



Support for starting up a business

— long-term effects and the Swedish Public Employment Service's approach

The Swedish NAO's audit of the Public Employment Service's 'Support for starting up a business' programme shows that the effectiveness of the programme could be improved.

The audit shows that participants in the programme had (on average) shorter unemployment periods and lower social security payments compared to people who were openly unemployed or participating in other labour market policy measures. However, participation generated lower incomes, especially for women, over several years and also increased the risk of long-term debt with the Enforcement Authority

The work of the Public Employment Service in informing and preparing potential participants, as well as its follow-up of the programme to ensure that the participants achieve a sustainable livelihood could be improved. For example, information about the risks of self-employment is not given much coverage before the programme start and there is no systematic local follow-up after completion of the programme either.

Background and rationale for the audit

Support for starting up a business is a labour market policy programme to give people who are unemployed or at risk of becoming unemployed an opportunity to start their own business. The programme provides an income in the form of activity support for a maximum period of six months. Support for starting up a business may be given to any person who is deemed to be "well placed to run a business with satisfactory profitability and able to achieve sustainable employment through the business". In 2018, some 5,100 people participated, corresponding to more than 1,500 participants per month. The total cost of the

programme in 2018 was SEK 203 million, consisting of activity support (about 96 per cent) and expertise of various kinds.

The Public Employment Services' programme 'Support for starting up a business' appears to be a successful programme in terms of estimated employment effects. However, there is evidence that participants receive low incomes, which may eventually lead to over-indebtedness. The Swedish NAO is therefore of the opinion that it is important to examine the impact on labour market status, income and over-indebtedness in the longer term and to examine how the Public Employment Service works with the programme.

Better knowledge of the effects of the programme can give both potential participants and employment officers a more accurate picture of what to expect. This should lead to better application of the programme and a more effective labour market.

Audit findings

Is the 'Support for starting up a business' programme an effective measure compared with other labour market policy programmes or with remaining in open unemployment?

The Swedish NAO's opinion is that the programme works well in general, but that effectiveness could still be improved. The impact of the programme on the participants is mixed. Depending on the employment indicator used, the results shift between clearly positive and negative. The higher the requirement to be counted as being employed, the weaker the effect will be. On average, participants received about SEK 9,000 lower annual income three years after the start of the programme, corresponding to a decrease of just under 5 per cent. Over a nine-year period, the aggregate effect on income is non-existent for men and negative for women and in addition increases the risk of over-indebtedness. At the same time, the return to unemployment and payments from the social security system decreased. The aggregate results indicate that programme participation is associated with an increased risk for the individual. For this reason, it is particularly important that people taking part in the programme are well aware of the risk-taking that self-employment entails and that preparation before the start of the programme is sufficient. The Swedish NAO's assessment is that this can be improved in several respects. The impact of programme participation on public finances is positive, mainly as a result of reduced transfers.

No effect on income and ambiguous employment effect

The effects of participating in the programme were examined by comparing the developments for those who participated in the programme and became sole traders with those who continued in open unemployment or participated in another programme. The effect on income was negative for several years after participation. However, incomes rise steadily for both men and women. After about seven years, the effect is statistically significant and positive for men. For women, it is negative to about zero after eight years. At

the end of the follow-up period, nine years after the participation, the accumulated effect on income is zero for men and negative for women.

Despite the weak effect on income, the results show positive employment effects as measured by Statistics Sweden's established definition (RAMS - register-based labour market statistics). However, in order to be classified as employed according to RAMS, very low income is required and for the self-employed it is sufficient to actively conduct business activities, irrespective of whether they are profitable or not. Instead, if we set the requirement to have an income exceeding 50 % of the median income for 45-year-olds (alternative definition by the Institute for Evaluation of Labour Market and Education Policy) to be classified as employed, the effect is instead zero or negative.

At the same time, the audit indicates that payments to participants from the social security system decreased after the start of the programme. This can be explained by the fact that fewer participants returned to unemployment and that the self-employed in general use the social security system to a lesser extent.

However, it is important to point out that self-employment can bring more benefits than just the income generated by the company. For example, previous studies have shown that entrepreneurs appreciate the freedom to be their own boss and to choose the working hours best suited to them. There may also be a certain status in identifying as a self-employed person.

Increased risk of over-indebtedness

The audit shows that the risk of over-indebtedness increased for participants in the 'Support for starting up a business' programme. The risk of becoming registered with the Enforcement Authority long-term (more than 1.5 years) increased by about 60 per cent. The increase in risk was also slightly higher for men than for women.

Worse labour market outcome for highly educated and foreign-born individuals

When examining differences in the effects of participation in the programme between levels of education, no apparent general pattern emerges. However, the results indicate that those with higher education experience slightly worse outcomes in some respects. For example, the effect on unemployment periods is less favourable for men with higher education than men with shorter education. For women with higher education, the effect on income is significantly more negative than for women with shorter education.

For foreign-born participants, the overall picture is worse than for native born. Among other things, there was a more negative effect on income and a weaker positive effect on

employment for foreign born people. The risk of over-indebtedness is also higher for foreign born people.

Positive impact on public finances

The Swedish NAO's calculations indicate that participation in the programme improves public finances two years after the start of the programme. This is mainly due to the sharp decrease in payments from the social security system that takes place after participation in the programme for individuals.

Processing has improved, but significant local differences continue

The Public Employment Service's processing of the support has improved over time. The role of the coordinating officer at the head office has been clarified and new administrative support was developed by the coordinating officer in 2016. However, despite the improved coordination, local employment offices are still working in different ways. For example, the percentage of programme participants who have attended the preparatory training varies from around 10 per cent to 100 per cent. There are no common templates for business plan and budgets and the use of mentoring hours differs significantly between offices.

Preparatory training is an important complement for many

According to the employment officers interviewed, preparatory training contributes, on the one hand, to some insecure job-seekers refraining from proceeding with the programme and, on the other hand, to better prepared business plans and complete budgets for those who still wish to become self-employed. This has the potential to reduce the proportion of less successful entrepreneurs and to reduce the proportion of people who become over-indebted.

Risks of self-employment are underlined in varying degrees

It is clear from the Public Employment Service's administrative support that the employment officer is to provide information on the risks involved in self-employment and, in particular, on the personal financial liability of sole traders and trading partnerships. However, interviews show that the application of this step varies.

No systematic local follow-ups after programme completion

No systematic local follow-up is currently made of the participants after completion of the programme, even if such a possibility exists in the new consultant's contract. One explanation for this is that no motivation for follow-up is given in the administrative

support, while at the same time it costs time and money. The Public Employment Service has no formal responsibility for people who are no longer registered with them.

More specialisation facilitates progressive learning and knowledge dissemination

Management of the 'Support for starting up a business' programme has become more specialised in the local offices through more local programme coordinators. This development, however, does not come from central management, but has mainly taken place on the initiative of individual employment officers. Moreover, there is no network or joint platform for the dissemination of knowledge, learning of good practice or benchmarking between the employment officers. However, it is clear that this is sought after by the employment officers interviewed.

Recommendations

Based on the audit findings, the Swedish NAO makes the following recommendations to the Swedish Public Employment Service:

- **Provide clearer information to participants on the risks of self-employment.** The results show that self-employment produces on average relatively low incomes and increased risk of over-indebtedness. The Public Employment Service can improve the information to potential participants. Participants should understand in advance that self-employment is often associated with long periods of relatively low income, which in the long term may also increase the risk of an unsustainable debt situation. Individuals who set up as sole traders run a particularly great risk due to their personal financial liability.
- **Examine whether preparatory training for the 'Support for starting up a business' programme should also be offered in a more limited form.** In most of the interviews it is stated that many job seekers, who would have derived particular benefit from the training, opt out of it, as the training time of five weeks appears to be an unnecessary obstacle to their starting the programme. An adapted, shorter version may be more attractive to them.
- **Local follow-ups after programme completion should be more systematic.** To identify the appropriate programme participants and what support the individual needs before and during the programme is a task which requires knowledge and experience. A systematic follow-up of former programme participants may contribute to a better basis for assessment by the employment officer.

- **The Public Employment Service’s evaluation of the programme should have a longer follow-up horizon and be supplemented by income, for example.** In the annual Labour Market Report, the Swedish Public Employment Service evaluates the labour market programmes. There the ‘Support for starting up a business’ programme is presented as one of the most successful programmes, based on its effect on employment. However, what constitutes a successful labour market outcome is much more difficult to evaluate for a self-employed person compared with an employee. A longer monitoring horizon and additional outcomes such as income would give a more accurate picture of the impact of the programme and should be reported regularly together with the employment outcome.