

Summary

Establishment through enterprise – are central government programmes for entrepreneurs effective for those born abroad? (RiR 2012:26)



Establishment through enterprise – are central government programmes for entrepreneurs effective for those born abroad?

Audit background

The objective of Swedish integration policy is to ensure equal rights, obligations and opportunities for all, irrespective of their ethnic and cultural background. According to the Government's integration strategy, an important means of increasing integration is to give more foreign-born people an occupation through employment or enterprise. According to the Swedish Migration Board's projections, the coming years will see a sharp rise in the proportion of asylum seekers. This means that there is reason to believe that an increasing number of foreign-born people will be commencing their establishment either by seeking employment or starting a business.

In the light of integration policy objectives, the Government has emphasised the importance of good conditions for enterprise. In addition, greater numbers of growing companies create even more new jobs, something which is of benefit to Swedish society as a whole. The Riksdag (Swedish parliament) has stated that all individuals in Sweden, irrespective of background, shall be able to receive assistance from the general welfare systems and benefit from them. Two forms of central government support targeting entrepreneurs, and which have existed for quite some time, are the labour market programme Start-up grants at the Swedish Public Employment Service and Almi's lending activities. A start-up grant is an activity grant received by jobseekers who want to start a business. As a complement to the market, the state-owned company Almi Företagspartner AB offers loan financing to small and medium-sized companies. The purpose of the audit is to answer the question of whether the Public Employment Service's start-up grants and Almi's loan financing are effective initiatives for foreign-born people who want to start a business.

Audit results

The Swedish National Audit Office (Swedish NAO) assesses that the Public Employment Service's start-up grants and Almi's loans make it possible for more foreign-born people to start and run a business. However, both the Government and the Public Employment Service lack sufficient knowledge about the effects of start-up grants for 'foreign-born people' as a group. Almi's follow-up also has deficiencies, which affects knowledge about lending to foreign-born entrepreneurs.

The Swedish Public Employment Service's Start-up grants.

In 2011, the proportion of employed persons in the 16–64 age group was 78 per cent for those



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born in Sweden, while the proportion of employed persons among those born abroad in the same age group was 63 per cent. Of the open unemployed (that is, excluding jobseekers in full-time studies) who were registered at the Public Employment Service in 2011, 40 per cent were born abroad. Of those receiving start-up grants from the Public Employment Service, 20 per cent were born abroad. Comparing the proportion of foreign-born people receiving the grant with the proportion of foreign-born people registered at the Public Employment Service, it is a relatively low proportion that receives the grant.

The grant has positive effects on employment, but the effect is smaller for those born abroad.

The Swedish NAO's analysis suggests that the Start-up grant programme had positive employment effects for participants who received grants in 2003. This is the case both for persons born in Sweden and for persons born abroad. However, the positive employment effects were greater for persons born in Sweden than those born abroad. The Swedish NAO followed up the employment of these participants in 2005 and in 2007.

Many of those who received a start-up grant and who are still running a business have an income below the economic vulnerability threshold.

Research shows relatively unambiguously that enterprise can be risky from an income standpoint, not least for foreign-born entrepreneurs. During the studied period 2005–2010, an average of 28 per cent of all entrepreneurs and 22 per cent of non-entrepreneurs were below the economic vulnerability threshold.¹ Of foreign-born entrepreneurs, no less than an average of 42 per cent were below the economic vulnerability threshold during this period.

Start-up grants is a small programme at the Public Employment Service and is therefore given lower priority with respect to training and supporting officers.

The audit demonstrates that decisions by officers to issue a start-up grant are dependent on their knowledge of the grant and of enterprise in general. However, support to officers is limited. In addition to the risk of not being offered a start-up grant, applicants also risk being assessed differently by officers.

The Public Employment Service does not follow up the programme participant's activities to a sufficient extent.

Both this audit and the Swedish NAO's previous audit from 2008² demonstrate that significant numbers of participants do not receive any follow-up of how their businesses have developed. The lack of follow-up of participants may result in individuals not receiving the help and support they might need. The lack of follow-up may be due to action plans not being prepared for all programme participants and to the officer therefore not ordering any follow-up. There are fewer people born abroad than born in Sweden who receive an action plan.

¹ The EU's definition of economic vulnerability is having an income below 60 per cent of median income.

² The Swedish National Audit Office (RiR 2008:24), *Start-up grants: A successful programme*.



There is no evaluation of Start-up grants for those born abroad.

According to its instruction, the Public Employment Service shall follow up and evaluate its activities and thus also the Start-up grants programme. The Public Employment Service has not made any evaluations of the employment effects for those born abroad. Few studies show income development for participants in the programme in general.

Almi's lending activities.

The Government has set a target for Almi stating that the proportion of foreign-born people among Almi's clients is to be greater than it is among entrepreneurs in general and among people who start new businesses in Sweden.

Lending to foreign-born entrepreneurs has increased.

Almi's lending to those born abroad doubled between 2005 and 2011, both in terms of the actual number of loans and the proportion of Almi's clients. This is true of all loans and specifically for loans to new businesses. During the period, the proportion of foreign-born people among Almi's clients to be granted loans for new businesses increased from 14 per cent to 28 per cent. Almi achieved the Government's target for lending to foreign-born people throughout the period studied. On average, those born abroad borrow significantly lower amounts than those born in Sweden. The differences also exist in various trade and industry sectors.

Almi does not prioritise foreign-born people in its assessments of loan applications.

Almi's assessment of loan applications is to be based on the company's expected profitability, and this overriding principle leaves no formal discretion for weighing in other factors. One way used by Almi to compensate for the greater obstacles that foreign-born entrepreneurs may face is tailored consultation, such as that offered through Almi's IFS Advisory services. Information initiatives are also important for reaching the target group.

There are deficiencies in Almi's follow-up.

The audit demonstrates that there are deficiencies in Almi's follow-up and reporting on lending to foreign-born people. With respect to some points, Almi lacks a sufficient knowledge base for improving the effectiveness of its activities that relate to reaching foreign-born entrepreneurs. One deficiency concerns statistics for Almi's lending activities only covering those clients who have their loans approved, despite the Government, in its owner directive, having also requested follow-up of the applications that are rejected and those that lead to private financing. Another deficiency is that no distinction is made between the two forms of loan Business credits and Micro credits when they are entered in the accounts. Moreover, Almi and the Government use different definitions of the target group 'foreign-born', and it is not clear which is to be considered authoritative.



The Government's follow-up

The Swedish NAO's audit demonstrates that follow-up of the programmes by the Public Employment Service and Almi is limited. This applies particularly to foreign-born entrepreneurs. If these two forms of support are to be able to play an important part in the various establishment initiatives for foreign-born people, the Government needs to acquire more knowledge about how these forms of support function for those born abroad. In this context, it is important to pay special attention to the question of whether the programmes lead both to long-term employment through enterprise and to an economically sustainable situation for foreign-born entrepreneurs.

Recommendations

The Swedish National Audit Office addresses the following recommendations to the Government:

- In order to develop Start-up grants and Almi's loan financing and to make them effective, the Government should acquire more knowledge about how the programmes reach foreign-born people and their effect on the enterprise of those born abroad.
- The Government should monitor the development of Almi's follow-up so that this corresponds to the Government's requirements in the owner directive and can form the basis for an analysis of whether the company's loan financing provides effective support for foreign-born people who want to start a business.

The Swedish National Audit Office addresses the following recommendations to the Swedish Public Employment Service:

- The Public Employment Service should ensure that action plans are prepared and follow-up performed for those who receive start-up grants.
- The Public Employment Service should follow up that processing procedures are adapted to foreign-born recipients of the grant.
- The Public Employment Service should follow up employment and income effects with respect to foreign-born recipients of start-up grants and report the result to the Government.

