



Job-seeking entrepreneurs: Planning for which future?

Adrien Dautheville

- Many young micro-entrepreneurs in low-income countries are not entrepreneurs by choice—they engage in entrepreneurship while actively seeking salaried jobs.
- This study finds that many "job-seeking entrepreneurs" systematically overestimate their chances of transitioning to wage employment and underestimate their business survival rates.
- Job-seeking activities are associated with reduced business investment and profit.
- Providing information on actual job transition rates reduces perceived job search returns and increases willingness to accept a salaried job at current earnings but does not significantly alter investment behaviour.
- Policies supporting entrepreneurship and job search should account for these dual aspirations to improve labour market efficiency and business outcomes.

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Introduction

Economic policies often treat jobseekers and entrepreneurs as distinct groups. In reality, many young workers in low-income countries simultaneously engage in job search and entrepreneurship. For many, micro-entrepreneurship is not a long-term career choice but a temporary strategy while waiting for wage employment opportunities (Calderon et al. (2016); Falco and Haywood (2016); Gunther and Launov (2012)).

However, most job search and entrepreneurship programs fail to account for this dual role. Entrepreneurship policies assume individuals aim to grow their businesses, while labour market policies don't consider jobseekers' potential entrepreneurship activities. If job-seeking entrepreneurs make decisions based on misaligned expectations about their job prospects, this could distort labour market outcomes and reduce the effectiveness of existing policies.

This study examines how micro-entrepreneurs' expectations about transitioning to salaried jobs influence their job search efforts and business investment decisions.

Research Questions

1. How do micro-entrepreneurs perceive their likelihood of transitioning to salaried work, and how accurate are these expectations?
2. Does active job search affect business investment and profitability?
3. Can providing information on actual job transition rates change job search behaviour and business investment decisions?

Using data from micro-entrepreneurs in Dar es Salaam, Tanzania, the study assesses whether misaligned expectations contribute to inefficient decision-making and how correcting these beliefs might improve outcomes.

Key findings

1. Micro-entrepreneurs systematically misjudge their labour market prospects.
 - They overestimate their likelihood of transitioning to wage employment (expecting 48% chances to transition within a year versus an actual rate below 1%).

- They underestimate the likelihood of business survival (expecting a 70% likelihood of remaining open after a year versus an actual rate above 90%).
2. Job search competes with business investment.
 - Micro-entrepreneurs engaged in active job search invest less time and capital in their businesses.
 - Those searching for jobs have lower business profits than those fully focused on self-employment.
 3. Job search is costly in both direct and indirect ways.
 - Direct costs (transport, application fees) related to a single job application amount to 13% of monthly profits.
 - According to entrepreneurs themselves, opportunity costs (lost business hours dedicated to job search) represent 25% of potential profits for the average job-seeking entrepreneur.
 4. Providing information about actual job transition rates changes job search perceptions but not investment behaviour.
 - Treated individuals lower their expectations about job search returns and become more willing to accept a hypothetical salaried job at their current earnings.
 - However, they do not significantly change their business investment decisions and business or job outcomes.

Policy implications

Improve labour market information for young workers

- Provide realistic job transition data to help workers make informed decisions.
- Integrate labour market expectations modules into job training and business support programs.

Reduce the opportunity cost of job search for self-employed workers

- Develop low-cost job-matching platforms to make job searches more efficient.
- Offer targeted job search subsidies for self-employed individuals in transition.

Design entrepreneurship programs that recognise job aspirations

- Shift from one-size-fits-all business programs to dual-track initiatives supporting wage employment and business growth.
- Introduce flexible financing options that do not assume long-term business commitment.

Use behavioural interventions to shift expectations and investment decisions

- Combine labour market information with mentoring, financial planning, and nudges to improve decision-making.
- Test timing strategies such as providing information at key career decision points (for example, at the school-to-work transition).

References

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