Welfare Support for the Self-Employed (BBZ), Netherlands

This case study presents an integrated support scheme for unemployed people who seek to start a business. It provides training, coaching and mentoring, grants, business counselling and a welfare bridge. The description covers the objectives, rationale, activities and impact of the scheme. It also discusses the challenges faced in delivering this support and the conditions for transferring this type of scheme to another context.

Objectives

Bijstandverlening aan zelfstandigen (BBZ) ("Welfare Support for the Self-Employed") was launched to assist people who receive a social welfare benefit to start a small business and become self-employed. It is an instrument through which municipal governments help new entrepreneurs by providing training, coaching and financial support. The overall objective of the project is to increase employment and reduce the number of people relying on unemployment benefits.

Rationale

The BBZ was created by the national government in 1996 as a potential solution to address high unemployment and it continues to operate today. BBZ is administered by the municipalities, which engage private business support services providers, business advisors and coaches to deliver the provisions. Municipalities occasionally use this instrument to reach out to specific target groups among the long-term unemployed. This is often done locally on a project basis when third parties are willing to co-finance such initiatives (i.e. this often occurs within the context of European Social Fund (ESF) projects).

Activities

BBZ offers a comprehensive set of interventions all aimed at assisting unemployed people or other welfare recipients to start their own business. The process contains 8 distinct steps (Figure 16.1). Although participants do not necessarily have to make use of all services, the vast majority do. It takes approximately 9 months for a participant to go through the intake process and to start their business.

The first step in the process is promotion. General information on the scheme is provided to the target groups through the municipalities (i.e. social affairs department). Websites, leaflets and brochures are provided by the national government to explain the scheme, its procedures and conditions. Municipalities have flexibility in how the information is disseminated to potential clients. Often, partnerships with semi-public entities (e.g. Chambers of Commerce, Enterprise Agencies) are used to expand outreach efforts.

Orientation Coaching and after the assessment start by (by external Second external Promotion parties) opinion parties Intake Business Financing Income (by social Plan (at special support welfare formulation conditions) officer) (with external

coaches)

Figure 16.1. The BBZ process

The selection process is done at the municipal level by the social affairs department. Intake interviews are conducted by municipal officers, following a systematised and documented process that is explained to potential clients in a guide book (Divosa, 2010). The objective of these interviews is to assess the potential for business creation and self-employment and the social welfare officer can refer the client to specialised (private and semi-public) agencies for training and guidance. In some municipalities, social welfare officers are given special training in how to conduct these interviews but this is not consistently undertaken across the country.

The next step for participants is an orientation and entrepreneurship training. The agencies that deliver the training and business advisory services undertake a more indepth assessment of the entrepreneurial potential of the clients, focussing on their experience, skills and needs. Agencies design their own process to complete these assessments. The average duration of the orientation scheme is 12 hours spread over 4 to 6 days. The orientation process may include some brief introductory entrepreneurship training. It may also result in the client realising that self-employment is not a feasible option for them and they can withdraw from the scheme. Following the orientation process, the agencies will make a recommendation to the social affairs officer about whether the participant should continue in the scheme.

Clients who continue in the support scheme move on to the business plan formulation phase where they receive individual support in developing business and financial plans. This support is delivered by private sector entities that are contracted by the municipalities. At this stage the clients are eligible for a small preparatory credit up to EUR 2 000 to finance special activities such as market research or additional technical and managerial training. This credit will be included in the total loan amount once business and financing plans have been approved.

When a potentially feasible plan has been finalised, the municipality can submit the business plans to a third party for a second opinion. This is required for those seeking a loan of more than EUR 10 000. For loans under EUR 10 000, municipalities typically consult with a third party for a second opinion but it is not required. The third party used for the consultation is nearly always the private national SME agency IMK Advies.

Once a positive second opinion has been obtained, clients are eligible for financing from the municipality. The instrument used is a subordinated loan of up to EUR 35 130 at 8% interest per annum since 1 July 2009. Prior to this, the rate was 5%. For existing small

business owners facing bankruptcy, a loan of up to EUR 189 000 can be granted. In most cases, participants receive loans of less than EUR 20 000. The subordinated loans are partly collateralised with the business assets and repayment is normally set for a 5-year term. In order to receive this loan, the client must be unable to receive financing from any other formal financial institution or bank. The loans are administered by the municipalities and accounting is done on a cash basis rather than transaction basis. The national government (through the Ministry of Social Affairs and Employment) reimburses municipalities up to 75% of the loan amounts outstanding each year.

After business start-up, clients are eligible to receive income support. Municipalities typically enter into special agreements to allow continued payment of their social welfare benefits for 1 year. It is possible that this can be extended for up to 3 years. This welfare bridge payment will be deducted from the net income generated from the business. Similarly, participants who receive unemployment benefits may be eligible to receive 54.9% of their unemployment benefit for the same period.

Clients whose business plans have been approved – and hence they receive either a loan or continue income support – also receive coaching and business advisory support during and after start-up for up to 12 months. This individual support is guided by the business advisor and typically covers costing and pricing, meeting administrative requirements, sales and income taxes, liquidity planning and sales and marketing. This support is delivered by professionals working for either private business development service providers or semi-public entities who are contracted by the municipalities. Municipalities pay a pre-set lump sum for such services.

Project partners

The national Ministry of Social Affairs and Employment oversees the overall implementation of the policy measure, serves as the financing entity and carries out regular evaluations and quality control actions.

The municipal departments for social affairs and employment are the main scheme implementers. Their staff are the key persons in implementation. They identify potential clients and approve those accepted into the scheme. Financing is directly done by the municipalities, which includes issuing and administration of the loans. In a small number of cases, the municipalities work with municipal banks to help manage the loans.

Private business development service providers and semi-public entities are subcontracted by the municipalities to deliver the services. Municipalities are free to decide how they contract the service providers for training and business advice. Many municipalities use retainer contracts (through restricted or sometimes open tendering) with one or two service providers for a set period.

External private business development service providers (e.g. IMK Advies) and semipublic parties (e.g. Chambers of Commerce) are contracted to validate potential clients and their business plans.

Project development

A number of major changes occurred in recent years. First, the scheme has been increasingly decentralised and municipalities have had more control over its implementation. This has led to the involvement of more partners in the scheme and led

to increased co-ordination between municipalities to achieve a certain level of economies of scale and to make better use of locally available knowledge and experience.

In the period 2009-11, a pilot project was undertaken to experiment with a combined support for the unemployed that included a guarantee scheme to stimulate lending to the unemployed and training and business advisory services. This pilot was unsuccessful at encouraging banks to lend to this client group.

Finally, the amounts paid for training and support services are adjusted regularly to reflect both market developments and changes in national government budgets.

In addition, the scheme has been used to offer support to older established entrepreneurs (over 55 years old and who have not received welfare payments for at least 10 years) who face temporary difficulties as well as assisting established entrepreneurs with non-viable businesses to wind-down their business operations.

Project financing

In 2012, the total cost of the BBZ was EUR 40.4 million (Table 16.1). Nearly three-quarters of the funds went into income support. 21% of this was used for implementation cost (i.e. management and business development services) while 7% was used for funding of the lending operation.

Category Amount in Euro % of total

BBZ Income support for long-term unemployed starting a small business/engaging in self-employment EUR 29 000 000 72

BBZ financing – net paid out after deduction of repayments in the same year for loans from previous years EUR 3 000 000 7

Implementation cost including training and coaching (pro rata excluding for implementation of other groups than long-term employed: 60%)

EUR 40 400 000

Table 16.1. National government funding of BBZ, 2012

The financing for BBZ comes from the budget of the Ministry of Social Affairs and Employment. Over the years, various municipalities have embarked on specific projects for special target groups (e.g. youth, women, immigrants), which were co-financed with the BBZ funds and the ESF or other European Union funds. These co-financed projects were nearly all locally based projects. The BBZ has not received financing from any European Union funds on an ongoing basis.

Breaking down the costs of the support services, the total cost of delivering the business development support services (i.e. coaching and advisory support) was EUR 9 650 (Table 16.2).

Table 16.2. Component costs for the BBZ BDS service and annual number of clients, 2012

Type of BDS service	Costs per BDS service component per client	Relative costs (%)	Number of clients per annum (average)
Prestart orientation, coaching	EUR 3 050	31.61	5 000
Coaching for business plan formulation	EUR 1 800	18.65	2 500
Second opinion	EUR 2 000	20.73	2 000
Coaching after the start	EUR 2 800	29.02	1 200
Total BDS costs	EUR 9 650		

Challenges encountered

Over the years, the following challenges emerged. First, it has been difficult to determine an appropriate price/cost ratio for business development services. The set prices that can be paid for these services are adjusted regularly but these changes are rather marginal. They now represent almost 40% of the average loan amount, which is high relative to other schemes; this cost is typically 25% of investment. Private service providers have regularly argued that the payments are too low and put pressure on the authorities to increase them with little change to the service provided (Bobbezoo, 2010).

It has also been difficult to identify and build relationships with business development service providers. In the early years of the scheme (i.e. the late 1990s), there were more than 20 service providers active in the scheme. Many were contracted as co-implementers of local or regional projects co-financed by the BBZ and ESF (e.g. Emploi). However, over time, many of them did not succeed in attracting additional contracts from other parties and when project funding ended, many of them decided to cease operations. Consequently, the supply of service providers has decreased significantly which will likely have a negative impact on the quality of services in the future.

The scheme has been administered and accounted on cash basis mainly, which is common for government budgeting. Municipalities have been reimbursed annually for the net amount outstanding (i.e. loans granted *minus* repayments). This has made it rather difficult and cumbersome to track performance of individual clients. At present, municipalities are stimulated to establish a more accurate administration system.

The scheme has also had some difficulties adapting to the needs of entrepreneurs. Entrepreneurs are increasingly combining self-employment with paid employment and other activities. This has an impact on those who are unemployed because a part-time self-employment activity may result in benefit payments being cut, even if no or little income is earned from the business.

Society in the Netherlands has become more diverse, which has required public employment services and business development service providers to change their services and outreach methods. Both have had to overcome these challenges by redefining their business models and providing new training for their staff.

Very few staff at the municipal level have an economic background or experience in business. This makes it difficult for them to properly assess the entrepreneurial competences of clients or appraise business ideas of clients. They also tend to skip over the supervision and monitoring of the performance of businesses set up. Training of staff in these subject matters has not been introduced systematically.

Impact

Approximately 5 000 people per year express an interest in the scheme and approximately half enter the intake process (SEO, 2008). During the intake, approximately 20% withdraw and between 1 800 and 2 400 people start the scheme per year. The number of start-ups ranges from 900 to 1 200 per year. The average loan amount ranges from EUR 17 000 to EUR 19 000, which is comparable to the average of loans extended by Qredits, the leading microfinance institute in the Netherlands.

A recent evaluation (Ecorys, 2011) reveals that over the past 5 years, 72% of the people assisted under the BBZ were still self-employed (or employed) after 3 years. The evaluation

undertook a cost-benefit analysis of the scheme and found a net benefit for society of EUR 18 900 per start-up (Table 16.3).

Table 16.3. Estimated costs and benefits of BBZ per starter

	% starters/correction factor	Average cost per person	Average costs per starte
Income support during training/preparation	160	EUR 8 800	EUR 14 080
Coach pre-starter	160	EUR 3 050	EUR 4 880
Preparatory credit	15	EUR 2 000	EUR 300
Preparation/coaching for the start	160	EUR 1 800	EUR 2 880
Second opinion	200	EUR 2 000	EUR 4 000
Continued payment income support/social welfare benefit	100	EUR 56 000	EUR 56 000
Enterprise loan	54	EUR 18 000	EUR 9 720
Coaching after the start	45	EUR 1 200	EUR 540
Implementation costs during start	100	EUR 2 800	EUR 2 800
Less income taxes if person would have been employed	35	EUR 25 092	EUR 8 782
Total costs			EUR 103 982
Income – Savings			
Savings social welfare benefits payments	100	EUR 97 334	EUR 97 334
Income taxes – entrepreneurial salary	49	EUR 31 939	EUR 15 650
Income taxes people employed	4	EUR 75 276	EUR 3 011
Repayment social welfare benefit			EUR 2 266
Repayments loans	54	EUR 8 574	EUR 4 630
Total benefits			EUR 122 891
Net benefit			EUR 18 909

Source: Ecorys, 2011.

Conditions for transfer

To introduce a similar measure in other countries, national authorities must be sure that the following conditions are met:

- 1. Provide a sound regulatory framework. There must be a regulatory framework for the economic activities (i.e. self-employment, micro or small businesses) to be set up by the clients of the scheme that ensures that clients are not punished immediately (with loss of social welfare entitlements) once they decide to engage in self-employment.
- 2. Provide sufficient resources to allow for comprehensive support. The measure must be supported by allocation of sufficient financial resources. There must be considerable budget allocation for all components: income support, business development services, business plan implementation costs, funding for financing of self-employment activities.
- 3. Build capacity of delivery partners. If municipalities or other third-party local organisations are called on to administer the programme, attention will need to be paid to ensuring they have the right training and capabilities. The partners should have a clear understanding of the persons who could benefit from the services and have a hands-on knowledge about the quality of possible implementing agencies (private and semi-public) delivering the business development services. They should also have the capabilities to manage (in a transparent way) tendering processes to engage local service providers. However, it is important to set maximum prices for services to be delivered

- centrally to facilitate the tendering and negotiation processes. This would allow local parties to concentrate on the quality of services to be rendered.
- 4. Develop a comprehensive monitoring system. It is important to organise and establish accounting administration systems to monitor operations and to supervise lending since many different partners are involved. This monitoring system should also include client tracking systems.
- 5. Partner with the private (and semi-public) sector. Use local business development service providers to provide entrepreneurship training and other business start-up and development services. It is important to develop a screening mechanism to verify that they have the necessary competences.

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