

Measure for Commencing Commercial Activity or Self-Employment, Latvia

This case study presents an integrated project that supports the unemployed in business creation with training, grants and an allowance. This description presents the objectives, rationale and activities undertaken as part of this project. It also discusses the challenges faced in implementing this project and the conditions needed for transferring this practice to another context.

Objectives

This project was launched as a pilot in 2008 and continues to operate. It aims to support qualified unemployed people in business creation by providing business advisory services, a small grant and a bridging allowance. The goal is to ensure the business start-ups operated by unemployed people survive at least 2 years.

To qualify for support under this measure, potential candidates must be registered as unemployed with the State Employment Agency (SEA) and have knowledge and experience related to business management, or meet one of the following education requirements:

- obtained vocational secondary education or higher education in business management or in the field in which it is planned to commence commercial activity or self-employment;
- acquired vocational education qualifications that provide the knowledge required in the field of business management; or
- obtained vocational secondary education or higher education and acquired informal education programme in a business management-related field (offered by the SEA).

Rationale

The SEA launched this pilot project to test the potential for moving unemployed people back to work through self-employment. Unemployment in Latvia increased rapidly following the onset of the crisis, causing a strain on the public employment services. The unemployment rate reached a peak of 19.8% in 2010. The relative increase in the unemployment rate following the onset of the economic crisis was much greater in Latvia than the European Union average. In 2009, the Latvian government launched a new vision for support for the self-employed and micro enterprises. In addition to a continuation of reduced personal income tax rates and special terms for payment of social security contributions by self-employed people, amendments were made in business legislation to make the regulatory environment more favourable for micro business.

Activities

This measure provides support in two phases. First, participants attend a series of consultations that provide individual assistance in the preparation and development of a business plan. Each participant can attend up to 20 individual consultation sessions over a period of 6 weeks. The sessions focus on identifying sustainable business ideas and building a plan around them. These consultation sessions are delivered by business professionals who are contracted by the SEA. Once the consultations are completed and participants have developed a business plan, participants can apply for the second stage of support that provides additional individual business consultations and financial grants.

The SEA evaluates applicants prior to providing more in-depth support to ensure that projects are feasible. These evaluations are done by a committee of industry experts and business start-up and development professionals. The committee examines the potential of the business plans and the feasibility of the entrepreneur successfully implementing them. The most important factors in their decision are the uniqueness of the product or service, level of product or service innovation, and potential demand for the product or service.

Projects that are selected for the second stage of support are eligible for the following support measures:

- post start-up business consultations in the first year of implementing self-employment or business (20 consultations);
- a grant of up to EUR 3 000 for implementing the business plan; and
- a monthly allowance equal to the minimum wage (approximately EUR 320) for the first 6 months after start-up.

The SEA selects the providers of consultation and expert services through a public procurement process.

Between 2008 and 2014, the total number of unemployed people who participated in the initial consultations on preparing a business plan was 1 228 (Table 14.1). Approximately one-quarter of these participants (377) signed an agreement to continue in the second phase of support (i.e. additional business consultations, grant and bridging allowance). The substantial drop-off in the number of participants between the first and

Table 14.1. **Number of participants in the Measure for Commencing Commercial Activity or Self-Employment**

Start year	Number of unemployed people who received consultations				Number of unemployed people who signed a contract to implement a business plan (i.e. Second phase)				Number of entrepreneurs (former unemployed) who have implemented business plan for 2 years (i.e. finished the programme)						
	Total	Male	Female		Total	Male	Female		Total	Male	Female				
2008	85	33	38.8%	52	61.2%	20	6	30.0%	14	70.0%	20	6	30.0%	14	70.0%
2009	256	101	39.5%	155	60.5%	83	33	39.8%	50	60.2%	75	28	37.3%	47	62.7%
2010	139	50	36.0%	89	64.0%	37	12	32.4%	25	67.6%	35	12	34.3%	23	65.7%
2011	234	67	28.6%	167	71.4%	56	13	23.2%	43	76.8%	54	12	22.2%	42	77.8%
2012	265	59	22.3%	206	77.7%	85	23	27.1%	62	72.9%	83	23	27.7%	60	72.3%
2013	140	22	15.7%	118	84.3%	53	11	20.8%	42	79.2%					
2014 (first 10 months)	109	32	29.4%	77	70.6%	43	15	34.9%	28	65.1%					
Total	1 228	364	29.6%	864	70.4%	377	113	30.0%	264	70.0%	267	81	30.3%	186	69.7%

Source: SEA, 2014.

second phases is explained by the high number of people who did not want to continue with their business idea because the expert evaluation did not support the business idea as a feasible plan for a sustainable business.

The majority of programme participants since 2008 were female (approximately 70%). Most of the programme participants had completed a higher education degree (75.2%). Those with vocational training or a secondary education accounted for 19.4% and 5.4% of participants. The majority of participants were between 30 and 49 years old (67.4%), while those older than 50 years old accounted for 17.8% and those between 20 and 29 years old accounted for 14.8%.

At the end of 2014, 267 entrepreneurs had finished the two-year programme and 129 unemployed people continued to receive support. The long-term unemployed accounted for nearly one-third of these participants (27.9%). Other key groups who were using this support at the end of 2014 were those with a disability (6.2%) and those returning to work after maternity leave (2.3%). Youth (15-24 years old), only accounted for 4.7% of participants, less than the proportion who are approaching retirement (5.4%).

Project financing

The cost of the programme was EUR 288 300 in 2014. The per person costs for each component are presented in Table 14.2.

Table 14.2. Cost per person by component of the Measure for Commencing Commercial Activity or Self-Employment, 2014

Support measure	Cost per person
Individual consultation session	EUR 14.66
Business plan evaluation	EUR 32.71
Business plan monitoring	EUR 30.59
One-time grant for the implementation of the business plan	EUR 2 845.74 (maximum)
Monthly allowance	EUR 320 (for 6 months)
Maximum funding per participant	EUR 5 628.83 (maximum)

Source: SEA, 2014.

Challenges encountered

The greatest challenge faced by the pilot project was developing a process to select appropriate participants. While consideration of applicant qualifications has led to strong outcomes for the programme, the strong selection criteria also prevent the programme from having a stronger impact on employment. The programme is very small and there is potential for more unemployed people to benefit from the financial support and training offered by this programme. Relaxing the entry requirements could open up the programme to more people and lead to the creation of more businesses and jobs.

A second challenge was uncertainty about whether the programme budget would be maintained during the economic crisis due to the small number of participants. While it was designed as a small pilot project, the grants and allowances have demonstrated success in supporting business creation by the unemployed. It is therefore an opportune time to consider scaling-up the programme so that it has a greater impact on employment. To do so, the uptake will need to be increased. This calls for more targeted promotion, a slight relaxing of the selection criteria and strengthening some of the details of the support provision.

Finally, the informal sector poses some competition for public support programmes that aim to support the unemployed. Academic research suggests that the rate of informal work is quite high; approximately 10.3% of employed people in Latvia in 2013 worked without contracts (Putnins and Sauka, 2014). This suggests that informal work is more prevalent in Latvia than in neighbouring Lithuania or Estonia. Therefore, public support for the unemployed, including this pilot project, also has to overcome a social acceptance of informal work and the attractiveness of working informally.

Impact

The SEA has a monitoring system in place to track the outcomes achieved by participants. Looking at the cohorts from 2012 to mid-2014, the following results have been achieved:

- In 5.6% of businesses implemented by participants, the resulting business was considered to be very successful by the SEA. In other words, these businesses' turnover was substantially higher than initially planned.
- In the case of half of the businesses launched (53%), the implementation of the business plan met forecasted sales expectations during the first year but fell short of sales expectations in the second year. However, many of these businesses had developed a stable customer base and continue to have the potential to develop into a sustainable business.
- In the case of 17% of the businesses launched, turnover in the second year fell substantially below expectations. In most cases, external factors could explain the poor sales, e.g. maternity leave, increased prices of fixed assets.
- The implementation of the business plan was considered unsuccessful in 9.4% of the businesses launched. In these cases, participants were unable to implement their business idea as planned and the expert advisers had doubts about whether the business would be able to continue after the support had stopped.
- 14% of participants did not start their business.

Conditions for transfer

Although this project is small in scale, it has been successful in supporting a number of unemployed people in developing sustainable businesses. Through its 7 years of operation, several keys to success can be identified that would be key to successfully transferring the project to another context.

1. *Develop clear selection criteria.* This project has very clear and very strong selection criteria that must be met for applicants to be considered for participation, which include both work experience and qualifications. These criteria are communicated to potential participants and the selection process upholds them. Moreover, those entrepreneurs selected for the second phase of support go through a second screening process that assesses the potential of the business plan and its likelihood of developing into a sustainable business. This clear selection process ensures that those supported are the mostly likely to succeed.
2. *Utilise private sector expertise in the selection process.* The selection of participants is made by a committee of industry experts and business professionals who evaluate the business ideas. The advantage of this approach over an assessment by programme managers is that those working in the marketplace are better-placed to understand which projects are likely to succeed.

3. *Offer phased support.* The support provided by this measure is delivered in two phases. An evaluation precedes each phase of support and the second phase is much more intensive than the first. This multi-stage approach allows for a broader group of potential entrepreneurs to benefit from basic training and support in developing their idea. The second phase delivers more intensive (and expensive) support to a small number of participants who demonstrated success and potential during the first phase. This approach allows policy makers to both expose a large number of entrepreneurs to basic training and to offer more intensive support to those who have the most potential to succeed.
4. *Multi-faceted support.* This measure provides business advisory services, a grant and an allowance. Providing a package of complementary support measures allows for participants to develop entrepreneurship skills and some financing to implement their idea and use their skills in practice. The allowance is an important element of the programme because it helps the entrepreneurs cover their living expenses for a fixed period of time while they are developing their business.

References

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