

Subsidised Start-Ups for the Unemployed in Less Developed Region: Effects Behind Efficiency

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Abstract: One of the tools that governments use to support entrepreneurship is to support entrepreneurship through subsidised start-ups for the unemployed. This tool attempts to solve two problems at once. It acts as an active labour market policy tool to reduce unemployment. On the other hand, as an economic policy measure, it seeks to promote the development of entrepreneurship. Most existing studies focus mainly on measuring the sustainability or effectiveness of this tool. The aim of this article is to identify the pros and cons of this tool from the perspective of the beneficiaries of this support themselves. The research was conducted through interviews with the beneficiaries of the support as well as those institutions that are in some way involved in the process of this support. The interviews took place in the years 2019 -2020 in the Banská Bystrica Region in the Slovak Republic, which is one of the most underdeveloped regions in the European Union. The results of the research show that the support itself also has a positive impact on other aspects of life than the business itself. A large proportion of respondents reported that they are happier in life than before and that their business is much more fulfilling than their previous job. At the same time, however, they point to a distinct form of inefficiency of the support as a tool for entrepreneurship support, with many beneficiaries not using this tool with the primary goal of starting a business. Some of the supported start-ups started their business only as a cover for black and dependent work or as a form of part-time work.

Keywords: support of unemployed, start-ups support, unemployment incentives, support of entrepreneurship, less developed regions

1. Introduction

Support for entrepreneurship of the unemployed is one of the most frequently used tools of active labor market policy and also as a way of supporting the development of entrepreneurial activities, especially in less developed regions. Most studies focus on quantifying the effectiveness and sustainability of such support. In the case of support, most studies have confirmed positive average treatment effects, and in the sustainability of created labor market instruments, this tool usually achieves one of the highest average values (Caliendo and Künn 2011, Milan et. Al 2012; Caliendo et al., 2015; Behrenz et al., 2016, Dvouletý and Lukeš, 2016; Card et al., 2017, Pisár et al., 2021). From the perspective of lagging regions, it is important to note that several studies have shown that it is even more effective for at-risk groups with limited access to traditional employment (Caliendo and Künn 2011; Rodriguez-Planas 2010). In Sweden, for example, the positive effect of employment support was significantly higher for people with basic education than for people with higher levels of education (Behrenz et al. 2016). However, other instruments are much more effective for business support per se, as companies set up by the unemployed have, on average, much worse economic results than other companies created by other forms of support (Shane, 2009; Niefert 2010, new studies). Relatively few studies have looked at qualitative research in this area, such as the impact of contributions on the unemployed themselves as beneficiaries of this instrument or the way in which aid is misused, and most have focused on Western European countries (Binder and Coad, 2016; Abreu et. al, 2019). The aim of this paper is to use interviews to identify the basic aspects of the impact of this contribution on the supported unemployed in one of the least developed regions of the EU and to highlight some qualitative aspects that may affect the quantitative results of measuring the success of this tool.

2. Theoretical framework

The subjective attitudes and motives of the supported unemployed can significantly affect the very effectiveness and sustainability of support for business start-ups by the unemployed. Two basic types of motives can be distinguished. On the one hand, there are the so-called 'pull' factors, where the objective for becoming self-employed is to explore business opportunities. These entrepreneurs are often referred to as 'opportunity' entrepreneurs. On the other hand, there are also several 'push' factors. People who become self-employed due to these of factors become self-employed out of necessity, (i.e. necessity entrepreneurs). Hence, in this case, self-employment appears to be the least unattractive of the unattractive options. Obviously, these people may quit their own businesses as soon as they get a job after becoming self-employed (Masuda 2006; Caliendo, and Künn, 2014). The study by Block et al (2015) also shows that opportunity entrepreneurs are more willing to take risks than necessity entrepreneurs. People with pull motives are much more likely to develop their own business

and subsequently innovate and employ people. In contrast, necessity entrepreneurs typically simply employ themselves (Caliendo and Kritikos, 2019) and often return to employment when given the opportunity. From an employment policy perspective, however, this might be enough, as most other support instruments also do not lead to a multiplication of the jobs created by them. Some recent studies suggest that these motives may overlap considerably. For example, Caliendo and Kritikos, (2019) identify in their research that 13% of all start-ups by unemployed people are driven only by push motives and 16% are guided only by pull motives. The remaining proportion, a majority of over 71% of all unemployed people starting their own business, are influenced by both pull and push motives. The main single factor they identified was termination of unemployment (one of the motives for 80% of people), followed by being their own boss for 60%. These motives can also have spatial differences and impacts, typically considering more necessity-based start-ups established in less developed regions (Bosma and Sternberg, 2014; Laversson, 2018).

Motives also influence the satisfaction of the self-employed. Bidner et al. (2019) found that voluntary self-employed had higher job satisfaction as well as higher life and health satisfaction. However, being forced into self-employment to avoid unemployment confers no such benefits, with both types of self-employments leading to increasing dissatisfaction with one's leisure time. However, this can also be influenced by some external factors. Abreu et al. (2019) report that job satisfaction is significantly higher for people living in semi-urban locations compared to those living in urban and rural locations. Their results also show that individuals in affluent neighbourhoods who have transitioned to self-employment experience higher job satisfaction than otherwise comparable individuals living in materially deprived neighbourhoods, although the latter experience higher levels of life satisfaction following this transition.

Relatively little research has examined how both of these motives affect artificial entrepreneurship in the form of hidden dependent work and, consequently, the results of quantitative studies embracing the effectiveness or sustainability of this tool. According to a representative survey in Slovakia (SBA 2020b), up to 27% of self-employed people perform work that can be classified as dependent work. In the case of this support, this is a situation where someone considers employing an unemployed person but does not do so directly but suggest to unemployed that he/she should use the support for self-employment and then paid for their work in the form of an invoice (so business relationship between them) rather than wage (employment relationship). The employer thus significantly reduces own labour costs and unemployed is not under the protection of employee's rights. For the unemployed who agree to this practice, this consequently constitutes very little social protection, since this ordering of services can be stopped at any time without consequences, unlike the conditions of dismissal. People in less developed regions with a low labour supply may be particularly vulnerable to this pressure.

3. Methodology

Our research paper focuses on the support for self-employment in Slovakia. This type of financial support is defined by § 49 of the Employment Services Act. According to it, financial support can be provided to a jobseeker by the Slovak Office of Labour, Social Affairs and Family to cover part of the costs associated with running a self-employed activity. In order for an unemployed person to receive support, certain conditions must be met. If the person has ceased or suspended self-employment within the 6 months before becoming unemployed, the support can be granted as early as 12 months after being entered in the unemployment register. The business supported by this grant must have been in continuous operation for at least three years from the date of signing the agreement. The maximum total amount of support varies from region to region depending on the unemployment rate, with a maximum of € 6,327.32 in regions with an average unemployment rate of more than 4 times the national average unemployment rate. The support could cover the costs related to the business activities specified in the business plan and must be used for an agreed period. It is usually used for the purchase of equipment and the payment of social insurance. In total, just over 3,000 unemployed people have been supported in this way in the region since 2012.

The research was carried out in the form of semi structured interviews. These were conducted in the Banská Bystrica self-governing region. A total of 36 interviews were conducted. Of these, 23 interviews were conducted directly with people who received and used self-employment support. The remaining 13 interviews were with institutions that were involved in the processes of obtaining or implementing support. Four interviews were conducted with representatives of job centres in various districts of the Banská Bystrica region which administer the support. Another four interviews were conducted with public or public-private partnership institutions

dedicated to business support, including support for this group of people, such as business incubators. The last five interviews were conducted with consultants from private companies that assist such people in obtaining a contribution or training in preparation for business (each person receiving a contribution can also make use of the opportunity to take a state-funded course on 'basics of business' as one of the other active labour market policy measures in Slovakia). We estimate that these people have had direct cooperation with approximately another 300-500 people who used the contribution.

The interviews were conducted in 2020 -2021. The questions focused on three areas:

- 1. Motives for using the support and starting a business
- 2. Self-perceived satisfaction as a self-employed person
- 3. The impact of other external aspects which affected their functioning, in particular in relation to entrepreneurship and employment,

4. Results

Looking at the motives that led the unemployed to start a business, the push and pull motives are relatively evenly balanced, with a larger share of push motives more evident in the most backward districts of the region. It is often the case that both motives are present, e.g. "I was unemployed for a long time, and I wanted to do something and I was quite tempted to try a new business". A range of more specific motives emerged in our sample, and among the most common of these we can include the end of unemployment benefits and thus the need for income, the desire to use one's experience from previous employment ("I worked as a seamstress all my life. When my company went bankrupt, I thought I might try to start sewing for customers myself") and the need for more independence and decision-making about their working hours (the typical motive "I want to be my own boss"). Personal motives were strongly predominated, with only a small number of motives persuaded by my family or friends, and in some cases some subtle pressure from job centres to use this tool was also mentioned.

The provision of support was often perceived as a relatively strong impetus for the final decision. Especially in less developed regions, where the amount of this support was higher and the overall wages in the region were lower, the support played an important positive role in final decision on whether to start a business. At the same time, however, financial support also proved to be the majority source of start-up capital, which logically led only to the establishment of business in low capital-intensive sectors such as seamstresses, repairers, accountants, etc. On average, support accounted for more than 75% of the start-up costs. Other sources of start-up capital reported by the unemployed were their own savings or loans from friends and family. No one in our sample used any other external form of financing, and even the interviews with support organisations confirmed that these unemployed people make virtually no use of use external financial resources (such as banks loans or business angels). This is one of the major barriers to making this support work as a business support and not just an employment support. Several other studies have identified access to capital for the unemployed as one of the key issues (Caliendo et. al, 2020). We were surprised that the relatively long period of sustainability of the business to which the unemployed had to commit, otherwise they would have to return the funds (3 years), did not play a more prominent role in their decision-making. Most of them said that they did not consider this aspect in any way in their decision-making.

As many as 87% of those who responded in our sample were satisfied with their decision and felt content with their decision to start a business, despite some problems. According to the support organisations, this contribution has a significantly higher positive impact on the satisfaction and quality of life of the unemployed who take advantage of it, compared to other forms of active labour market policy. This satisfaction was also felt by those who eventually left the business for financial reasons and found other jobs. The most significant positive factors that affected their quality of life were the management of their own time ("when I used to go to work, I spent a lot of time there for little money. Now I was earning even less, but I was under a lot less pressure, and I had more time for other things"). It is also interesting to note that for a relatively large number of people, especially women, this contribution served as an alternative to part-time work. This type of motivation was also confirmed in interviews with job centres and support organisations.

In our survey, this is mainly applicable to women who had a family. The statistics show that women (as well as married women) received support more often than married men and more often compared to their

representation in the whole sample of entrepreneurs. This suggests that women are not primarily using the allowance to start a business. These women are mostly looking after a family and do not need to have a high income. They would prefer to be employed part-time, but these jobs are not available in the local labour market. This behaviour may be partly specific to Slovakia, as part-time employment in Slovakia is less than 5%. This is one of the lowest in the EU (EU Average is 21.1%, Eurostat). This situation is even worse in those regions with high unemployment, where people are willing to work full-time even for a very low wage and employers therefore have no reason to offer part-time work. These women were particularly very satisfied with their use of the contribution, even though they often earn less than the full-time minimum monthly wage ("I couldn't afford such flexible working hours, now it's completely different"; "it's a completely different feeling of work when I do not have to meet deadlines"). They see the support as a kind of substitute for flexible part-time work they cannot otherwise find. Their spouses or partners earn enough to support the family, so they do not need to earn much and prefer to devote themselves to the family. At the same time, they are mostly engaged in an area that they enjoy, which adds to their sense of satisfaction with this form of income-generating activity. This may be one of the explanations why women use the support significantly above average compared to traditional business. Within the Banská Bystrica region, more than 65% of entrepreneurs are men, but women predominate in the use of this allowance (more than 54 %).

Paradoxically, most of the negative views on satisfaction with their decision were due to implementation problems in the delivery of the contribution. The use of the funds provided must be proven and the rules for their use are quite strict and often not fully known to the unemployed. ("After receiving the contribution, I would sort of cease to exist for them, they would not come back until I provided the necessary documents and then they would tell me that I had given them late and they could not repay them". Only when I submitted the documents did they tell me that I had to buy goods from the original manufacturer or ask for three independent quotes"). The need to repay the support thus significantly worsened the already problematic financial situation of the unemployed, which logically had an impact on their satisfaction and quality of life. Another factor leading to a lower level of satisfaction was also directly related to the implementation of the support, although this was primarily due to the unemployed themselves, namely the unpreparedness of the applicants for business. The majority of the respondents stated that they did not have a precise idea of what was ahead of them. This has often led to the aforementioned problems of an administrative nature (e.g. problems with deadlines and paperwork at the various offices such as the social insurance or the tax office), as well as to a lower sustainability of the business itself. A large part of the unemployed decided to start a business because they had quite extensive experience in the field, but significantly underestimated the universal aspects of entrepreneurship, such as marketing, accounting, or bureaucracy. Most of them had only minimal experience in these activities and did not pay enough attention to them when preparing their business. There was also a distinct lack of business advice and training in the use of the support. A negative is the inability to take advantage of training or counselling after starting a business, which are often part of these support systems in other countries and can have a significant impact on the success of the support provided (Wolff et al., 2016).

The final issue raised by the interviews was the use of the allowance to cover dependent work. According to a representative survey (SBA 2020b), up to 27% of self-employed people perform work that can be classified as dependent work. The survey also found that this kind of substitution is most used by men in construction and by women in administrative and service activities. Our survey confirmed this issue. There was only one person in our survey who could be said to have been affected by this problem, but most of the organisations interviewed confirmed this practice as fairly common and for most of the unemployed it was not their own decision. However, from our limited research it is not possible to formulate hypotheses as to how this aspect affects the overall effectiveness or sustainability of this tool. However, this substitution of the nature of the support, which is business support, may be one of the reasons why several studies identify lower survival and success rates for companies set up with this support compared to those set up without support (Shane, 2009; Caliendo et. Al., 2020).

5. Conclusion

The aim of this paper was to identify the qualitative aspects of start-up support for the unemployed in one of the least developed regions of the European Union. Most of the unemployed have both push and pull motives to use this support. We found that its use led to an improvement in the perceived quality of life, which was to some extent a greater reason to use this support as an incentive to start a real business. The downside of using this support is that it is also actually used as a substitute for dependent or part-time work.

This research was conducted only as a qualitative survey with a limited sample of respondents; therefore, it is not possible to generalise these conclusions. However, the research has identified some important aspects that may have a significant impact on the sustainability and effectiveness of this support, and which would require further in-depth research.

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