

## 5. Self-employment and entrepreneurship from unemployment

*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 by gender and age at both the European Union (EU) and EU Member State levels. Selected OECD countries are covered to the extent possible.*

#### Key messages

- **Very few unemployed people in the European Union (EU) move back to work via self-employment.** In 2018, there were 16.9 million unemployed people in EU countries and about 400 000 reported that they were seeking to return to work as self-employed. This represents 2.4% of the unemployed.
- **However, not all unemployed people seeking to become self-employed will successfully start a business.** Further, some unemployed people will become self-employed without seeking it. In 2018, about 563 600 self-employed people in the EU were unemployed in 2017. This is 2.5% of the number of unemployed people in 2017, which is slightly above the proportion who indicated that they were seeking to become self-employed (2.2%).
- **Over the past decade, unemployed men were about 1.5 times as likely as unemployed women to seek self-employment and to successfully make this transition.** Young unemployed people (15-24 years old) in the EU were not likely to seek self-employment (1.1%).
- **The proportion which seeks self-employment is highest among those who have been unemployed for short durations.** This suggests that policies to support the unemployed in business creation should try to support those interested in business creation to realise their ambitions quickly. It is also important to stimulate ambitions for self-employment among a greater share of the unemployed. Evidence from France suggests that reforms to the unemployment insurance system to stimulate business creation by the unemployed were successful at increasing the number of businesses created without reducing the quality of businesses started.

#### The policy context for business creation from unemployment

There were 16.9 million unemployed people (15-64 years old) in the European Union (EU) in 2018. This is down from a post-crisis peak of 26.1 million in 2013. In parallel to the decline in unemployment, the share of the population that was active in the labour market increased. During the early stages of the economic crisis, the overall activity rate for adults (15-64 years old) in the EU was 70.8% (in 2009). The rate increased steadily to 73.7% in 2018.

Policy makers have long been interested in the potential of entrepreneurship and self-employment to be used as a mechanism for moving unemployed people back into work. The most common approach to supporting the unemployed in business creation is through welfare bridge programmes that provide a combination of start-up training and a subsistence allowance. There are many successful examples of welfare bridge programmes including programmes in Denmark, France, Germany, Hungary, the Netherlands, Poland, Spain, Sweden and the United Kingdom. Evaluation evidence generally suggests that businesses started by people from this target group can have similar business survival rates as those started by the rest of the population (OECD/EU, 2014<sup>[1]</sup>; Caliendo and Künn, 2011<sup>[2]</sup>).

## Seeking self-employment from unemployment

### *Less than 3% of the unemployed want to be self-employed*

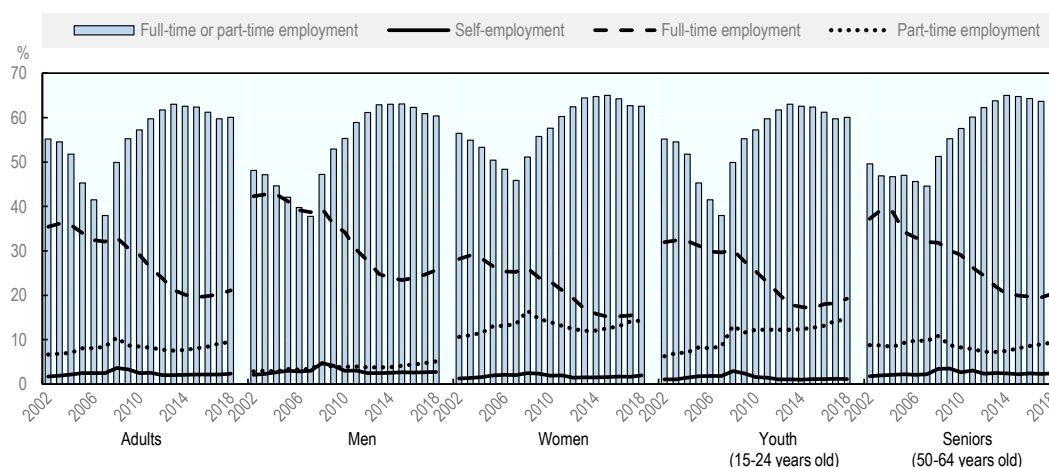
Of the 16.9 million unemployed people in 2018, 395 600 were seeking to return to work as a self-employed person. This represented only 2.4% of the total number of unemployed people (Figure 5.1). This compares to 606 500 people (3.6% of all unemployed) in 2008 and 710 500 (3.3%) in 2009, during the early stages of the economic crisis. Before the economic crisis, the proportion of unemployed people that were seeking to return to work via self-employment was approximately 2.5% between 2005 and 2007, and 2.0% between 2002 and 2004.

In 2018, unemployed men were nearly 1.5 times more likely to seek self-employment than unemployed women (2.7% vs. 2.0%). Leading up to the economic crisis, the share of unemployed men seeking self-employed was generally between 2.7% and 3.0%. This proportion increased with the onset of the crisis and peaked in 2008 at 4.7%. Since then, the share has fallen back to pre-crisis levels. A similar pattern is observed among unemployed women, but the proportion seeking self-employment is about half that of men. In addition, the decline in the proportion since the crisis was less pronounced.

Young unemployed people are the least likely target group to seek self-employment. In 2018, only 1.1% of unemployed people between the ages of 15 and 24 years old were seeking to become self-employed.<sup>1</sup> As with the other target groups, the proportion of young unemployed people seeking to become self-employed peaked in 2008 at 2.9%. However, this proportion dropped to 2.4% in 2009 and 1.6% in 2010. From 2011 onwards, the proportion stabilised around 1.0%.

**Figure 5.1. Few unemployed people seek self-employment**

Primary type of employment sought by unemployed men, women, youth and seniors in the EU, percent of the unemployed (15-64 years old), 2002-18



Source: (Eurostat, 2019<sup>[3]</sup>).

StatLink  <http://dx.doi.org/10.1787/888934066216>

Unemployed seniors appear to be as interested in self-employment as a way back to work as the average for all ages. In 2018, 2.4% of unemployed people aged 50-64 years old sought to return to work as self-employed. This share has been constant since 2012. Following the onset of the economic crisis, the proportion was 3.5% in 2008 and 2009. Between 2002 and 2007, about 2.0% were seeking to become self-employed.

There was substantial variation across countries in the proportion of unemployed people that sought to return to work as self-employed (Figure 5.2). In 2018, the proportions ranged from 1.5% to 4.0%. The share was slightly higher in Ireland (4.5%), Romania (5.4%) and Malta (5.6%), and much higher in Croatia (11.2%), Luxembourg (13.9%). Conversely, many of the countries where the share of unemployed people seeking self-employment was the lowest were the countries with the highest unemployment rates during the economic crisis, notably Greece, Spain and Italy. The proportion of the unemployed seeking self-employment was fairly constant in Spain and Italy, but it declined in Greece from a peak of 7.7% in 2009.

Unemployed women were less likely than unemployed men to seek self-employment in all EU Member States (Figure 5.2). In 2018, there were only five EU Member States where more than 3% of unemployed women were seeking to become self-employed: Germany (3.0%), Ireland (3.4%), Romania (6.8%), Croatia (8.5%), and Luxembourg (11.1%).

Data on the proportion of young unemployed people seeking to become self-employed is very limited at the country level. In nearly all countries where data are available, fewer than 1.5% of unemployed youth would like to become self-employed.

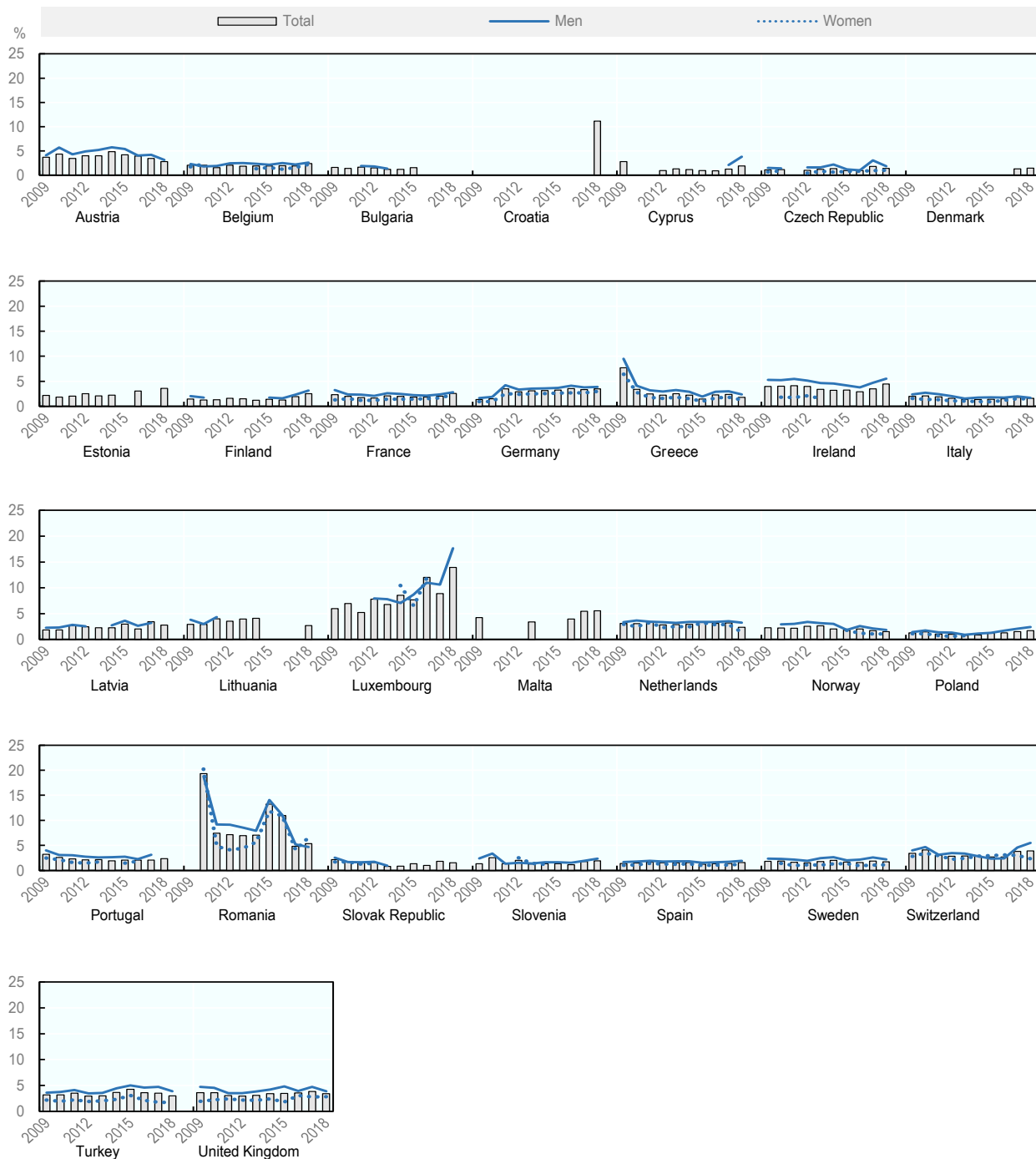
### ***Interest in self-employment is greatest at the early stages of unemployment***

The likelihood of unemployed people seeking self-employment tends to decline as the duration of unemployment increases (Figure 5.3). This is likely caused by declining savings, skills attrition and shrinking professional networks. This is consistent with the decline in the likelihood of returning to employment over time, but the proportion seeking to return to self-employment may be expected to increase for some people as they realise that they may not find work. This would increase their openness to business creation. A slight increase can be observed for those who lost their job during the early stages of the crisis, i.e. those with unemployment durations of two or more years in 2011 to 2013. Moreover, the gender gap grows slightly among those who are unemployed for longer durations.

Country-level data on the share of older unemployed people (50-64 years old) seeking self-employment are more limited. However, like the other target groups, there is some variation in the share of older people seeking to return to work as self-employed. In 2018, the proportions were the highest in the United Kingdom (5.5%), Switzerland (5.9%), Ireland (8.5%) and Croatia (8.8%).

**Figure 5.2. Unemployed women are less likely than unemployed men to seek self-employment**

Proportion of unemployed men and women seeking self-employment by country, 15-64 years old, 2009-18

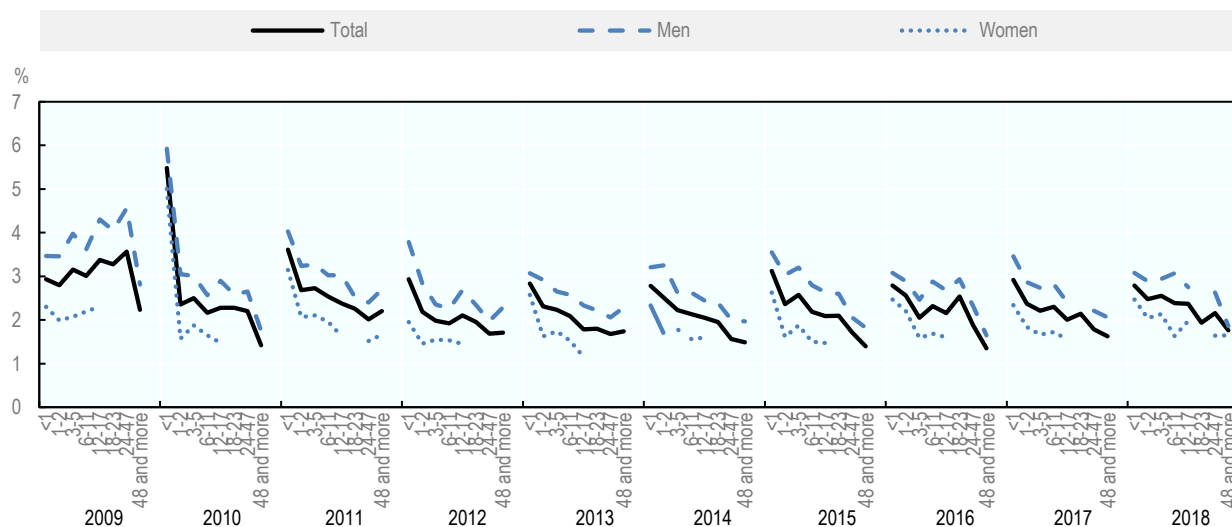


Source: (Eurostat, 2019<sup>[3]</sup>)

StatLink  <http://dx.doi.org/10.1787/888934066235>

**Figure 5.3. Likelihood of seeking self-employment decreases with duration of unemployment**

Proportion of unemployed seeking self-employment in the European Union by duration of unemployment in months, 15-64 years old



Source: (Eurostat, 2019<sup>[4]</sup>)

StatLink  <http://dx.doi.org/10.1787/888934066254>

## Entering self-employment from unemployment

### *More unemployed people become self-employed than the number seeking it*

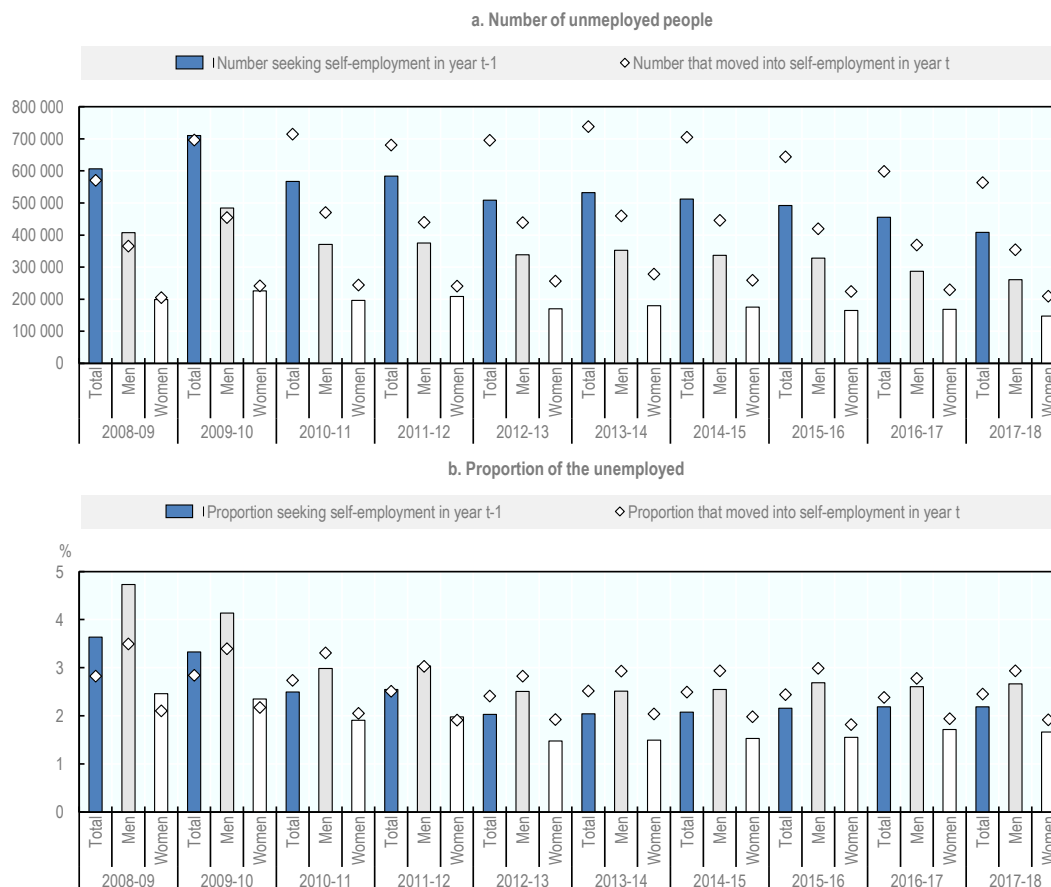
While between 2% and 3% of the unemployed indicate that they are seeking to become self-employed, a greater proportion return to work as self-employed. In 2018, 563 600 people were self-employed in the EU after being unemployed in 2017 ( Figure 5.4). This represented 2.5% of the unemployed in 2017, which was more than the proportion of the unemployed in 2017 who indicated that they were seeking to become self-employed (2.2%). This suggests that about 10% of the unemployed people who returned to work as a self-employed worker were not seeking to become self-employed. It is likely that many of these people could not find an employment opportunity that met their expectations (e.g. skills, experience, working conditions, wages) so they became self-employed to generate some income. However, it is also possible that some of these people identified a business opportunity and decided to pursue it even though it was not initially sought out.

Over the past decade, the share of unemployed people moving into self-employment has been relatively constant. However, the number of unemployed people seeking to return to work through self-employment in 2018 has declined relative to the early years of the crisis.

Some gender differences can be observed. The number of unemployed men who moved into self-employment in each year was approximately double the number of unemployed women who did the same. This ratio was constant over the past decade.

**Figure 5.4. More unemployed people become self-employed than those seeking it**

Number and percentage of unemployed people moving into self-employment (15-64 years old)

Source: (Eurostat, 2019<sub>[4]</sub>)StatLink  <http://dx.doi.org/10.1787/888934066273>***Country-level research finds high survival rates but little job creation and some displacement***

Comparable data on the characteristics of the businesses started by the unemployed are difficult to obtain due to the small number of people in this situation identified by Labour Force Survey estimates. However, some in-depth research has been undertaken using national data sources. Recent research in France indicates that about 70% of businesses started by the unemployed are in three industries: services, construction and retail trade (Box 5.3). This research also notes that businesses created by the unemployed displaced some employment from incumbent firms, but that these businesses were more productive and had higher value-added than those firms where employment was displaced (Hombert et al., 2017<sub>[5]</sub>).

**Box 5.1. Country spotlight – The role of unemployment insurance in spurring entrepreneurship, France**

Several regulatory reforms have been undertaken in France over the past 25 years to stimulate more entrepreneurship. One of the most important was called PARE (*Plan d'Aide au Retour à l'Emploi*), which was implemented in 2002 to facilitate (small) business creation by those who were unemployed.

The reform consisted of a new agreement between labour unions and employer organisations to provide more generous benefits for unemployed workers that were active in searching for work. One element of the reform was to reduce the disincentives for business creation by allowing unemployed people to retain the rights to their unemployment benefits for up to three years in the event that their business was not successful. Thus, this downside insurance reduced the cost of starting a business for those in unemployment. Moreover, the reform allowed unemployed people to generate income to supplement their unemployment benefits if the income derived from self-employment was below 70% of their pre-unemployment income.

A recent study found that the reform significantly increased business creation by the unemployed but did not worsen the quality of new entrants. Businesses created by the unemployed after the reform were initially smaller, but employment growth, productivity, and survival rates were similar to those businesses created by the unemployed before the reform (Hombert et al., 2017<sup>[5]</sup>). Most of the businesses created by the unemployed were in services, construction and retail trade (Table 5.1), which are the sectors with greatest number of self-employed people and the lowest barriers to entry. Combined, these industries accounted for about 70% of firms created. The jobs created by new entrants crowded-out employment in incumbent firms at a rate of nearly one-for-one. However, the new entrants were found to have higher productivity and value-added levels than those that had employees displaced. Overall the reform had an estimated positive impact on the French economy of about EUR 350 million per year, while the cost to the unemployment agency was about EUR 100 million per year.

**Table 5.1. Most unemployed people start businesses in services, construction and retail**

Industry composition					
	Number of businesses created pre-reform (1999-2001)	Share of all pre-reform business created	Number of businesses created post-reform (2003-05)	Share of all post-reform business created	Growth in number of businesses created
	(1)	(2)	(3)	(4)	(5)
Transportation - Utilities	4 937	3.3	5 031	2.6	2%
Wholesale trade	11 942	7.9	12 711	6.6	6%
Manufacturing	9 119	6.0	10 006	5.2	10%
Mining	21	0.0	19	0.0	10%
Services	68 266	45.0	84 317	44.0	23%
Retail trade	25 498	16.8	34 683	18.1	36%
Construction	25 454	16.8	34 970	18.3	37%
FIRE (Finance, Insurance and Real Estate)	65 45	4.3	9 768	5.1	49%
Total	151 787	100.0	191 506	100.0	26%

*Note:* This table reports the number of firms created by the unemployed before the reform (1999–2001, Column 1) and immediately after it (2003–2005, Column 3) at the 1-digit industry level. Columns 2 and 4 present these numbers as a share of total number of firm creation in the pre- and the post-reform period, respectively. Column 5 reports the growth in new firm creation in the post-reform period relative to the pre-reform period.

*Source:* (Hombert et al., 2017<sup>[5]</sup>)

## Conclusions

Policy makers should limit their expectations for the impact that entrepreneurship can have on reducing unemployment since few unemployed people go on to start a sustainable business. However, it is important not to dismiss entrepreneurship as irrelevant for the unemployed because entrepreneurship programmes can have many benefits even if the participants do not go on to create a business. These include the acquisition of skills and experience, as well as building larger professional networks, which all increase employability.

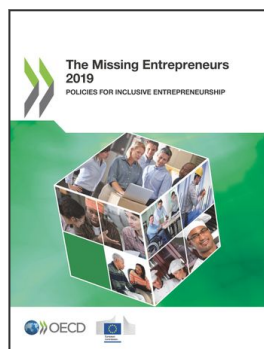
For more information and policy discussion on self-employment and entrepreneurship activities by the unemployed, please refer to (OECD/EU, 2014<sup>[1]</sup>). Examples of recent policy actions to support the unemployed in business creation are contained in the country profiles in Part III of this report, notably the profiles for Greece and Luxembourg.

## Notes

<sup>1</sup> This definition of youth does not match the one used in other chapters due to data availability.

## References

- Caliendo, M. and S. Künn (2011), “Start-up subsidies for the unemployed: Long-term evidence and effect heterogeneity”, *Journal of Public Economics*, Vol. 95/3-4, pp. 311-331. [2]
- Eurostat (2019), *Labour Force Survey*, <https://ec.europa.eu/eurostat/web/lfs/data/database>. [3]
- Eurostat (2019), *Special tabulations of the Labour Force Survey*. [4]
- Hombert, J. et al. (2017), “Can Unemployment Insurance Spur Entrepreneurial Activity? Evidence from France”, *HEC Paris Research Paper*, No. FIN-2013-1020, HEC Paris, Paris, <http://dx.doi.org/10.2139/ssrn.2329357>. [5]
- OECD/EU (2014), *The Missing Entrepreneurs 2014: Policies for Inclusive Entrepreneurship in Europe*, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264213593-en>. [1]



From:

## The Missing Entrepreneurs 2019

### Policies for Inclusive Entrepreneurship

Access the complete publication at:

<https://doi.org/10.1787/3ed84801-en>

#### Please cite this chapter as:

OECD/European Union (2019), “Self-employment and entrepreneurship from unemployment”, in *The Missing Entrepreneurs 2019: Policies for Inclusive Entrepreneurship*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/2ab253b1-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. Extracts from publications may be subject to additional disclaimers, which are set out in the complete version of the publication, available at the link provided.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at <http://www.oecd.org/termsandconditions>.