



EUROPEAN POLICY BRIEF



Business Start-Ups & Youth Self-Employment

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INTRODUCTION

Overall, self-employment as a proportion of all employment in Europe has remained small and relatively stable over-time. Nevertheless, it remains important in a number of southern and some eastern European countries reflecting economic structures where 'agriculture', service-based and informal work are prominent. In the context of high levels of youth unemployment, self-employment is often seen as a viable strategy to increase youth employment opportunities.

We examined the factors facilitating start-ups by young people, in particular, policy interventions; the individual characteristics of the young self-employed and their enterprises; and the outcomes for the self-employed individuals (e.g., job quality, sustainability, innovation rates of these enterprises). Focus was placed on six EU countries: Estonia, Germany, Ireland, Poland, Spain and the United Kingdom. We find that self-employment is often not a viable path for young unemployed people given the human and financial capital needed for success.

The job creation capacity of young people is quite limited. Reviewing policy provisions across the EU to encourage business start-ups and youth self-employment, we distinguished between 'hard' and 'soft' policies: policies that provided financial support and those that provided professional and social skills. Hybrid forms of assistance and greater employer engagement are found to enhance job creation efforts. Formal and timely evaluations of policy interventions were quite limited across the EU. The presence of more business incubators, a greater focus on entrepreneurial education and the provision of pension and healthcare benefits are needed to sustain the viability of youth self-employment.

EVIDENCE AND ANALYSIS

1. Youth Self-Employment: While the rate of self-employment in Europe has remained around 14 -15 per cent, the rate of youth self-employment is low (3.86% for the EU-28, average 2004-2013), in particular, compared to older workers. Emphasis needs to be placed on removing barriers and assisting the youth - in particular reducing risks – for those wanting to become self-employed.

2. Job Creation Capacity: Although self-employment has potential for enhancing job creation, there has recently been a *decrease* in the percentage of the self-employed with employees (from around 4.8% in 2004 to 3.2% in 2012; and only 0.56% of 16-24 year olds had employees in 2012). This reflects recent economic and financial conditions that have depleted job creation opportunities for self-employment. In the case study findings, the majority of interviewees did not have paid employees. Some of the key challenges in hiring employees included financial costs, finding people with the relevant skills/experience, alongside legal obligations. Nevertheless, a high percentage of self-employed youth from our case studies had plans to hire in the future. To *increase* job creation opportunities, the focus must be on reducing these challenges. This can be achieved by providing a hybrid form of assistance to the youth self-employed i.e. hard and soft assistance and greater employer engagement. The creation of jobs need to be prioritised as this can facilitate business sustainability and growth and also reduce unemployment.

3. Evaluation of Policies: Outlining the policies underpinning business start-ups, policies are classified by 1) financial (hard) assistance, 2) non-financial (soft) assistance or 3) 'hybrid' assistance and target specific groups i.e. self-employed females, self-employed young people and the unemployed.

In the case study countries, of those policies that target specific groups, approximately one third targeted young people with a further one in ten targeting the unemployed in general. All case study countries had at least one initiative to facilitate the young unemployed in starting a business. Yet, evaluations of such policies are minimal. Evaluations become complex when policies do not target specific groups. The absence of a standard EU definition of self-employment also intensifies difficulties in developing policies to target self-employment and hence to conduct evaluations. More timely and rigorous evaluations are needed, particularly given concerns of deadweight i.e. policy intervention(s) to encourage business actions which would have occurred in any manner, regardless of the policy intervention(s).

POLICY IMPLICATIONS AND RECOMMENDATIONS

1. Youth Unemployment. While self-employment can be one potential response to youth unemployment, the rate of youth self-employment is overall low. In part, current policies are not presenting self-employment as a viable career trajectory for many young people. To reconcile this, three policy recommendations are presented:

a) At a local, regional and national level in all EU countries, **more business incubators, and creative centres/co-working spaces** need to be established. Providing a workspace and a meeting point, business incubators are important for business start-ups, particularly by the youth whose knowledge and experience of start-ups may be limited. Co-working spaces are evident in Berlin that supports business start-ups. In Estonia, creative cities are fundamental for the youth self-employed.

b) **Entrepreneurial education** must be strengthened where focus is placed on how to start up a business and its reach is extended to younger ages e.g. at primary level. Policy makers in Ireland highlighted the need for more practical entrepreneurial education for young people, including a greater focus on how to start a business. In the creative and cultural industry, there is a need to have a more business-orientated focus (in particular, training in accounting and taxation and a greater awareness of government policies aimed at supporting the self-employed).

c) EU wide policies to provide **pension and health care benefits** for all self-employed are necessary along with policies to minimise risks and insecurities if a self-employed person becomes unemployed in the case of business failure. In Spain, such risks are reduced by policies that allow the self-employed to avail of temporary sick leave, maternity/paternity cover and in the event of ceasing self-employment, social welfare provisions can be accessed. While the case study analysis found that many young people had concerns about health care, pension and general financial planning matters, many interviewees felt that they were ‘too young’ to be concerned about these issues.

2. Job Creation Capacity. Overall, the job creation capacity of the young self-employed is limited. Given a key priority of the European Commission is the creation of new jobs, poor employability opportunities can lead to higher unemployment costs, reduced consumer spending power and weaker growth prospects for Europe.

Policy interventions to encourage job creation should adopt a *hybrid form* of assistance that targets the young self-employed. Hard interventions should focus on financial assistance and focus on reduced insurance and tax contributions for the first year of work in relation to new employees. For example, national Insurance contributions consist of a flat tax in Spain, but such a tax must target specific groups e.g. youth self-employment and women.

Soft assistance should also be available in terms of mentoring young people in preparing public and private sector financial assistance applications, job specifications and employment contracts.

Second, greater *employer engagement* in educational and training programmes could strengthen the work readiness skills of prospective employees. Encouraging business forums could facilitate greater employer engagement and mentoring opportunities. Business forums can help identify the key issues on the ground whilst informing policy making at the ‘top’. Finally, *government bodies* such as those who facilitate the unemployed back to employment and other members from the community (education providers; business representative groups) are important engagement stakeholders.

3. Evaluation of Policy. Policy evaluation is required given the lack of rigorous and timely evaluations. Concerns are further intensified with potential dead-weight losses from policy interventions. All of this can result in inefficient use of resources. A policy recommendation is to ensure more rigorous and timely evaluations are conducted with a focus on those policies which target specific groups e.g. youth, women and less educated. In the UK, policy experts emphasised that policy must not adopt a ‘one size fits all’ approach and that the needs of specific groups (e.g., young people, women) must be specifically incorporated.

RESEARCH PARAMETERS

The objective of this work package is to evaluate the nature, rate and success of business start-ups and self-employment for young people. To achieve this, first, a literature review of business start-ups and youth self-employment in Europe was conducted. Second, patterns of self-employment were presented utilising data from the EU and national data sources. Third, firm-level case studies were conducted with start-ups in the ‘Creative and Cultural’ (‘CCI’) and the ‘Information and Communications Technology’ (‘ICT’) industries along with policy interviews. A summary synthesis report of the findings and policy recommendations was also available on the project website.

PROJECT IDENTITY

PROJECT NAME

Strategic Transitions for Youth Labour in Europe (STYLE)

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CONSORTIUM

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- Democritus University of Thrace, Komotini, Greece
- Economic & Social Research Institute, Dublin, Ireland
- EurActiv, Brussels, Belgium
- Grenoble School of Management, Grenoble, France
- Institute for Employment Studies, Brighton, United Kingdom
- Institute for the Study of Labour, Bonn, Germany
- Koç University Social Policy Centre, Istanbul, Turkey
- Metropolitan University Prague, Prague, Czech Republic
- National University of Ireland Galway, Galway, Ireland
- Norwegian Social Research, Oslo, Norway
- Slovak Governance Institute, Bratislava, Slovakia
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- University of Tartu, Tartu, Estonia
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FUNDING SCHEME

FP7 Framework Programme for Research of the European Union – Collaborative project. SSH - ACTIVITY 8.1: GROWTH, EMPLOYMENT AND COMPETITIVENESS IN A KNOWLEDGE SOCIETY, Area 8.1.2 Structural changes in the European knowledge economy and society - SSH.2013.1.2-1 Overcoming youth unemployment in Europe.

DURATION

March 2014 – August 2017 (42 months).

BUDGET

EU contribution: €4 999 056.

WEBSITE

www.style-research.eu

FOR MORE INFORMATION

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FURTHER READING

- Sheehan, M. and Mc Namara, A. (2015) *[Business Start-Ups & Youth Self-Employment A Policy Literature Review Synthesis Report](#)*, STYLE Working Papers, WP7.1. CROME, University of Brighton, Brighton.
- Masso, J. et al. (2015) *[Mapping Patterns of Self-Employment: Secondary Analysis Synthesis Report](#)*, STYLE Working Papers, WP7.2. CROME, University of Brighton, Brighton.
- Mc Namara, A. et al. (2016) *[Business Start-Ups & Youth Self-Employment. Case Study Findings Synthesis Report](#)*, STYLE Working Papers, WP7.3. CROME, University of Brighton, Brighton.
- Sheehan, M. et al. (2016) *[Policy Synthesis and Integrative Report on Youth Self-Employment In Europe](#)*, STYLE Working Papers, WP7.4. CROME, University of Brighton, Brighton.