effects are much more seldom investigated in evaluations but needs to be considered, especially for large programmes and/or programmes that are maintained during periods of low unemployment rates.

Moreover, entrepreneurship programmes for job seekers can have broader benefits such as supporting the acquisition of skills and experience, as well as expanding professional networks.

These can all increase the employability of people and can help them move back into work, which is the primary policy objective. Moreover, some studies show that even when those who moved into self-employment go on to find employment, they are better off than those who went straight from unemployment into employment.

The data in this chapter suggest several lessons for policy makers designing self-employment supports for job seekers. First, unemployed people with shorter durations of unemployment appear more interested in becoming self-employed so governments should seek to move these people into support programmes quickly while they are motivated. Second, there is a gender gap among job seekers who are interested in self-employment. This suggests that greater attention is needed to gender issues when designing support measures. Overall, entrepreneurship support schemes for women tend to be more successful at attracting participants when they are women-only. Therefore, this could be considered also among job seekers when there is sufficient demand for schemes. 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
- Scale-up support during times of rapidly increasing unemployment.

Additional examples of recent policy actions to support the unemployed in business creation – particularly in the COVID-19 context – are contained in the country profiles in Part III of this report.

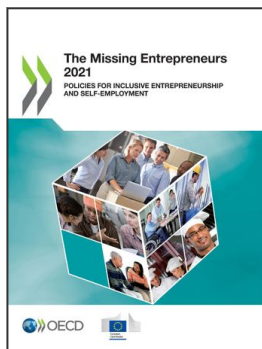
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Part II Policies for inclusive entrepreneurship



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