



RIKSREVISIONEN
The Swedish National Audit Office

RiR 2008:24 Summary

Start-up grants: A successful programme

Summary

Start-up grants is a labour-market programme managed by the Public Employment Service (PES). The target group consists of people who are unemployed or at risk of becoming so and who wish to start their own business. The grant is of the same amount as unemployment-insurance benefit and is normally given for no more than six months. Since 1999, over 10,000 programme periods have been initiated each year, at an average cost of SEK 932 million per year. However, both the cost and the programme volume almost halved in 2007 compared with the 1999–2006

Purpose and audit questions

Is start-up grants an effective labour-market programme and has the impact of this programme been followed up and evaluated in an appropriate way?

This question has been broken down into the following sub-questions:

- Is this programme more effective than open unemployment?
- To what extent do deadweight losses¹ occur?
- To what extent does distortion of competition occur?
- Have the Government and the PES followed up and evaluated the impact of the programme; and, if so, has this follow-up and evaluation been of an appropriate nature?

To find answers, the SNAO has commissioned a register-based study of the effects of the programme from Växjö University. The SNAO has also conducted a questionnaire survey of programme beneficiaries as well as interviews at the Ministry of Employment and the PES.

The SNAO's conclusions

The programme is effective in terms of beneficiaries' employment

The study by Växjö University is based on people who obtained start-up grants in 2003 and were subsequently followed up during a total period of four years. In the analysis performed, any differences in characteristics between programme beneficiaries and the control groups have been taken into account throughout.

¹ 'Deadweight losses' here refers to the proportion of beneficiaries who would have started their own business even if they had not received any government support to help them do so.

The programme has unequivocally positive employment effects compared with open unemployment or participation in other programmes. This is also true compared with participation in the now-discontinued 'general recruitment incentive' programme, which is considered to have been a successful labour-market programme in terms of beneficiaries' likelihood of finding and keeping a job². Compared with these control groups, beneficiaries of start-up grants:

- were less likely to be registered as job applicants with the PES both two and four years after the end of their support period;
- were more likely to obtain regular (non-subsidised) jobs;
- had been registered as job applicants with the PES for a shorter aggregate period of time;
- were less likely to come back to the PES as unemployed.

The programme also has negative effects

While this programme appears to be effective in terms of the future employment of beneficiaries, it is also associated with a number of negative effects. This audit has investigated the deadweight losses and the distortion of competition that the programme gives rise to. The deadweight losses in this context correspond to the proportion of beneficiaries who would have started their own business even if they had not received government support to do so. Distortion of competition may arise when a business benefiting from support gains competitive advantage over other businesses in the same sector that obtain no such support; the result could be that the latter businesses are crowded out by the support beneficiary.

Deadweight losses

On the basis of register data, Växjö University has estimated that the deadweight losses associated with the programme are 20 per cent. The SNAO's survey of beneficiaries indicates deadweight losses of about 40 per cent. The survey findings probably represent an overestimate given that they are based on beneficiaries' own assessments.

Distortion of competition

According to the SNAO's survey, about one in four beneficiaries considered that the programme had given them advantages over their competitors. This, however, does not necessarily mean that competition was significantly distorted, given that the programme mainly guaranteed beneficiaries that they would be able to earn a decent living. Even so, there is a risk that competition may in some cases be distorted locally. This is because the average beneficiary business is involved in the production of services in a local market.

² The general recruitment incentive was terminated in July 2007, even though it resembles one type of employment support that exists today, namely 'new-start jobs'. Both programmes involve subsidising the costs of employers taking on people who are otherwise far from the labour market.

Overall findings

The SNAO's conclusion is that start-up grants is an effective programme from the perspective of the individual beneficiaries. The businesses obtaining support may also, in time, take on employees, which would strengthen the employment effects of the programme.

At the same time, the programme is also associated with negative effects. The deadweight losses can be estimated at just over 20 per cent, and the programme can also be assumed to distort competition to some extent. However, it does not seem likely that this programme has any substitution effects³, unlike subsidised employment as provided under employment support and other programmes⁴.

In all, the SNAO finds that this is a successful support programme even though it has given rise to some negative effects. In recent years, however, the programme volume has decreased considerably. The SNAO considers that this programme should be given higher priority among the various labour-market programmes, provided that care continues to be taken to ensure that its beneficiaries are suitable.

Inadequate evaluation of the programme

The last time that the PES evaluated the employment effects of this programme on its own initiative was in 2000. However, since 2007 the PES has been measuring the programme effects of groups of programmes. Start-up grants is not accounted for separately, only as part of a broader group of programmes involving subsidies. The SNAO considers that start-up grants is a programme which has remained relatively unchanged in terms of both its content and its target group. For this reason, studying and accounting for this programme separately should be an appropriate option. The SNAO also considers that the employment effects of the programme should be measured over a period longer than one year, to increase the depth of the analysis.

The PES has an obligation to take account of the risks of displacement effects and distortion of competition in its handling of the programme. However, the PES presumably has limited knowledge of the negative effects of the programme, given that no evaluations are carried out to identify them. To reduce the negative effects of the programme and promote its positive ones, the PES should conduct relevant evaluations of the programme.

Follow-up should be improved

The local follow-up studies of the programme that are conducted within the PES vary among employment offices as regards their extent, quality and documentation. What is more, such follow-up is carried out during the six-month support period. The SNAO considers that follow-up should be improved, including through the use of a longer follow-up period so that it can be determined with greater precision how viable the businesses are and what employment opportunities they offer.

³ According to Växjö University, a substitution effect in this context would involve other businesses subcontracting tasks to businesses started under the programme instead of hiring new employees. The researchers in question do not consider this to be very likely.

⁴ In this case, the substitution effect corresponds to the proportion of cases where subsidised employment crowds out the non-subsidised employment of others.

Each programme decision taken within the PES is based on knowledge of a local and regional labour market. More uniform procedures for follow-up with longer follow-up periods, combined with relevant evaluations of the programme, could provide officials with better knowledge on which to base their future decisions relating to the programme. This, in turn, could both further enhance the positive effects of the programme and reduce its negative ones.

The SNAO's recommendations

The SNAO recommends that the Government should:

- obtain better knowledge of the effects of various labour-market programmes so that it will be better able to achieve and report on the objective of labour-market policy: a well-functioning labour market.

The SNAO also recommends that the Public Employment Service should:

- assign higher priority to start-up grants among the various labour-market programmes, in order to enhance the effectiveness and efficiency of labour-market policy; the SNAO considers that this can be done in the framework of the existing appropriation budget for unemployment-insurance benefit and activity support⁵;
- provide the officials who make the decisions with better support in the form of knowledge of the workings of the labour market and programme effects, in order to enhance the positive effects of the programme and reduce its negative ones;
- account separately for this programme in its ongoing project to measure programme effects, and introduce a follow-up period which is longer than one year;
- introduce clear and uniform procedures to follow up the programme, including longer follow-up periods, so that it will be better able to answer questions about the viability and employment opportunities of the businesses started by beneficiaries.

⁵ Activity support is the government benefit paid to participants in labour-market programmes.

