



# The ESF: supporting entrepreneurs and the self-employed

Small businesses and the men and women who start them are the backbone of the EU economy, contributing greatly to wealth creation and employment. Entrepreneurship can also offer independence and self-fulfilment to those who take up the challenge. Supporting self-employment and entrepreneurship is an ESF priority, in particular giving help and guidance to potential entrepreneurs from disadvantaged social groups who often face more obstacles to setting up their own businesses.

## Entrepreneurs and entrepreneurship

The term entrepreneur covers a broad range of people and activities. For example, a group of scientists who start a company to manufacture and sell an innovative, high-technology product they have invented; new parents who set up an on-line business to work from home while meeting their childcare needs; or a young recent immigrant who wants to use his newly acquired skills to work as an independent decorator and perhaps employ a few friends to help. What links all these people is that they are self-employed, usually in their own business that they have set up to sell the ideas, products or services they offer.

## Entrepreneurship in Europe

Entrepreneurs and the businesses they launch are of vital importance to jobs and growth in Europe. Small and medium-sized enterprises, including micro-enterprises that employ less than ten people, make up 99% of all companies in the EU and contribute 65 million jobs – two out of three jobs in the private sector. They also contribute more than half of the added value created by businesses

in the EU economy. Furthermore, micro and small enterprises comprise 99% of the 2 million start-up businesses created every year; and one-third of these are launched by the unemployed. Indeed, micro-enterprises make up 90% of all SMEs with each providing work for two people, on average.

To encourage and nurture entrepreneurship is a key objective of the EU and the Member States. To achieve this aim it is important to reduce or remove the barriers and obstacles that potential entrepreneurs face. The most significant of these barriers include the difficulty of securing finance and a lack of information about how to set up and run a business.

## How the ESF supports entrepreneurs

The European Social Fund has a long history of supporting people who want to start their own companies and be self-employed, and this remains true today. Supporting self employment and new businesses is one of the priorities of the European Social Fund 2007-2013 programming period. Seventeen Member States have included





this priority in their Operational Programmes which set out the employment and social priorities they have selected for ESF funding. Overall, this priority is receiving some €2.75 billion of ESF funding although the total spend will be higher as matching national funding is added.

EU Member States and regions choose to make entrepreneurship a priority for support for many reasons:

- The City of Prague has a more highly educated population than other regions in the Czech Republic, including many scientists and technologists, due in part to a high concentration of universities and research institutes. Therefore, Prague's ESF priority on the development of a knowledge economy includes a focus on supporting new businesses and entrepreneurs as part of the effort to turn the city's innovation potential into innovative businesses and jobs.
- Slovenia has a comparatively low share of business creation in the EU, and a significant failure rate of company start-ups. In response, an ESF priority is supporting new entrepreneurs, making Slovenia one of the most entrepreneur-friendly environments in the world. The programme also promotes social entrepreneurship as part of its drive for social inclusion.
- The mid-Atlantic Portuguese region – the islands of the Azores – has few, but fast-growing sectors: tourism and agriculture. To ensure their future success, ESF funding is supporting management training among SMEs to help them prosper and to create new businesses in the tourism sector.
- As Estonian industry turns away from low-cost-based traditional sectors towards more advanced technologies and services, its poor business-creation rate and the brain drain of skilled young

Estonian pose a threat to this switch. ESF funding is combating this by offering training to new entrepreneurs, putting entrepreneurship on to school curricula, and taking steps to retain and develop the pool of scientific talent from which future entrepreneurs spring.

Much of this funding is devoted to supporting would-be entrepreneurs according to their needs. They can obtain training, advice and mentoring through ESF programmes which will help them set up their companies. The administrative and legal requirements for setting up a business can be an obstacle for many people with a good business idea – so support here can ensure they get off the ground quickly. Once up and running, training, guidance and consulting can contribute greatly to the new business' survival through the first months – providing the new entrepreneur with the skills and advice to avoid common pitfalls.

As well as providing new entrepreneurs with the skills and advice they need, the ESF also helps them surmount the other main obstacle many face – access to finance. Several Member States deploy ESF funding to support microcredit lending aimed at raising employment and promoting entrepreneurship. For example, the German Mikrokreditfonds initiative offers ESF co-funded loans to small entrepreneurs, in particular to women and people with an immigrant background. Likewise, the 'Start Programme' in Latvia uses ESF funding for lending to small business entrepreneurs. This ESF support received a significant boost in 2010 when the EU agreed to set up a new financial facility to provide loans to the unemployed and small entrepreneurs who want to set up their own business (see box 1). As with ESF microcredit projects, this new initiative supports the inclusiveness of access to finance for groups in society who find it more difficult than others to realise their ambitions for self-employment and running their own business.



### The European Microfinance facility: small loans, great expectations

Acting on a proposal from the European Commission, in 2010 the EU ministers for employment and social affairs and the European Parliament agreed to set up the European Microfinance Facility. This new facility provides loans to people who have lost their jobs and want to start or further develop their own micro business. It has a starting budget of €100 million which could leverage more than €500 million in co-operation with international financial institutions, such as the European Investment Bank (EIB) Group.

The initiative is part of the EU's response to the economic crisis and is targeted in particular at people who cannot normally obtain credit because of the economic crisis and the current lack of credit supply from banks. The objective is to support starting entrepreneurs with loans of up to €25 000 each over a period of eight years. And as loans are repaid more can be made – this recycling of funds means that more financing could be made available for investment in micro-enterprises employing less than ten people.

The target groups for these loans are people who have lost, or are at risk of losing their jobs; the disadvantaged and the young who want to develop their own business ideas; and existing micro-enterprises which take on unemployed people or which employ disadvantaged people including the young. These are among the groups who, in the current economic crisis and credit squeeze, are least able to obtain funding from commercial banks. The loans will be provided through local financial organisations, such as banks and other providers of microfinance.

### Projects on the ground

ESF-funded projects aimed at potential entrepreneurs and those who wish to be self-employed take a variety of forms. The support can involve training, either to improve the participant's skills in the business area they plan to work in, or to pass on the management skills needed to run

a business, such as accountancy or employment legislation. Consultancy is another way to support the budding entrepreneur – this can be particularly helpful when designing a business plan, which is often crucial to getting access to finance from lending institutions. Other projects concentrate on networking with potential and actual businessmen and women. This helps build confidence and for some disadvantaged groups, such as women, immigrants or people with handicaps, can provide role models to encourage participants by showing what can be achieved. Some examples of such projects are given in the boxes below:

- Normunds Zeps in Latvia was an unemployed mechanic until the offer of an entrepreneurship course allowed him to realise his ambition of running a bee-keeping business (see below).

#### Business with a bee



Before he participated in an ESF-funded training course for budding business owners, Normunds Zeps from Latvia was an unemployed mechanic with an interest in bees and honey. Because he found it

difficult to get a steady job, despite having the right qualifications, he decided to turn his interest into a business opportunity and joined a training programme for the self-employed.

"I wanted to change my situation," he explains.

"I knew I had to learn more about business and this programme was offering a training course on how to run a small business – so I decided to go for it."

Normunds is now a professional bee-keeper producing a tonne of high-grade honey a year. And he is working hard to expand his business, "...the EU has given me a good start. There is no question about it. When I started getting down to business I realised how useful the training course really was."

- Spanish businessman Jose Salmeron Guindos used an ESF-funded course for entrepreneurs and managers to turn his small metal-working

business into a fast-growing company with over 70 workers (see below).

### Training for success



In 1983, with money borrowed from friends and relatives, Jose Salmeron Guindos started his own factory making car trailers and building fixtures. However, in the early years progress was haphazard. "We didn't really run it as a business," he recalls. "To tell the truth we didn't even really know what a business was – it was often hit or miss." Subsequently, after losing a large client the business was on the edge of bankruptcy and Jose became ill from the stress he was under.

Taking advice, he then followed a course for entrepreneurs given by a business school and co-funded by the ESF. The course gave counselling and training on how to improve a company's performance through innovative practices and improved networking. Applying what he learned to his business, Jose transformed the way it operated and brought in new staff and processes.

Today, the company has diversified and is growing fast – staff numbers have doubled to over 70 full-time employees and Jose plans to double in size over the next three years. After his positive experiences, he is now evangelical about training and it has become core to the company.

- In the Czech Republic, the owner of the 'Healthy Spiral' health food café, Radmila Petroušková found the change of career direction she wanted thanks to an ESF project providing consultancy for business start-ups (see below).

### Healthy business



After working as a successful model for several years, Radmila Petroušková from the Czech Republic wanted a change, but quickly became dissatisfied with life as an employee. She wanted to open a café with a friend,

specialising in vegetarian and health foods, but knew they would need assistance. She found it in an ESF programme for entrepreneurs which helped them get their ideas off the ground.

The programme supplied experts who advised them on how to set up a café and develop a viable business plan. "Neither of us had any experience in setting up a business", she recalls, "so the consultants helped us a lot with the finances and administration. They sent us to the right people."

After a year of preparation and a bank loan secured, the 'Healthy Spiral' café opened for business in 2008. The venture is proving successful and there are plans to grow the business with more employees in the future.

The common thread to these stories is that potential entrepreneurs with good ideas can face large obstacles to get their ideas off the ground. Yet with the proper training, guidance and support these obstacles can be surmounted, and viable, successful businesses created. Providing such support is the aim of the ESF priority on 'Supporting self-employment and new businesses'. As these stories and many others show, the right help given at the right time can contribute greatly to the number of new businesses and their subsequent success.

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