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Going solo

Does self-employment offer a solution to youth unemployment?

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Acknowledgements

We would like to thank our research sponsors – Barclays, Trust for London and Impetus-PEF – for funding the project and for providing us with insight, advice and support.

In addition, this paper has benefited from discussions with a number of individuals and organisations engaged in this area. In particular, we would like to thank those people from Citizens Advice Bureau, Black Training and Enterprise Group (BTEG), Enterprise Exchange, the Prince's Trust, UnLtd, Colin Crooks, Job Centre Plus, an NEA provider, A4E, and Quaker Social Action who gave up their time to discuss aspects of the paper. At The Work Foundation, Ceri Hughes provided useful comments on early drafts.

Executive summary

The UK has an exceptionally large number of young people in self-employment compared with other EU States: in 2014 the UK had 180,000 under 25s in self-employment, three times more than in Germany and nearly 4 times more than in France. The UK accounts for 23 per cent of all under 25s self-employed across the EU. This is largely because the UK has an exceptionally large youth labour market by European standards.

However, this does not translate into a high rate of self-employment among young people: just 5 per cent of young people who are in work are self-employed compared to 15 per cent of the total working age population. The increase in self-employment among the young has lagged behind the overall growth in self-employment.

There are both structural barriers and opportunities to increase self-employment among young people: self-employment has historically been dominated by older workers, who are more likely to have the contacts, experience, and capital than younger workers – a feature reinforced by the strong growth of freelance self-employment where a track-record of professional membership and qualification is also important. But the UK's exceptionally large digital and internet economy may offer more low cost opportunities for young people to get started on their own, especially for those individuals with high levels of digital skills and an awareness of the receptiveness of peer markets for new ideas and services.

The evidence on whether entry into self-employment is a good thing for younger people is mixed: we can find no clear association between the incidence of self-employment among young people and overall performance of youth labour markets across the EU. Self-employment can widen future employment options by building contacts with employers and providing the 'soft' skills employers say they need. Being your own boss with autonomy and flexibility, and doing work that is satisfying and interesting will be as attractive to younger people as it is to older people. But it can also lead to risky and precarious employment where financial returns are lower than in similar employee jobs and may offer little improvement in the position of some disadvantaged groups.

Support programmes need to be realistic on what can be achieved and should provide more intensive support for those who have the most realistic prospects of making it: self-employment is very unlikely to ever become a common entry point to work for young people, but the relatively large numbers of young self-employed in the UK suggests it is a viable route for some. The best results are likely to come from targeted and intensive support focused on creating sustainable businesses that exploit market niches rather than maximising the number of business registered, loans made or unemployed placed on support schemes. It is also important that young people attracted to self-employment are clear about where they can go for support and advice at local level: Youth Transition Partnerships – which we have previously recommended be set up – working with Local Enterprise Partnerships could play a key role here.

The current evidence base is surprisingly weak both on what works and the longer term impact on employment and earnings: so far, we have more evidence for the negative effects of self-employment on future earnings and employment for young people than the benefits – including non-monetary

rewards – enjoyed by some. Little is known about the relative effectiveness of initiatives supporting young unemployed people into self-employment, especially the extent of displacement of existing businesses and deadweight from supporting businesses that would have been created anyway. We also know relatively little about the impacts of entrepreneurial education in schools and colleges. Several large companies and voluntary sector organisations offer welcome and often apparently well-designed support and educational schemes for young entrepreneurs but relatively few have been independently evaluated to see what works and what could be improved and there appear to be few cross-sectoral forums that would allow regular comparisons and exchanges of best practice to be made.

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Introduction

Increases in self-employment have accounted for a significant proportion of employment growth experienced during the recovery.¹ Yet nationally, the proportion of young people working for themselves remains low. With youth unemployment still unacceptably high, this report considers whether we should be encouraging more of the young unemployed to pursue this route into work.

For some young unemployed people becoming self-employed or setting up a business may offer an important opportunity to enter the labour market. 'Being your own boss' can have advantages, providing autonomy and flexibility.² It has also been suggested that self-employment may help some young unemployed people to overcome some of the disadvantages they face in the labour market (e.g. a lack of work experience, low qualifications, criminal records, caring responsibilities, health conditions).

Policymakers since the 1970s, both in the UK and internationally, have designed, delivered, commissioned and funded programmes to help disadvantaged groups to set up their own businesses. Alongside this, a range of private and third sector initiatives aim both to foster the next generation of growth creators and to tackle labour market disadvantage.

Yet little is known about the longer term impacts, for instance on future employment or pay prospects, of a period spent in self-employment, or setting up a new business whilst young. However, we do know that self-employment can be risky and confers fewer employment rights and protections than regular employment. Setting up a business is no easy task – the majority of new businesses fail, and it is likely that many of the disadvantages young people have in accessing employment (such as limited work experience, skills and networks) alongside financial capital constraints will present additional barriers to successful entrepreneurship for the young unemployed.

This paper investigates self-employment and enterprise as a route into work for young unemployed people. It aims to assess both the opportunities and limitations of this form of employment for more young workers and considers the kinds and level of support needed to support their businesses and protect them from the risks associated with self-employment.

Based on a review of the available evidence, case studies from the Citizens Advice Bureau (CAB) caseload database, and informed by interviews with key stakeholders, this research paper aims to address the following research questions:

- What impact does a period of self-employment while young have on future labour market prospects?
- How far should employment support services encourage self-employment routes into the labour market for young workers?
- What are the barriers to entrepreneurship faced by young unemployed people?
- Does the current support available do enough to counter these disadvantages?

¹ ONS (2014) Self-employed workers in the UK. Available at: http://www.ons.gov.uk/ons/dcp171776_374941.pdf (accessed 02/09/14).

² Rouse, J and Jayawarna, D. (2011) Structures of Exclusion from Enterprise. Finance, Environment and Planning C: Government and Policy, 29(4), 659-676.

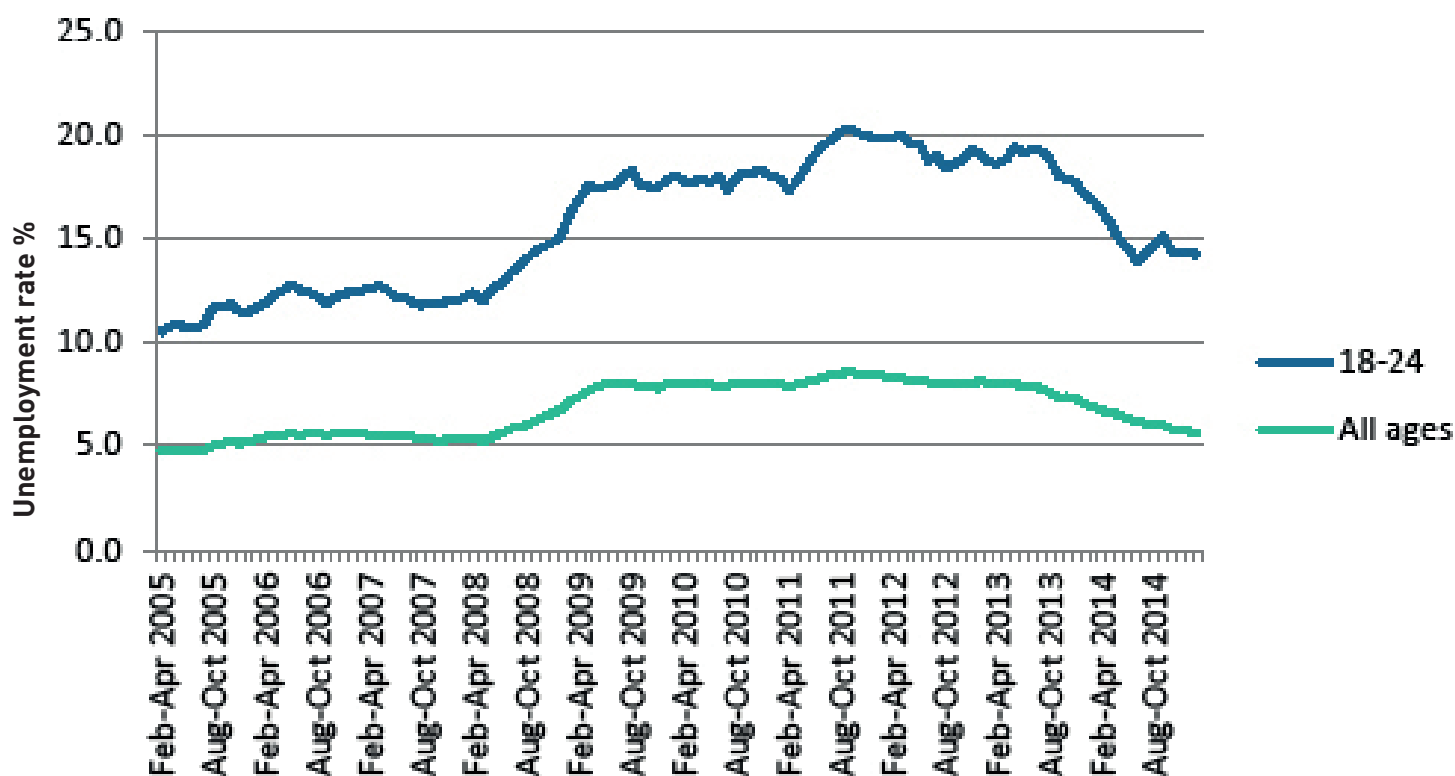


Self-employment and young people

Despite recent falls, youth unemployment remains a major economic and social challenge for the UK. The unemployment rate for 18-24 year olds currently stands at just over 14 per cent or just under 600,000. There have been significant falls since 2010 but in more recent figures the decline in youth unemployment has been slower than for older age groups, so the gap between the all ages and the youth unemployment rates is widening.

This is shown in Figure 1 below, where youth unemployment remains significantly higher than in 2008, whereas the all ages unemployment rate is almost back to where it was before the recession. The youth unemployment rate was edging up prior to the recession, suggesting an underlying increase in structural youth unemployment. It is therefore likely that a considerable proportion of the remaining youth unemployment problem is structural in nature. In other words, continued economic recovery is unlikely to see further large falls in youth unemployment, with widening divides between more and less disadvantaged groups.

Figure 1: Youth unemployment persistently high despite the recovery



Source: ONS

The UK compares favourably on overall employment performance with many other OECD economies, with an employment rate of over 72 per cent compared with 69 per cent for the US and 65 per cent across the EU28. Similarly, the unemployment rate of 5.6 per cent compares with 9.6 per cent across the EU28.³ The position on young people is more mixed. The unemployment rate for young people in 2014 in the UK was just under 17 per cent, based on Eurostat definitions, compared with a EU28 average of 22 per cent. The UK was in the bottom third of all EU countries. However, the unemployment rate is not the best comparative measure of performance, as youth labour markets can be distorted by the share of young people in higher and further education. A better measure is the youth unemployment ratio which shows unemployment as a share of the total population under 25. By this measure the UK does badly, with a youth unemployment ratio of 12 per cent compared to just under 10 per cent across the EU. A third widely used measure of social exclusion is the NEET rate. Here again the UK performs relatively poorly compared to some other countries in the EU, sitting roughly mid-table in 2013.

Table 1: Youth Unemployment rates, Youth Unemployment/Population Ratios, and NEET rates 2013-2014

Unemployment rate (2014)		Unemployment ratio (2013)		NEET rate (2013)	
Spain	53.2%	Spain	21.0%	Italy	34%
Greece	52.4%	Greece	16.6%	Greece	33%
Croatia	45.5%	Croatia	14.4%	Spain	32%
Italy	42.7%	Portugal	13.5%	Hungary	26%
Portugal	34.8%	Sweden	12.8%	Portugal	22%
Slovakia	29.7%	UK	12.0%	Ireland	22%
Romania	24.0%	Italy	10.9%	Slovak Rep	21%
Ireland	23.9%	Ireland	10.6%	Poland	20%
Poland	23.9%	Slovakia	10.4%	Belgium	19%
Bulgaria	23.8%	Finland	10.3%	France	19%
Belgium	23.2%	Latvia	9.1%	UK	19%
France	23.2%	Poland	9.1%	Latvia	17%
Sweden	22.9%	France	9.0%	Finland	15%
Finland	20.5%	Bulgaria	8.4%	Czech Rep	14%
Hungary	20.4%	Denmark	8.1%	Slovenia	14%
Slovenia	20.2%	Netherlands	7.7%	Denmark	13%
Latvia	19.6%	Hungary	7.4%	Sweden	13%
Lithuania	19.3%	Belgium	7.3%	Austria	11%
UK	16.9%	Romania	7.3%	Germany	10%
Czech Rep	15.9%	Slovenia	7.3%	Netherlands	9%
Denmark	12.6%	Lithuania	6.9%		
Netherlands	10.5%	Czech Rep	6.0%		
Austria	10.3%	Austria	5.4%		
Germany	7.7%	Germany	4.0%		
EU28	21.9%	EU28	9.8%	OECD av	18%

Note: Unemployment rate is share of 15-24 year olds unemployed of under 25 labour force. Youth unemployment ratio is share of unemployed under 25s in the total population of under 25s. NEETs are all those not in education, employment, or training using OECD definitions as share of all young people between 20 and 24. Data not available for Croatia, Bulgaria, Lithuania, Romania.

Source: Eurostat LFS databases, Employment and social situation in Europe 2014, Statistical Annex. OECD database, House of Commons Briefing Paper, May 2015.

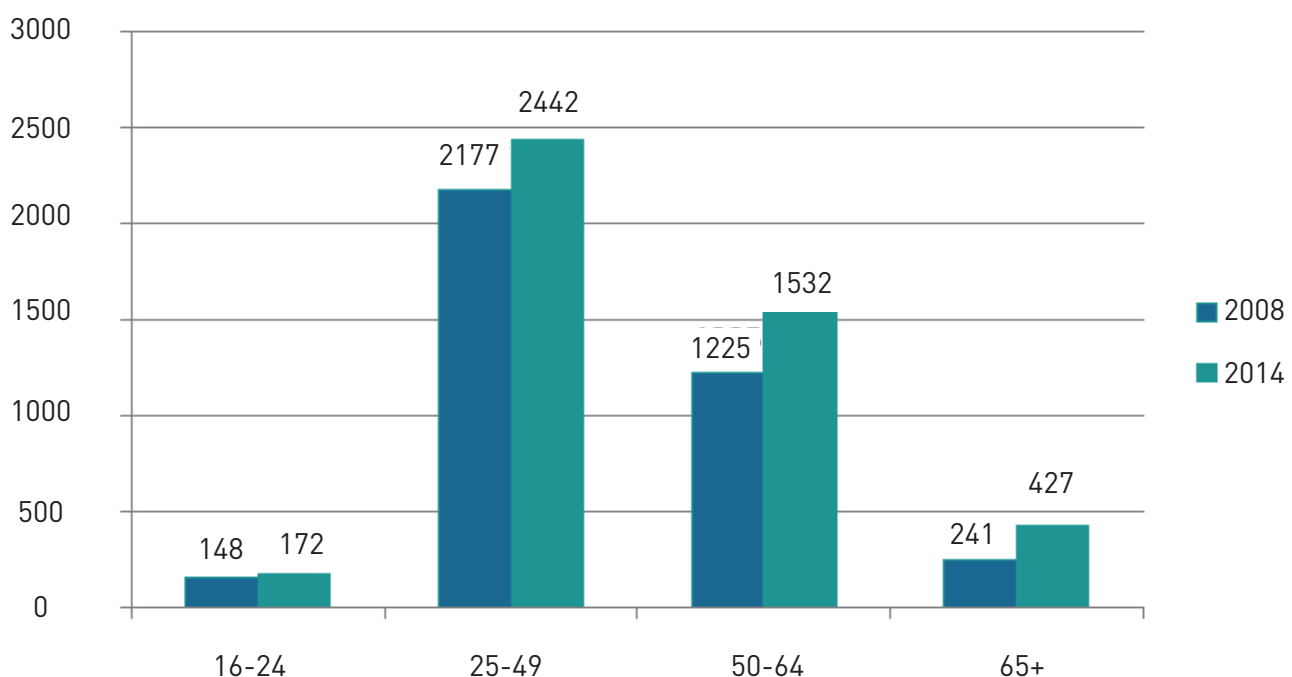
There is clearly a major long term challenge for the UK to close the gap against those OECD economies which have done better on the various indicators shown in Table 1, above. In the remainder of this section we look at self-employment and young people, drawing primarily on responses to the household Labour Force Survey. This is based on respondent’s own assessment, and in practice self-employment can be defined in different ways and embrace a wide range of employment relationships (see Box 1).

Box 1. Self-employment definition

There is no single, clear definition of what constitutes ‘self-employment’. Official government labour market statistics (ONS/LFS) are based on survey respondents’ view of the type of work they do. The HMRC defines self-employed people as those who: risk their own money; provide the main items of equipment they need to do their job; agree to do a job for a fixed price regardless of how long the job may take; decide what work to do; how and when to do the work and where to provide the services; regularly work for a number of different people; and, have to correct unsatisfactory work in their own time and at their own expense. These definitions encompass multiple forms of working arrangement – from being a sole director of a limited liability company to undertaking freelance work. The self-employment figures cover a range of these different working arrangements.

Increases in self-employment have accounted for a significant proportion of employment growth experienced during the recovery.⁴ Yet whilst growth in self-employment can be observed across all age groups, we can see from Figure 1 that this has been lowest for those aged 16-24. Moreover, despite recent increases a small proportion of young people are self-employed. Currently only 5 per cent of 16-24 year olds who are in work are self-employed, compared to 15 per cent of the total working population.⁵

Figure 2: Self-employment growth by age group in the UK 2008-2014 (000s)

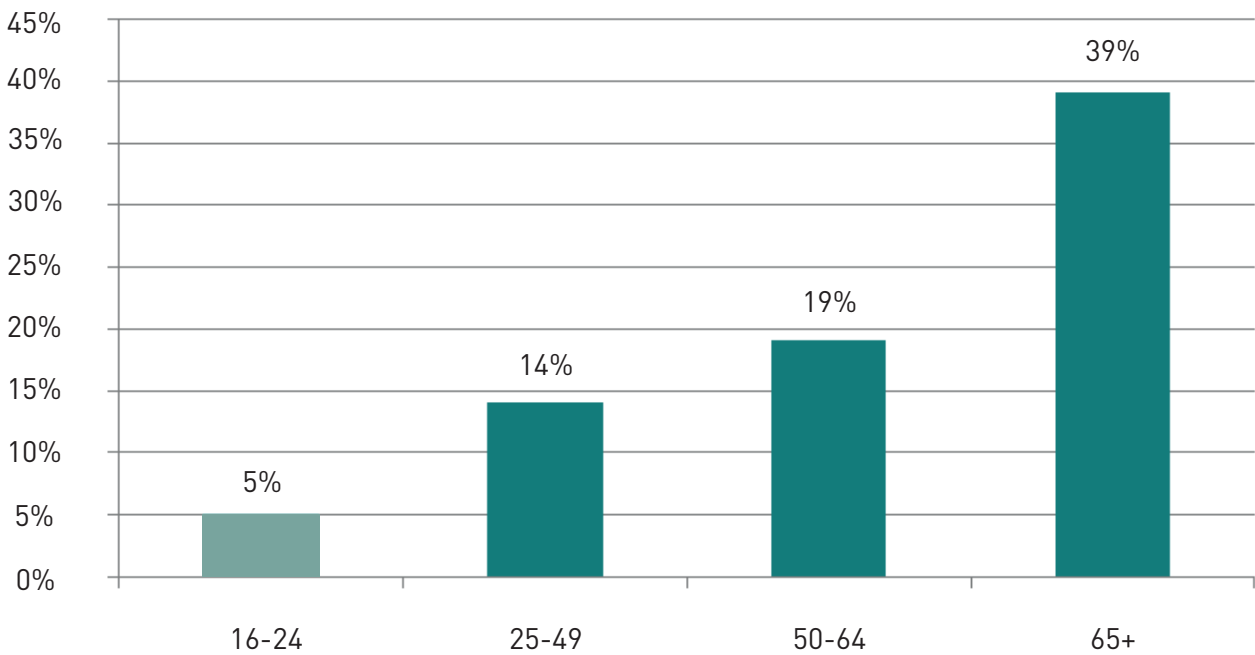


Source: ONS (2014) Self-employed workers in the UK, April June (2009 and 2014)

⁴ ONS (2014) Self-employed workers in the UK http://www.ons.gov.uk/ons/dcp171776_374941.pdf accessed 02/09/14

⁵ Labour Force Survey, April-June 2014, authors analysis

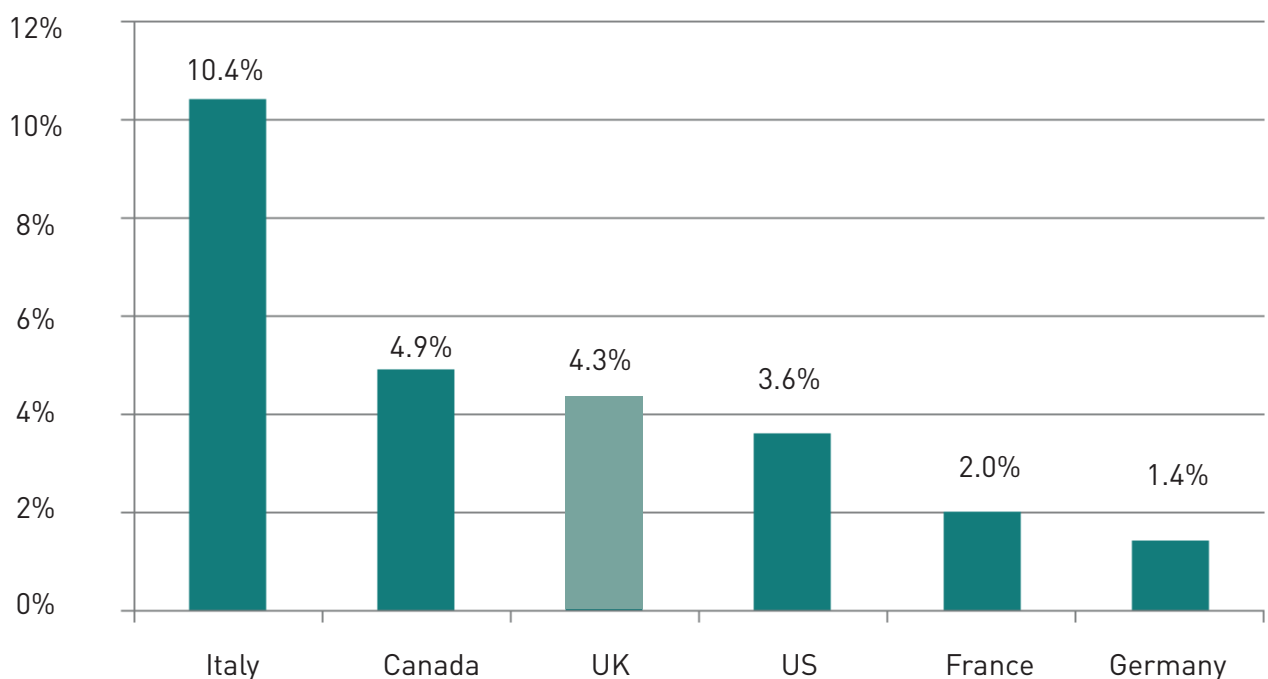
Figure 3: Self-employment as share of each age group in employment in the UK in 2014



Source: Labour Force Survey 2014, April-June, author's calculations. Weighted.

The OECD has estimated that on average about 4 per cent of young people under 25 are self-employed, although the OECD definition of self-employment differs a little from that used by the ONS, the analysis relates to 2009-2011, and excludes the agricultural sector. The UK average was slightly higher, at 4.3 per cent. Compared with other major economies, the UK had a higher rate of youth self-employment than the United States, Germany, and France but lower than in Italy and Canada. The US estimate excludes the incorporated self-employed, but as very few of these are under 25 it is unlikely to greatly affect the incidence of youth self-employment.

Figure 4: Youth self-employment rates in major economies in 2009-2011

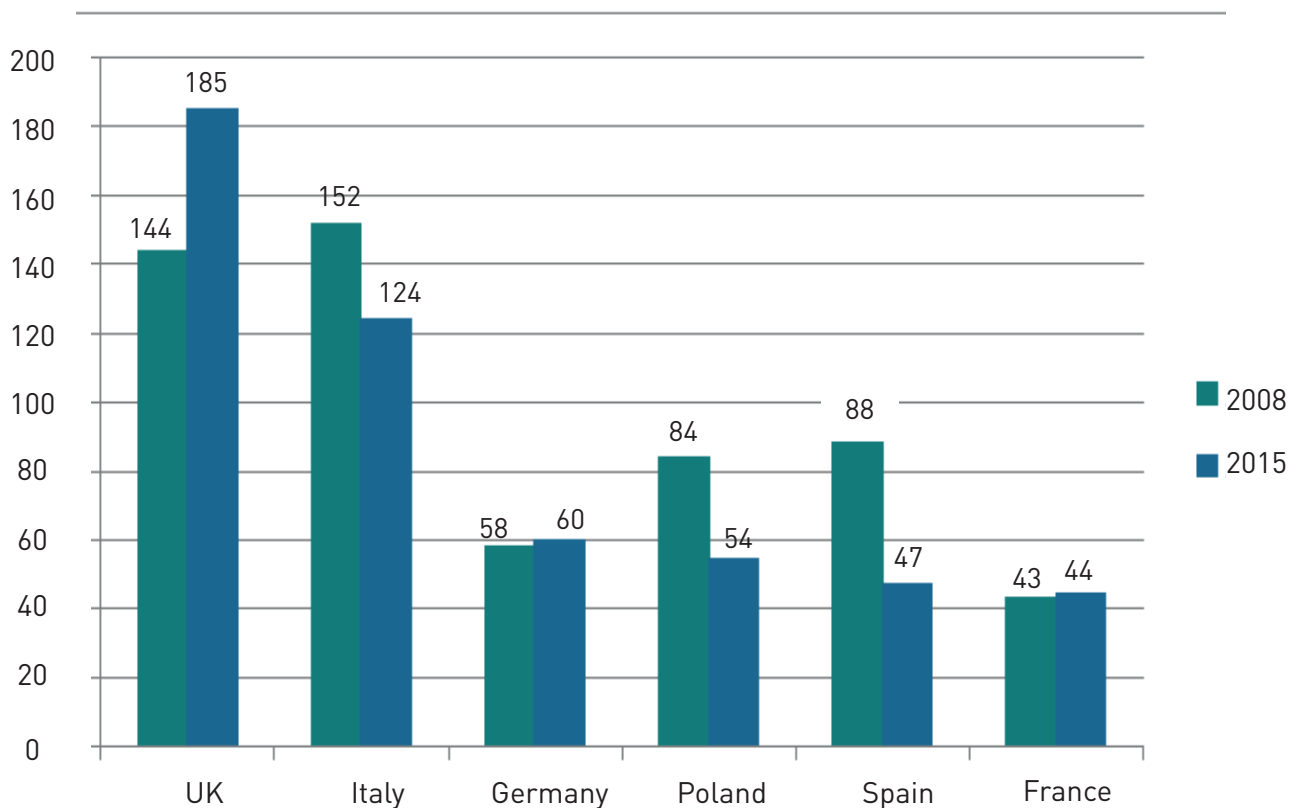


Note: data not available for Japan. All figures self-employed under 25 as share of all those in work under 25.
Source: OECD Entrepreneurship at a Glance 2013, Figure 5.7

These figures were of course at the height of the economic crisis and while labour market difficulties have persisted in some economies, notably Southern Europe, they have improved elsewhere, notably the UK and Germany. We have therefore drawn on the most recent data from the European Labour Force Survey published by Eurostat to see how the UK compares with other EU States today. There is however one caveat – young people in self-employment are typically a small part of the workforce, so sample sizes are small. This is especially so in some EU labour markets where a much higher proportion of young people are in higher and further education compared with the UK and/or more young people have been designated as NEET (not in education, employment or training).

In absolute terms, the UK has the most young people in self-employment in the EU – in 2015 just over 180,000 compared with just under 125,000 in Italy, 60,000 in Germany and 44,000 in France. The UK accounts for 23 per cent of all young people in self-employment across the EU28, compared with 14 per cent of all self-employed.⁶ The UK had a relatively large number of young people in self-employment compared with other EU States even before the crash. More recent trends have confirmed that position, with the number of young people in self-employment rising in the UK (albeit at a slower pace than all age rises) and either remaining static or declining in most other EU States. Figure 5, below, compares the UK with the five largest EU labour markets of Germany, France, Italy, Spain, and Poland showing changes between 2008Q1 to 2015Q1.

Figure 5: UK has more self-employed under 25 than in other large EU labour markets (2008-2015)



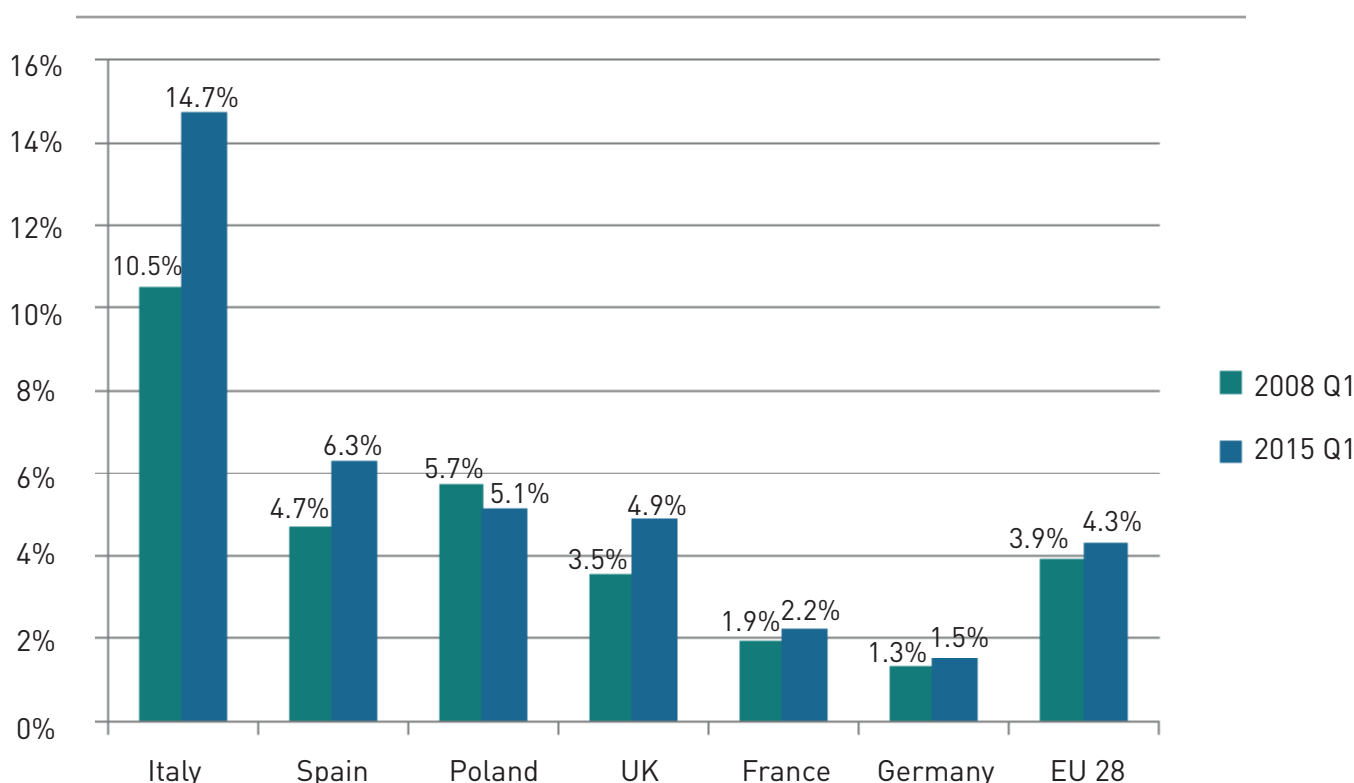
Source: Eurostat, all self-employed ages 15-24, Q1 both years.

⁶ 15 to 74 year olds. This is a wider age range than the normal definition of working age, but as we showed above a relatively high share of people over 64 is self-employed.

When we look at the incidence of self-employment among young people in work the picture changes somewhat. The UK in 2015Q1 has a slightly higher share of young people in self-employment as a share of total employment than the EU average (4.9 per cent compared with an EU28 average of 4.3 per cent). The UK is still much higher than Germany and France, but has a lower incidence than Italy, Poland and Spain. When compared with the rest of the EU28, the UK sat roughly mid-table at the start of 2015. This confirms the finding that the large number of self-employed young people in the UK is primarily because we have a very large youth labour market rather than because young people in the UK are more entrepreneurially minded than their European counterparts.

The incidence of youth self-employment has increased in the UK since 2008, up from 3.5 per cent to 4.9 per cent. The main driver was a big percentage increase in the numbers of self-employed under 25, up 28 per cent. The incidence also increased in most other EU States, but conversely this was not because the numbers in self-employment have increased, but because these numbers have fallen at a slower rate than employee employment. In Italy for example total employment for young people has fallen by over 40 per cent, while self-employment declined by 18 per cent and as a result the incidence of self-employment among those young people still in work in Italy jumped from just under 11 per cent to nearly 15 per cent. There is a similar story in Spain. Poland was one of the few EU economies where youth self-employment declined faster than youth total employment in this period, and hence the incidence of youth self-employment declined somewhat. The chart below shows the change in the incidence of youth self-employment for the EU's six largest labour markets and for the EU28 as a whole.

Figure 6: Rising incidence of youth self-employment across most EU States 2008-2015



Note: share of self-employed 15 to 24 of all in work 15 to 24.

Source: Eurostat datasets

A key question is whether we can see any association between high levels of young people in self-employment and youth unemployment rates across the EU. However, we have to enter two caveats.

One is that unemployment rates are not ideal for international comparisons of young people because the labour markets for under 25s are strongly influenced by the share of young people in higher education. The better comparator is the youth unemployment ratio, which shows the share of young people who are unemployed as a share of the youth population. However, official estimates of the youth unemployment ratio are not as timely as the unemployment rate. The UK does better on the youth unemployment rate comparator, lying in the bottom third of the EU28 rankings in 2014 with an unemployment rate of 17 per cent against an EU28 average of 22 per cent. However, the position is reversed on the youth unemployment ratio measure when the UK moves into the top third of the European rankings with a ratio (in 2013) of 12 per cent compared with an EU28 average of 10 per cent.

The second is that the relationship between self-employment and unemployment is not straightforward. People can enter self-employment because there are no alternative sources of employment, so an increasing or high rate of self-employment could be more indicative of a general problem in youth labour markets rather than evidence of increasing or widespread entrepreneurial spirit among the young. We would need to know much more than we typically do about the motivation to enter self-employment before we can draw any firm conclusions on an international basis. However, it seems reasonable to assume that in countries with very high rates of youth unemployment more young people enter self-employment because nothing else is available, while lower rates are likely to see more young people select self-employment out of choice.

Overall, we can see no obvious association between self-employment rates and overall youth unemployment rates. For example, Poland, the UK, and the Netherlands all have similar rates of self-employment among young people but very different youth unemployment rates at (in 2014) 24 per cent, 17 per cent, and 11 per cent respectively. The same is true for the youth unemployment ratio (in 2013) with the UK at 12 per cent, Poland at 9 per cent, and the Netherlands at 8 per cent. Similarly, a number of countries with very low rates of self-employment among young people such as Germany, Austria and Denmark have some of the lowest youth unemployment rates in the EU. At the other end of the spectrum the highest self-employment rates are found in countries where youth unemployment is very high such as Italy, Greece, Slovakia and Romania.

While the data on self-employment will include those setting up their own businesses, self-employment is a crude proxy for enterprise. Yet accurate and meaningful data on youth start-ups is difficult to obtain. For example, The Start Up Loans Company, a government funded scheme to provide advice, business loans and mentoring to start-up businesses is a private limited company acting on a commercial basis, and as such is not bound by the Freedom of Information Act to provide this information. Looking across a number of sources suggests that whilst there may have been some increases in the number of youth start-ups this is likely to have been limited:

- Whilst some surveys find recent increases in youth start-up activity – the Annual Simply Business Start-up Index, for example, recently recorded an increase of 29 per cent in youth start-ups since 2008⁷ – this will be from a very low base.
- Young people are also a small client group for the government's New Enterprise Allowance (NEA) scheme, accounting for 9 per cent of those starting with a business mentor. According to the available statistics, young people are slightly less likely than other age groups to progress from NEA mentoring into receiving the Allowance.

⁷ CIPD/Youth Enterprise (2014) Entrepreneurs: What can we learn from them? Part 3/3 Inspiring youth enterprise

Table 2: NEA Demographic Breakdown for the period April 2011 to March 2015

Age Group	NEA Mentor Starts		NEA Business Starts	
16-24	11,940	9%	5,160	7%
25-49	93,800	70%	48,040	69%
50+	28,700	21%	16,120	23%
All ages	134,440	100%	69,340	100%

Note: * excludes small number where age is not known. Figures may not sum due to rounding.

Source: DWP LMS opportunities and DWP Clients evaluation databases June 2015, TWF calculations

Although the underlying cause of the large increases in self-employment and start-ups overall are not well understood there are a number characteristics of the rise that may help to explain why increases have been relatively small amongst the 16-24 age group:

- **Demographic change:** More marked growth in self-employment amongst older workers is likely to be explained by older people staying in the labour market for longer, as self-employment becomes an alternative or complement to retirement. Thus self-employment may be functioning more to 'smooth transitions out' rather than 'smooth transitions into' the labour market.
- **Fewer outflows:** Recent figures from the ONS show that the increase in self-employment can be explained by fewer outflows rather than increases in inflows – once becoming self-employed individuals have been staying there for longer periods. Recent data show that 26 per cent of people who were self-employed in 2009 had left self-employment by 2014. This is figure is significantly down from previous periods where the outflow rate has been at around a third.⁸
- **Sector shifts:** a rise in self-employment in managerial, professional and associate professional occupations (which have accounted for almost 60 per cent of the total increase in self-employment since 2009) may help to explain why youth self-employment has not taken off at the same rate as young people are much less likely to be employed in higher skilled work.⁹ Elementary and sales and customers service occupations (where a high proportion of young people work) have also seen growth in self-employment but from a low base; these occupations account for just 8 per cent of the self-employed.¹⁰

However, when considering several other of the explanations advanced to explain the rise in self-employment – for example, new opportunities generated by technological change – it may seem strange that more young people are not pursuing this route into work, given their supposed 'digital native' status and the receptiveness of younger age groups to new services and products. At the margin, some young people may be taking advantage of these opportunities. A recent RSA study of on-line sellers using the Etsy platform¹¹ found that on average they were younger than the self-employed; with a higher share of under 25s than for self-employment as a whole (the share is likely to be significantly higher for women under 25, as the overwhelming majority of Etsy sellers are female).

Similar technology and market driven changes should also have opened up opportunities for the young to enter niche business for themselves. The digital economy, the internet economy, and the creative economy rather confusingly refer to an over-lapping group of services driven by new technology and rising global demand and characterised as major job generators through opening up new markets and services and disrupting the business models of incumbents. By international standards, the UK has significant advantages in all these areas, yet this comparative success has yet to translate itself

⁸ ONS (2014) Self-employed workers in the UK – 2014

⁹ Ibid

¹⁰ D'Arcy, C. and Gardiner, L. (2014) Just the Job or a Working Compromise? The changing nature of self-employment. Resolution Foundation

¹¹ http://extfiles.etsy.com/Press/reports/Etsy_RSABreakingtheMouldReport_2014.pdf

into a high share of young people entering self-employment. The same industries are of course also generating large numbers of employee jobs which may offer better immediate prospects for the young. Moreover, the emphasis on acquiring and building on technical and professional skills may encourage delayed entry to self-employment beyond the age of 25.

Yet, according to several recent surveys, young people have a high level of interest in setting up their own businesses.¹² While it has been suggested that a growing preference for self-employment amongst young people is indicative of what the future labour market might look like¹³, a large amount of latent demand for self-employment amongst young people was observed more than a decade ago by Blanchflower and Oswald (2009) drawing on data from 2000-4.¹⁴ This is yet to translate into any sizeable shift in the numbers actually moving into this form of work, therefore it is questionable whether the interest identified in recent surveys will translate into actual moves into self-employment.

Moreover, it is unlikely the dramatic increase in self-employment seen in recent years is a long-term trend. The change has been more modest than some suppose when looking at past long term changes in the UK labour market – in March-May 1995 the self-employment rate was 13.8 per cent, it peaked at 15 per cent in March-May 2014 and declined to 14.4 per cent in March-May 2015. Moreover, the overall level of self-employment is not expected to change dramatically in the future. Working Futures estimate that over the next decade (2012 to 2022) the number of people who are self-employed in the will increase by just 0.4 per cent compared to an increase of 5.7 per cent in overall employment levels.¹⁵ The rises are likely to be concentrated in professional and associate professional roles which employ fewer younger people.

As we noted above, for some, moves into self-employment are made not through choice but as a last resort¹⁶, and may represent a form of 'hidden unemployment', with people forced to go it alone when traditional routes in the labour market appear closed. Unemployment can have both a positive and negative effect on self-employment; whereas individuals may choose to become self-employed when faced with unemployment as the alternative, *'high unemployment is likely to coincide with a limited market demand for self-employed output "pulling" them out of self employment'*.¹⁷

The proportion of unemployed people moving into self-employment is relatively small¹⁸, but has increased since before recession hit; in 2010 moves into self-employment from unemployment accounted for 11 per cent of all moves into work (for the unemployed) up from 8 per cent in the pre-recession period.¹⁹ According to one recent survey of young people, 56 per cent agreed that *'the job market is saturated and that earning opportunities need to be self-created'*.²⁰ However according to recent figures this does not appear to be translating into any sizeable proportion of young people pursuing this route into the labour market.

Overall self-employment and enterprise is not currently providing as big a solution to the UK's youth unemployment problem as some might have hoped. But is this something policymakers should be concerned about? The next section reviews the current evidence base on the experiences of young people in self-employment and considers whether or not more young people should be encouraged to pursue this route into work.

¹² Beauregard, T.A. Inspiring Tomorrow's Women: An Avon Report, Based on Avon's "Tomorrow's Entrepreneurs" Research <http://bit.ly/ZPJ6rK> accessed 24/10/14; CIPD/Youth Enterprise (2014) Entrepreneurs: What can we learn from them? Part 3/3 Inspiring youth enterprise.

¹³ Dellot, B. (2014) Salvation in a start-up? The origins and nature of the self-employment boom. RSA

¹⁴ Blanchflower and Oswald (2009) 'What makes a young entrepreneur?' In Furlong, A. (eds) Handbook of Youth and Young Adulthood: New Perspectives and Agendas. Routledge

¹⁵ UKCES (2014) Working Futures 2012-2022

¹⁶ Shutt, J. and Sutherland, J. (2003) 'Encouraging the transition into self-employment,' Regional Studies 37(1)

¹⁷ Audretsch, D.B, Carree, M.A, Stel, A.J. van, and, Thurik, A.R (2005) Does Self-Employment Reduce Unemployment?, SCALES

¹⁸ Ibid,

¹⁹ D'Arcy, C. and Gardiner, L. (2014) Just the Job or a Working Compromise? The changing nature of self-employment. Resolution Foundation

²⁰ Beauregard, T.A. (undated) Inspiring Tomorrow's Women: An Avon Report, Based on Avon's "Tomorrow's Entrepreneurs" Research <http://bit.ly/ZPJ6rK> accessed 24/10/14



The impact of self-employment on young people

The consequences of becoming unemployed while young are well evidenced – for example, it is estimated that a period spent *unemployed* while young can reduce an individual's wages by between 13 and 21 per cent by the age of 42.²¹ However, the impact of *self-employment* on a young person's future employment prospects is less clear. Does working for themselves offer young people a strong route into the labour market? Is it simply the lesser of two evils if unemployment is the only alternative? Or does it risk further marginalising those with a weak position in the labour market? This section reviews the evidence base on the impact of self-employment while young on immediate and subsequent labour market outcomes and considers whether or not we should do more to support and encourage more young unemployed people to pursue this path into work.

The evidence on the impact that pursuing self-employment as a route into the labour market is limited. Small sample sizes permit limited assessment of the economic position of the young self-employed. However based on general trends in the occupations and earnings of the self-employed, and evaluations of several 'start-up' programmes, we can begin to build a picture, albeit an incomplete one.

Whether or not working for themselves is a positive experience for young people is likely to vary considerably according to the occupations and sectors in which they work, and (relatedly) the incomes they are able to draw to support both themselves and their business. Whilst a striking feature of the recent rise in self-employment has been substantial increases in professional self-employment, this is unlikely to be the case for the young self-employed – young people are much more likely to work in elementary and service occupations, rather than higher skilled professional ones. Previous research has found that young people tend to start businesses in sectors with low barriers to entry '*requiring low start-up capital and few specialist skills*'.²² Work amongst the young self-employed has been found to be '*informal and risky*' rather than of the '*entrepreneurial*' kind envisaged by policymakers.²³

Accurate data on the earnings of the self-employed are difficult to obtain. However a worrying feature of the growth in self-employment over the past few years has been a collapse of the wages of people working for themselves – whilst all workers have seen their real earnings squeezed, the self-employed have experienced this more sharply, with weekly earnings falling by 20 per cent since 2008, compared to a fall of 6 per cent for employees.²⁴ According to recent analysis by the Resolution Foundation, there is on average a 40 per cent earnings gap between self-employed workers and employees.²⁵ And, not only do the self-employed earn less, but they typically have a precarious financial position due to fluctuating income and cash flows.²⁶

Whilst the evidence base comparing youth self-employed wages to that of young employees is limited, several studies have found that moving from unemployment into self-employment results in

²¹ Gregg, P. and Tominey, E. (2005) 'The wage scar from youth unemployment', *Labour Economics*, 12:4: 487-509

²² Rouse, J. and Kitching, J. (2006) *Do enterprise support programmes leave women holding the baby?* London: Kingston University Research Repository.

²³ Blackburn, R. and Ram, M. (2006). "Fix or fixation? The contributions and limitations of entrepreneurship and small firms to combating social exclusion." *Entrepreneurship and regional development* 18: 73-89.

²⁴ D'Arcy, C. and Gardiner, L. (2014) *Just the Job or a Working Compromise? The changing nature of self-employment.* Resolution Foundation

²⁵ *Ibid*

²⁶ Dellot, B. (2014) *Salvation in a start-up? The origins and nature of the self-employment boom.* RSA

little improvement for the economic position of disadvantaged groups (including young unemployed people).²⁷ Further, some programmes may be successful in helping disadvantaged people to set up their own businesses, however, the businesses created have often been found to be low quality and failing to generate enough income to sustain either the business or the worker.²⁸

Young people's experiences while self-employed only give us some indication of the impact this has on their longer term labour market prospects. For example, whilst many youth start-ups may fail, the experience of working for themselves may give young people opportunities to develop new skills, build contacts with employers and gain the experience employers are looking for. 'Softer' outcomes such as attitudes to enterprise and the development of confidence and new skills can be important for improving a young person's employability.²⁹ Whilst business survival rates are often taken to assess the success of an intervention, for some ceasing to trade may be a positive step as they make a successful transition from self-employment to employment.

Given that a period of unemployment while young has clear negative implications for future labour market prospects, self-employment might seem to be a more favourable position. Yet the impact of self-employment on a young person's labour market prospects is again unclear, with studies reporting both positive and negative effects.³⁰ These estimates are also often imprecise due to small sample sizes.³¹

Previous studies suggest that youth enterprise programmes have limited demonstrable impacts on participants' employment chances. This is particularly the case for participants in enterprise programmes whose businesses do not survive, and those becoming self-employed following unemployment. According to the available evidence, start-up support appears to work best for those with the fewest disadvantages – for example for those with higher qualifications and who have not been unemployed for long periods.³²

Whilst few in number, statistical analyses of employees who have previously experienced a spell of self-employment suggest those subsequently moving into waged employment experience a negative impact on wages compared to those who were in waged work. However, this negative effect has been found not to hold if subsequent employment is in the same sector as that in which an individual was self-employed. In addition those who take on staff or are able to generate a high income through self-employment *'do not face adverse effects on their subsequent wages in dependent employment'*.³³

The available evidence permits us to draw few firm conclusions about the benefits or risks associated with youth self-employment, but it is clear that, in general, self-employment does not offer the same guarantees as regular employment. Self-employment and enterprise may offer an important opportunity for some young people, however, it is likely that many of the disadvantages young people have in accessing employment (e.g. limited work experience, skills and networks) alongside financial capital constraints will present barriers to entrepreneurship for this group. The next section reviews the opportunities, constraints and dangers presented by self-employment and enterprise for the young unemployed.

²⁷ Blackburn, R. and Ram, M. (2006). "Fix or fixation? The contributions and limitations of entrepreneurship and small firms to combating social exclusion." *Entrepreneurship and regional development* 18: 73–89; MacDonald, R. Coffield, F. (1991) *Risky Business?: Youth And The Enterprise Culture*; Macdonald, 1996

²⁸ Rouse, J. and Jayawarna, D. (2011) *Structures of Exclusion from Enterprise*. Finance, Environment and Planning C: Government and Policy, 29(4), 659–676.; Blackburn, R. and Ram, M. (2006). "Fix or fixation? The contributions and limitations of entrepreneurship and small firms to combating social exclusion." *Entrepreneurship and regional development* 18: 73–89

²⁹ Denny, S., Hazenberg, R. and Seddon, F (2010) *Social enterprises and NEETs: Ethical and effective entrepreneurial skills programmes?*; Meager, N., Bates, P. and Cowling, M. (2003) 'An evaluation of business start-up support for young people,' *National Institute Economic Review*. 186:59

³⁰ Williams, D.R. (2004). "Youth Self Employment: Its Nature and Consequences." *Small business economics* 23 23:323–336

³¹ Kaiser, U. and Malchow-Møller, N. (2011) *Is self-employment really a bad experience? The effects of previous self-employment on subsequent wage-employment wages*

³² Meager, N., Bates, P. and Cowling, M. (2003) 'An evaluation of business start-up support for young people,' *National Institute Economic Review*, 186:59

³³ Kaiser, U. and Malchow-Møller, N. (2011) *Is self-employment really a bad experience? The effects of previous self-employment on subsequent wage-employment wages*

Youth self-employment and enterprise: opportunities, constraints and dangers

For some young unemployed people, self-employment and enterprise may offer an important opportunity. However, a considerable degree of labour market disadvantage alongside financial capital constraints will present significant barriers to entrepreneurship for many in this group. This section reviews the opportunities, constraints and dangers which a move to self-employment presents for the young unemployed.

Advocates of youth enterprise have highlighted particular advantages that young entrepreneurs may hold over their older counterparts – including new ideas and enthusiasm, digital skills, and a better understanding and awareness of the wants and needs of their peers – a major consumer group.

But if self-employment and entrepreneurship is to be promoted to young people as a route out of unemployment, it is crucial that those providing support fully understand the constraints and challenges these young people will face when trying to start and sustain their own business. This will be essential so that support can be tailored as well as to ensure that young people are fully aware of the risks of pursuing this route into the labour market.

Whilst the young unemployed are a diverse group facing different challenges, for many there are a number of common disadvantages which are likely to constrain the potential for successful entrepreneurship – these include limited work experience, poor networks, limited knowledge and skills, and limited access to capital. These barriers have been found to increase with length of unemployment as skills and networks weaken and confidence decreases.³⁴ This section briefly reviews the evidence on how these factors can create barriers to successful entrepreneurship.

The skills and knowledge needed for self-employment and entrepreneurship are difficult to pin down – indeed, it has been suggested these cannot be taught.³⁵ Recent research has argued that there are several characteristics, skills and attributes necessary for successful entrepreneurship including: creativity; autonomy; leadership; and, coping with uncertainty and ambiguity.³⁶ Lord Young's recent report emphasised the importance of fostering self-reliance, creativity and an enterprising attitude throughout the education system.³⁷ Certainly, a young entrepreneur must be multi-skilled – not only must they be able to produce the product or service which they hope to trade, they must also be equipped with marketing skills to trade it.

Young unemployed people tend to have lower qualification levels and weaker 'soft skills' which, for some, can act as a barrier to accessing mainstream employment. Yet, whilst self-employment may appear to offer an alternative route into the labour market it is these very characteristics – of low educational attainment and limited work experience – that have been argued to explain limited success in programmes promoting entrepreneurship amongst disadvantaged young people.³⁸ There is some evidence that those with lower educational attainment are less likely to be successful entrepreneurs

³⁴ Adams, L. and Oldfield, K. (2012). Welfare to self employment. IFF Research/BIS

³⁵ Athayde, R. (2009). Measuring Enterprise Potential in Young People, Entrepreneurship Theory and Practice Vol 33, No 2

³⁶ Athayde, R. (2009). Measuring Enterprise Potential in Young People, Entrepreneurship Theory and Practice Vol 33, No 2

³⁷ Young (2014). Enterprise for All: The relevance of enterprise in education. URN BIS/14/874

³⁸ Rouse, J. and Kitching, J. (2006). Do enterprise support programmes leave women holding the baby? London: Kingston University Research Repository.

and several studies have found that unemployed people '*tend to possess lower endowments of human capital and entrepreneurial talent required to start and sustain a new firm*'.³⁹ Young people themselves are more likely than other age groups to believe they lack enterprise skills.⁴⁰ According to the CIPD, 42 per cent of young people surveyed said that a lack of business knowledge put them off setting up their own business.⁴¹

Digital skills are perhaps where young entrepreneurs have an advantage. However, whilst belonging to the so-called 'digital natives' generation, it is unclear to what extent young unemployed people are able to draw on digital skills in order to give them, and their enterprises, a competitive advantage. According to a recent survey by the Prince's Trust, less than half of young people not in employment education or training consider themselves "very good" at using a computer, compared to 71 per cent of the wider youth sample, and around a quarter of NEETs do not feel confident about creating a spreadsheet (compared to 16 per cent young people in employment, education or training).⁴²

Lord Young's proposals for fostering the skills, knowledge and enthusiasm for enterprise throughout the education system are welcome. High quality enterprise education and work experience opportunities can be beneficial for all young people in equipping them with the skills and knowledge they need for a complex and changing labour market, whether or not they wish to work for themselves in the future. It is essential that this also includes education on employment rights.

Social networks are important for those wanting to work for themselves – both in terms of building a customer base and in order to access support and encouragement to set up a business. Yet we know that many young unemployed people have weak social networks which put them at a disadvantage.⁴³ Who you know matters – indeed, whether or not an individual has a self-employed parent is a good predictor of self-employment aspiration, entry and survival.⁴⁴ This is assumed to result from '*intergenerational transfers of entrepreneurial human capital and ability*'⁴⁵, and may also give young people the confidence to work for themselves – fear of failure is reported to deter some young people from setting up their own business.⁴⁶

Being able to access adequate financial capital to start and support a new business is fundamental to entrepreneurial success. In the UK, start-ups are predominantly financed by personal investment. However, young unemployed people typically have limited access to start-up capital, often unable to draw on personal or family wealth.⁴⁷ They are also reported to have low credibility with lenders. This

³⁹ Audretsch, Carree, van Stel, and Thurik (2005). Does self-employment reduce unemployment? CEPR Discussion paper no 5057

⁴⁰ Athayde, R. (2009). Measuring Enterprise Potential in Young People, *Entrepreneurship Theory and Practice* Vol 33, No 2

⁴¹ CIPD/Youth Enterprise (2014). *Entrepreneurs: What can we learn from them? Part 3/3 Inspiring youth enterprise*

⁴² The Prince's Trust (2013). The Prince's Trust Digital Literacy Survey https://www.princes-trust.org.uk/pdf/DIGITAL_LITERACY_2013B.pdf accessed 17/09/14

⁴³ Smith, R. and Air, C. (2012). 'No choices, no chances: how contemporary enterprise culture is failing Britain's underclasses,' *International Journal of Entrepreneurship and Innovation*, 13 (2) pp. 103-113; Rouse, J. and Kitching, J. (2006). Do enterprise support programmes leave women holding the baby? London: Kingston University Research Repository.

⁴⁴ Millán et al (2012) -e.g. Cooper et al. (1991, 1992, 1994), Gimeno- Gascon et al. (1997) and Haapanen and Tervo (2009) report a higher probability of survival if the entrepreneur's parents have owned (or currently own) a business ; Blanchflower and Oswald (2009); Athayde, R. (2009) Measuring Enterprise Potential in Young People, *Entrepreneurship Theory and Practice* Vol 33, No 2

⁴⁵ Millán, J. and Congregado, E. and Román, C. (2012). "Determinants of self-employment survival in Europe." *Small Business Economics* 38: 231–258.

⁴⁶ CIPD/Youth Enterprise (2014). *Entrepreneurs: What can we learn from them? Part 3/3 Inspiring youth enterprise*

⁴⁷ Rouse, J. and Jayawarna, D. (2011). Structures of Exclusion from Enterprise. *Finance, Environment and Planning C: Government and Policy*. 29(4), 659-676.; Blanchflower and Oswald (2009) What makes a young entrepreneur?; Rouse, J. and Kitching, J. (2006). Do enterprise support programmes leave women holding the baby? London: Kingston University Research Repository; Audretsch, Carree, van Stel, and Thurik (2005). Does self-employment reduce unemployment? CEPR Discussion paper no 5057

⁴⁸ Rouse, J. and Jayawarna, D. (2011). Structures of Exclusion from Enterprise. *Finance, Environment and Planning C: Government and Policy*. 29(4), 659-676.

puts them at a clear disadvantage, as under-capitalisation has been found to both hinder business development amongst deprived groups and results in *'low value start ups that are poorly located, concentrated in crowded markets [serving] poor clients'*.⁴⁸

Where a young person lives and the performance of their local labour market has a significant impact on their employment chances.⁴⁹ Similarly, depending on the nature of self-employment, geography can present a barrier to successful entrepreneurship. Blackburn and Ram (2006), for example, find that the potential for successful self-employment is limited in areas of high unemployment and depressed local labour markets.⁵⁰ In addition, an evaluation of young people taking part in an enterprise programme found that the majority were heavily dependent on local markets which limited the chances of survival compared to those businesses with a wider geographic reach.⁵¹ It is possible that the emergence of new technologies may help to overcome this barrier for young entrepreneurs if, for example, they are able to promote and trade their product or services online via websites and social media. Although the potential of this may be constrained for those with limited access to technology and/or those living in more remote areas with poor broadband coverage.

Recent enthusiasm around self-employment and entrepreneurship has been countered by concerns about the risks this form of employment presents.⁵² Becoming self-employed means that an individual forgoes a range of protections enjoyed by waged-employees including sick and holiday pay and employer pension contributions.⁵³ In addition, many self-employed workers, particularly those working in lower skilled sectors, are on a low and fluctuating income, increasing the chances of debt and financial hardship. There are also legitimate concerns about 'bogus self-employment' with employers using self-employment as a way to minimise their responsibilities to their workers, although it is unclear how widespread this practice is.

Box 2 (overleaf) provides case studies of the young self-employed drawn from the Citizens Advice Bureau's case load database. Whilst not representative of all the young self-employed, they nevertheless provide some worrying examples of employer exploitation, financial scams and financial insecurity, to which young people on the margins of the labour market may be particularly vulnerable.

In summary, there are several common disadvantages faced by young unemployed people who are likely to constrain their potential for successful self-employment and/or entrepreneurship – these include limited work experience, poor networks, lack of knowledge and skills, and restricted access to financial capital. Self-employment also presents several risks, to which young people may be particularly vulnerable, which include low, and fluctuating income, risk of debt, and poor employer practices.

If young unemployed people are to be supported and encouraged to pursue self-employment and entrepreneurship as a route into work, it is important that the assistance available is sufficient to address these issues. The following section reviews the current support offer and considers whether this is strong enough to encourage youth enterprise amongst young unemployed people and protect them from the risks associated with self-employment.

⁴⁹ Crowley, L. and Cominetti, N. (2013). The geography of youth unemployment: a route map for change. London: The Work Foundation

⁵⁰ Blackburn, R. and Ram, M. (2006). "Fix or fixation? The contributions and limitations of entrepreneurship and small firms to combating social exclusion." *Entrepreneurship and regional development* 18: 73–89

⁵¹ Meager, N., Bates, P. and Cowling, M. (2003). An evaluation of business start-up support for young people. *National Institute Economic Review*. 186:59

⁵² TUC (2014) The wrong kind of recovery <http://www.tuc.org.uk/equality-issues/gender-equality/equal-pay/wrong-kind-recovery> accessed 21/11/14

⁵³ D'Arcy, C. and Gardiner, L. (2014) Just the Job or a Working Compromise? The changing nature of self-employment. Resolution Foundation

Box 2. Case studies from the Citizens Advice Bureau (July 2012-July 2014)⁵⁴

Peter (20) works for a cleaning agency. After initially working for the company on a short term contract, he has since continued to work regularly up to 7 days a week for the agency. After requesting a new contract, Peter was sent one describing him as a sub-contractor on a self-employed basis. It requires him to commit for a minimum of three months and to be penalised a day's pay for failing to give at least one day notice of absence. Peter earns variable amounts under £200 per week, and the agency refuses to pay him for any overtime when jobs take more time than expected. Peter was under a lot of pressure to sign the contract, but was unsure about whether or not he should do so. He wants to keep this job until he is able to find another one with enough hours but wants to leave as soon as possible. If he refuses to sign the contract his employment may not continue.

Sarah (24) recently started working at a call centre. Along with her fellow co-workers, she has not received a contract and has been told that she is employed on a self-employed basis. She receives the minimum wage but she does not get holiday or sick pay. Sarah and the majority of her colleagues were unemployed for a long time prior to getting this job. As such they are scared to challenge their employer for fear of losing it and becoming unemployed again.

John (24) is a self-employed trainee with a stone mason. His finances are very up and down, as is his work. To make ends meet he was searching for non-payday loans. After filling in his details on a loans comparison website, John received numerous calls from 'loan facilitators'. Most he batted away, but one, who said they said they could provide a range of borrowing options, sounded free and sensible. No fee was mentioned but they asked for his bank card details. He asked why, and was assured that it was essential, but would only be used to verify his identity/age/bank account. A few days later, his account was charged almost £100. He immediately called his bank, but as he had voluntarily given his card details, they said that it was a matter between him and the loans company. Unable to contact the company, John asked his bank to note this was an unauthorised deduction and they hung up. John was already struggling financially, and this scam has worsened his situation further.

Tim (21) is a self-employed construction worker. Whilst working for a construction company, he was not given a contract but told that he should remain self-employed and hand in an invoice. On one occasion, Tim's boss disputed his invoice, saying that he had not done the work. Tim queried this and it was agreed that a mistake had been made. However, after reaching the agreement that he should be paid, Tim was still significantly underpaid for his work. When he asked why this was the case, he was told that payment had been deducted because a customer had claimed for paint damage. However according to Tim, he always puts a sign out saying WET PAINT and he had not been told of any problem. This has meant a loss of income for work done, and the loss of future work, as he feels he cannot work for that person again. Tim is currently living with a family member but is unable to pay them anything.

⁵⁴ NB: Names have been changed

Support for young unemployed people to set up new businesses or move into self-employment

This section reviews the range of support on offer to young unemployed people to move into self-employment or set up their own businesses, and considers whether this goes far enough to counter the barriers and mitigate the risks associated with this route into work identified in the previous chapter. It first provides an overview of the initiatives and organisations offering assistance, before reviewing the common elements offered.

In recognition of the additional disadvantages faced by jobseekers who wish to set up their own businesses, successive governments have put in place a range of support interventions. Under the previous Labour government, support for self-employment was provided as part of the New Deal Programme, and as part of the Six Month Offer introduced in response to the onset of the financial crisis in 2008.⁵⁵

In 2011 the current government introduced the New Enterprise Allowance (NEA). This is an all-ages programme designed to support unemployed people claiming Jobseekers Allowance to set up their own businesses. Eligible claimants are able to access this from day one of their claim. Those on the Work Programme are not eligible for the allowance but providers may still encourage and support their clients to pursue this route into work. More details on the NEA scheme can be found in Box 3.

Support from the NEA scheme and the Work Programme is only available to those claiming benefits, however we know that a large proportion of young unemployed people do not claim these.⁵⁶ There are however many third sector schemes and organisations which target young disadvantaged groups with enterprise support, often with the support of the private sector and charitable trusts. These range from large scale well-established specialist organisations such as the Prince's Trust, to smaller local organisations, e.g. BTEG's (Black Training & Enterprise Group) Opening Doors Network in London, and Enterprise Exchange in East Sussex. Details of the NEA scheme and the Prince's Trust enterprise support programme can be found in Box 3. Young unemployed people should also be able to access the Start Up Loans Company, a government funded scheme to provide advice, business loans and mentoring to start-up businesses (for anybody aged 18 and above living in the UK).

⁵⁵ Under the Coalition government, the New Deal schemes have been replaced by the Work Programme.

⁵⁶ Brinkley, I, Jones, K, and Lee, N. (2013). The Gender Jobs Split: How young men and women experience the labour market. Trades Union Congress

Box 3. Example initiatives of enterprise programmes supporting young unemployed people

The New Enterprise Allowance (NEA) programme is the government's main vehicle for supporting unemployed people to set up their own businesses. It is an all-ages programme available to JSA claimants from day one of their claim. Lone parents on Income Support and Employment and Support Allowance claimants in the Work Related Activity Group can also access the programme.

Eligible jobseekers who want to set up their own businesses are referred by Jobcentre Plus (JCP) advisers to NEA providers. These "mentoring organisations" are a mix of local authorities, private sector companies, and voluntary sector organisations. If an initial assessment of their business ideas is positive, the mentoring organisation puts them in touch with a business mentor who, over the course of 8 weeks, helps the participant to work up a business plan. Upon submission of this plan, the mentoring organisation assesses its viability – this assessment is typically undertaken by an individual working in the NEA delivery organisation. If approved, the individual stops claiming unemployment benefit, and instead receives a weekly allowance of £65 for 13 weeks, which is then reduced to £33 for a further 13 weeks. These payments are administered by JCP.

Participants can also access a loan of up to £2,500 to help with start-up costs. This is administered by the Start Up Loans Company. Participants can continue to access advice and assistance from their business mentors during the first 6 months of trading.

The Prince's Trust Enterprise Programme is a large, well-established programme which has provided enterprise support for young people since 1976. The scheme is available to people aged 18-30 who are unemployed or working fewer than 16 hours a week.

The programme consists of 4 main stages: potential participants first attend an initial information session where they can learn more about what the programme offers and meet others considering starting a business. If still interested, participants then attend a free four day workshop to learn about the practicalities of starting a business: including business planning, marketing, sales, raising capital, budgeting and tax. These sessions are run by the Prince's Trust Enterprise Team and supported by business mentors who may have specific industry expertise. They are interactive and involve around 10-15 participants. If, following this workshop, individuals are still interested they are supported to plan and test their business ideas. The Trust provides one-to-one support from an adviser/mentor who offers assistance with practical details, including writing business plans and managing finance. 'Will it Work' grants may also be provided to test whether ideas will work.

Participants then present their business plan to the Trust's Business Launch Group who assesses the idea's viability and sustainability. If approved, participants receive support from an experienced business mentor for two years, a range of free and discounted business services support for three years and access to start-up finance – typically a low interest loan of up to £4,000 and in some circumstances start-up business grants. For those who change their minds about self-employment, the Trust also offers six months of mentoring support to plan next steps.

There is no set way to promote and support entrepreneurship. The support provided by different organisations and agencies varies according to programme aims, the target groups, and the resources an initiative is able to command. However there are some common elements which seek to address the constraints highlighted in this report, see Figure 7 below. This section provides an overview of some common features of support available for young unemployed people to move into self-employment.

Figure 7: Key elements of enterprise support for jobseekers

Human capital	Business advisers, mentors, business support
Social capital	Peer support and business networks
Financial capital	Financial support - subsistence payments, grants and loans
Managing risks	Information and advice (i.e. on benefits/tax credits, debt, etc.)

Business advisers are often a key component of programmes designed to help young unemployed people into self-employment and enterprise and have consistently been found to be a key factor in the success, or otherwise, of youth start-ups. Often employed on a voluntary basis, business advisers will typically coach young people through creating a business plan, transfer their business skills, and can open up access to networks and resources to help them start and grow their business. They can also provide important sources of emotional support.⁵⁷

Research highlights a need for advisers with both sector-specific knowledge and experience of running their own business.⁵⁸ Evaluations of youth-focused initiatives have also stressed the need for realistic role models, rather than *'traditional mentoring by middle-aged men in suits'*.⁵⁹ Yet little is known about the backgrounds and characteristics of the business advisers supporting young people in these programmes, the level of training they have received, and the processes through which participants are matched with advisers are unclear.

A recent evaluation of the government's NEA scheme found that participants were mostly satisfied with the support they had received from their business advisers, although some relationships were found to be unproductive due to personality clashes. Unfortunately this was not broken down by age group.⁶⁰

The extent of the support offered by business advisers varies considerably. Typically business advisers provide a few hours of support per month during business planning and test trading periods.

⁵⁷ Adams, L. and Oldfield, K. (2012). Welfare to self employment. IFF Research/BIS; Blackburn, R. and Ram, M. (2006). "Fix or fixation? The contributions and limitations of entrepreneurship and small firms to combating social exclusion." *Entrepreneurship and regional development* 18: 73-89

⁵⁸ Adams, L. and Oldfield, K. (2012). Welfare to self employment. IFF Research/BIS

⁵⁹ Smith, R. and Air, C. (2012). 'No choices, no chances: how contemporary enterprise culture is failing Britain's underclasses,' *International Journal of Entrepreneurship and Innovation*, 13 (2) pp. 103-113

⁶⁰ DWP (2013) New Enterprise Allowance: Qualitative evaluation. Research Report No 836

⁶¹ Adams, L. and Oldfield, K. (2012) Welfare to self employment. IFF Research/BIS

Less common is follow-up support in the longer term.⁶¹ Evaluations of the current government programme found that after business plans are approved, ongoing support can be limited and ad hoc – with confusion amongst both advisors and participants as to whether they could, or should offer or expect additional support.⁶² In contrast, strong follow up provided through specialist organisations such as The Prince’s Trust, has been found to result in higher survival rates for youth enterprises. However, the level of support can also vary by geographic location.⁶³

Some enterprise initiatives also make use of courses and group learning, offering structured programmes covering various aspects of running a business such as bookkeeping, cash flow prediction, and marketing. However, this approach does not appear to be widely used.⁶⁴

There are a range of business support networks that entrepreneurs can tap into. These networks are increasingly forming online, and in local communities.⁶⁵ However, whether or not young entrepreneurs have been able to tap into these networks is unclear from the evidence available. Several stakeholder interviewees felt that the removal of several support structures, namely Business Link and Connexions could make it difficult for young unemployed people to become aware of and navigate the support available.

Evaluations of start-up support for jobseekers have highlighted a need for programmes to offer networking opportunities both to prevent *‘isolation when entering self employment, and to share ideas and resources’*.⁶⁶ In addition, Blackburn and Ram (2006) suggest that more thought should be paid to the different kinds and sources of support young people may benefit from, noting that *‘young people often gravitate to more informal and fluid networks for their sources of economic and social capital’*.⁶⁷

It has been suggested that much more could be done to build and take full advantage of peer support networks.⁶⁸ One promising model from the social enterprise sector is UnLtd’s⁶⁹ *“Spark Awards”*. These awards invite applications from social entrepreneurs with ideas of how to bring *‘peers together to exchange ideas and support each other in personal support, skills sharing, networking and market development’*. UnLtd offer support, advice and resources to facilitate this, but ultimately these networks are created by entrepreneurs themselves.⁷⁰

Limited financial capital has been found to be a key constraint for young unemployed people seeking to start their own business. In response to this, many programmes supporting young unemployed people offer their participants financial support. This can take multiple forms – including regular subsistence payments (e.g. NEA), loans, grants, or a combination of these. Due to the variation in the financial support offered by different initiatives, assessing the relative impact of this financial support is difficult.

- **Subsistence payments:** For those hoping to make the transition from unemployment benefit to self-employment, several evaluations highlight the importance of a regular income provided by some form of subsistence allowance. Support in the first few months of training provides a safety net and encourages transition into self-employment. This is thought to be particularly important for the long term unemployed who are typically more risk averse.

⁶² DWP (2013) New Enterprise Allowance: Qualitative evaluation. Research Report No 836

⁶³ Meager, N., Bates, P. and Cowling, M. (2003) An evaluation of business start-up support for young people. National Institute Economic Review. 186:59

⁶⁴ Adams, L. and Oldfield, K. (2012) Welfare to self employment. IFF Research/BIS

⁶⁵ Dellot, B. (2014) Salvation in a start-up? The origins and nature of the self-employment boom. RSA

⁶⁶ Adams, L. and Oldfield, K. (2012) Welfare to self employment. IFF Research/BIS

⁶⁷ Blackburn, R. and Ram, M. (2006). “Fix or fixation? The contributions and limitations of entrepreneurship and small firms to combating social exclusion.” *Entrepreneurship and regional development* 18: 73-89

⁶⁸ Shutt, J. and Sutherland, J. (2003) Encouraging the transition into self-employment. *Regional Studies* vol 37 (1)

⁶⁹ UnLtd supports social entrepreneurs through funding, advice, networking and other practical support.

⁷⁰ <https://unltd.org.uk/spark/>

- **Loans and grants:** Several schemes provide loans for young people to start up their businesses. Some also provide non-repayable grants. Those receiving grants have been found to have lower survival rates compared to those accessing loans, although this may reflect the tendency for these to be targeted on more disadvantaged participants who tend to have lower chances of business survival.⁷¹

Which is the most successful form of financial support is most effective is unclear. The differences in the level and duration of financial support make comparisons between different schemes difficult; although a review of the literature suggests that lump sums improve access to higher-margin 'protected' sectors which in turn improves participant income and business survival rates.⁷² Studies have also found positive correlations with the amount of funding and survival rates.⁷³ There is also some evidence to suggest that financial support, or a combination of financial support and business advice, works better than when business advice/support offered on its own.⁷⁴

Youth enterprise schemes targeted on disadvantaged groups have been criticised for failing to compensate individuals for poor access to finance.⁷⁵ Indeed, the main reason for participants ceasing to trade in a recent NEA evaluation was insufficient income and/or cash flow and capital constraints.⁷⁶ In some cases schemes have also been found to be failing to support those disadvantaged groups targeted by the scheme – for example, an evaluation of one youth enterprise scheme which was targeted at young adults found that just over half drew on other funding sources (typically personal savings and loans from family and friends).⁷⁷

Young unemployed people may be able to draw on a range of support to help them move into self-employment or set up their own enterprises. Most obviously, Jobcentre Plus (JCP) can direct them to the New Enterprise Allowance scheme. However, promotion by JCP has been found to be inconsistent⁷⁸, and stakeholder interviews suggested that many young claimants were unaware of the support available. We also know that many young unemployed people do not claim Jobseekers Allowance and hence are ineligible for support provided through the NEA programme.

However, there is a range of other initiatives which they may be able to make use of. Indeed, there has been a proliferation of schemes and programmes designed to help young unemployed people or those with other disadvantages into enterprise over the past few decades. However, whilst it is important that a range of support is available for young entrepreneurs, coordination of these initiatives has been limited and without a clear place for the range of support on offer to be promoted, many will not know about it, and there is a high risk of duplication. This is particularly problematic in a time when the resources of specialist third sector organisations working with young people are under pressure.⁷⁹

Evaluations have also highlighted limited awareness of the NEA amongst JCP staff which creates significant confusion and uncertainty amongst those they support. This is not only frustrating for the claimant, but also increases financial uncertainty – as advice on the impact of NEA on tax credits and Housing Benefit, for example, has been inconsistent.⁸⁰ This is particularly problematic for those young unemployed people who are unable to rely on their family and friends for housing and financial support.

⁷¹ Meager, N., Bates, P. and Cowling, M. (2003). An evaluation of business start-up support for young people. National Institute Economic Review. 186:59

⁷² Adams, L. and Oldfield, K. (2012). Welfare to self employment. IFF Research/BIS

⁷³ Meager, N., Bates, P. and Cowling, M. (2003). An evaluation of business start-up support for young people. National Institute Economic Review. 186:59

⁷⁴ Adams, L. and Oldfield, K. (2012). Welfare to self employment. IFF Research/BIS

⁷⁵ Rouse, J. and Jayawarna, D. (2011). Structures of Exclusion from Enterprise. Finance, Environment and Planning C: Government and Policy, 29(4), 659-676.

⁷⁶ DWP (2013). New Enterprise Allowance: Qualitative evaluation. Research Report No 836

⁷⁷ Meager, N., Bates, P. and Cowling, M. (2003). An evaluation of business start-up support for young people. National Institute Economic Review. 186:59

⁷⁸ DWP (2013). New Enterprise Allowance: Qualitative evaluation. Research Report No 836

⁷⁹ http://www.entrepreneurship.org/uploads/1/0/6/4/10642206/ecosystems_paper_petervogel.pdf

⁸⁰ DWP (2013). New Enterprise Allowance: Qualitative evaluation. Research Report No 836

For many young people, attempts to move into self-employment and/or set up their own businesses are likely to prove unsuccessful. Yet support for those who wish, or indeed need, to make a transition away from self-employment into waged employment, such as, support to identify new skills and knowledge obtained from the experience of setting up their own business, appears to be lacking. Whilst there are some examples, such as the Prince's Trust who offers six months of mentoring support to plan next steps (see Box 3 above), this does not appear to be a significant element in enterprise support programmes.

Although many youth start-ups may fail, the experience of working for themselves may have helped them to develop new skills and gain the experience employers are looking for. 'Softer' outcomes such as attitudes to enterprise and the development of new skills can be important for improving a young person's employability.⁸¹ However, without support in place to help young people to identify the skills and knowledge they have gained, there is a risk that those with an initially weak position in the labour market will be further marginalised, particularly if confidence is knocked. In addition, the extent of support available to help young people to wrap up a failed business (such as service debts) is unclear and warrants further attention from the government.

In conclusion, there is a limited evidence base on what works best in supporting young unemployed people to set up their own businesses. Evaluations of government support tend not to focus on the differential impact of interventions on different age groups – this is an important omission given the variation of experiences of young people (e.g. lower value industries) and the importance of early labour market experiences. However, from the evidence available, there are several common features of what a successful programme supporting young unemployed people to pursue this route might look like. The following chapter draws conclusions from the evidence collected and offers recommendations for policy and practice.

⁸¹ Denny, S., Hazenberg, R. and Seddon, F (2010). Social enterprises and NEETs: Ethical and effective entrepreneurial skills programmes?; Meager, N., Bates, P. and Cowling, M. (2003). An evaluation of business start-up support for young people. National Institute Economic Review. 186:59

Conclusions and recommendations

The UK has more young people in self-employment than any other large European labour market. This is primarily because we have one of the largest youth labour markets in Europe, with the self-employment rate among under 25s only slightly higher than the EU average. The reality is that only a small proportion of young people are self-employed or setting up their own businesses. But whilst some suggest more young people should 'go it alone' and create their own work opportunities, particularly when youth unemployment remains at such high levels, we should be cautious about indiscriminate encouragement of this route into employment for young job seekers.

The evidence on the impact that pursuing self-employment and enterprise as a route into the labour market has in the short, medium and longer term is limited. However, our assessment of the current evidence base is that self-employment, in the main, is not going to function as an alternative to waged employment for most young people. A modest number of young people will be able to set up successful enterprises or generate a sustainable income from self-employment. These success stories should be welcomed and celebrated. But in most cases, self-employment success depends on capital, experience, skills – all of which many young unemployed people will lack.

On the whole, emphasis and resource to support the young unemployed should instead be focused on supporting young people to get into work; there they can build up skills and capital required to be successful entrepreneurs later, if they so wish. Those with strong business ideas should be encouraged to develop plans and set-up whilst in education and develop their business on the side once in work. In addition, whilst self-employment may help to overcome barriers to labour market entry faced by some young people (such as poor and fluctuating health conditions, caring responsibilities, criminal records) more needs to be done to ensure that such groups are better supported into and in mainstream employment and not pushed into marginal self-employment as a last resort.

If policymakers are serious about supporting self-employment and enterprise amongst the young unemployed, intensive support and a longer-term commitment are required. Currently, little is known about the relative effectiveness of initiatives supporting young unemployed people into self-employment. Better data and robust evaluation are urgently required to assess the impact of youth enterprise programmes targeting the young unemployed.

Based on the available evidence, schemes supporting young unemployed people to work for themselves should:

Focus on quality, not quantity – programmes should be measured and rewarded on the basis of sustainable job outcomes (both in terms of stability and income), rather than, for example, the number of loans provided or businesses registered.

Provide long term and intensive support – for those who wish to stay self-employed and run their own businesses, programmes should support earnings and business growth. This should include support to new businesses to expand their market beyond small, local geographical areas.

Facilitate access to wider networks and business support, and support the development of peer-to-peer support networking. UnLtd's Spark Awards offer one potential model – these awards are designed to support peer-to-peer learning amongst young social entrepreneurs.

Grow the network of business advisors and better match them to young people to provide more realistic role models. These advisors should be trained and have experience both in working for themselves and in the sectors in which a young person wishes to become self-employed.

Thoroughly assess the viability of business plans and ensure all risks are fully considered by the young person. Business plans should be reviewed through assessment panels rather than individual advisers.

Contain safeguards to ensure young people do not take on unmanageable debt from multiple sources. In addition, youth enterprise programmes and employment support services should be encouraged to develop partnerships with financial advice and support agencies, such as the Money Advice Service.

Provide support for young people who wish, or need to, make a transition away from self-employment or enterprise into waged employment – for example through providing support to identify new skills and knowledge obtained from the experience of setting up their own business. Government funded schemes should be required to provide an action plan as to how they would do this, and report on the take up of this support.

In addition, government should:

Ensure support for jobseekers is clear and accurate – information on self-employment in Jobcentres must be visible, clear, and accurate. Central government should also provide clarity and ensure claimants receive accurate information on the financial support available and information about the interaction of this with social security payments.

Improve local coordination and ensure young self-employed people and those looking to set up their own businesses are fully able to access the support available in their local areas. In previous reports we have recommended that local authorities be tasked with setting up local Youth Transition Partnerships (YTPs) as part of a local strategy to support youth transitions. Ensuring there are clear links to Local Enterprise Partnerships, these partnerships could play a key role in bringing together the support offered by those working to support young people to set up their own businesses, evaluate what works and avoid duplication.

Raise young people's awareness of employment rights. Some young people may be particularly vulnerable to being pushed into 'bogus' self-employment, as illustrated by some of our case studies. All young people need to be educated on their rights at work including the differences between being an employee for an employer and being designated as self-employed by a contractor. This knowledge should be promoted through schools and colleges as part of a comprehensive package of careers advice and guidance, and through third sector organisations and employment support services.



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