

9 Designing effective welfare bridges to support business creation by the unemployed

Welfare bridge schemes – also known as start-up grants for job seekers – are a mechanism for supporting job seekers in business creation and self-employment. They allow for the conversion of future unemployment insurance entitlements into a start-up grant and/or allowance. This is an important tool for inclusive entrepreneurship policy because this mechanism holds potential for helping people back into work, thereby reducing the risk of social exclusion and falling into poverty. This chapter presents a summary of evidence on the impact of welfare bridge schemes from across European Union Member States and OECD countries and presents lessons for governments.

Key messages

- **Welfare bridges schemes are a mechanism to support business creation by registered job seekers.** This type of scheme allows registered unemployed people to convert future unemployment insurance payments into a grant and/or allowance to support business creation. The main goal is to cover basic costs of living during the initial start-up phase when the business might not be able to yield adequate income. Some refer to welfare bridges as start-up grants for the unemployed.
- **The rationale for this type of intervention is to reduce market imperfections and discrimination faced by job seekers in business creation.** For example, an unemployed person may have less access to financial and other resources (e.g. networks) relative to those who have a job. However, governments often hope to realise other benefits, including the “double dividend” by creating additional jobs and support regional development through job creation and market development.
- **These types of measures are used in 15 EU Member States.** Some important variations in the schemes across countries include eligibility criteria, transfer rates (i.e. the rate at which future unemployment benefits are transferred into start-up support), duration of support, and selection mechanisms (e.g. verification of business plan).
- **The collection of evaluations presented in this chapter shows that welfare bridges can be an effective labour market policy tool.** About 80% to 90% of beneficiaries start a business and evaluations in France, Germany, and Poland covering periods between 1990-2010 show that 50% to 60% of these start-ups still operate after five years. Moreover, evaluations from Germany covering the period 1990-2010 show that about 20% to 35% of businesses started create jobs for others. This is slightly higher than more recent evidence from France and the United States, which shows that about 15% to 18% of beneficiaries created additional jobs over the period 2013-15. When individuals do not continue to operate their business, the German experience since 1990 suggests that they are more likely to find a new job rather than return to unemployment.
- **Governments seeking to introduce or strengthen welfare bridge schemes could:**
 - Ensure that beneficiaries are committed to starting their own businesses by requiring effort prior to receiving benefits, e.g. preparation of a business plan;
 - Ensure that financial support is provided for at least six months, with a mechanism that adapts the sum of financial support to the amount of unemployment benefits that the otherwise unemployed would have received;
 - Consider increasing the amount of financial support provided and/or the length of time that it is offered if targeted to specific groups of unemployed who face greater challenges;
 - Offer publicly subsidised non-financial services for successful start-ups out of unemployment who have growth potential and whose entrepreneurs are motivated to grow their firms; and
 - Consider introducing a short-term (3-6 months) insurance scheme to offer some support to beneficiaries if their business does not become sustainable.

What are welfare bridges for job seekers?

Welfare bridge schemes, also known as start-up grants for job seekers, are a labour market policy instrument that assists unemployed individuals in returning to work by creating a business. These schemes offer financial support to these individuals during the initial start-up period while they establish their business, largely by providing a lump-sum payment of future employment insurance entitlements. The main goal is to cover basic costs of living and, in some countries, social security contributions during the initial stage of entrepreneurship, when the business might not be able to yield adequate income. By having living costs covered, individuals might also be better able to use their own funds to finance initial investments required by the business. This also helps reduce the financial risk of failure which may impede potential entrepreneurs (Bianchi and Bobba, 2013^[1]). Therefore, lump sum payment can act as an insurance against the risk of limited income from start-ups. More indirectly, these schemes aim to reduce barriers faced by unemployed individuals when becoming entrepreneurs, including capital constraints, shortages in start-up specific human capital, the absence of job-related (and social) networks, and imperfect information (Caliendo and Künn, 2015^[2]). By doing so, the schemes ultimately seek to integrate the supported individuals in the labour market.

Despite being used in several EU Member States and OECD countries, the use of welfare bridges is somewhat controversial. From a labour market policy perspective, several evaluation studies show positive effects of such schemes in terms of income and survival rates, also in the long run (see *inter alia* (Caliendo and Künn, 2011^[3])). These studies also show that the formerly unemployed do not just create their own job by becoming self-employed, but that they also create jobs for others. Therefore, welfare bridge schemes are deemed to be a successful and important part of active labour market policy (Caliendo, 2016^[4]). However, from an entrepreneurship point of view, some researchers claim that policy instruments specifically targeting the unemployed are “bad public policy” (Shane, 2009^[5]). This perspective is of the view that the same tax-money could be used more effectively if offered to more productive entrepreneurs. The major concern is that formerly unemployed individuals lack basic qualifications, motivations, and capabilities to become successful entrepreneurs. Therefore, such schemes may encourage low-ability individuals to start a business simply because they take advantage of the offered grants, thus leading to underperforming businesses, failure, or even immediate closure after the financial support run out. This chapter will examine current evidence on the effectiveness of welfare bridge schemes for job seekers, considering both entrepreneurship and employment outcomes.

The rationale for using welfare bridge schemes is that they reduce not only market imperfections, but also to remove potential discrimination in markets. In doing so the employment prospects of participants are enhanced so welfare bridge schemes are justified to be only accessible to unemployed individuals who aim to become entrepreneurs. These individuals typically possess fewer financial resources both personally and within their families compared to those who are employed, resulting in a reduced amount of personal equity that can be used for starting a business or for providing collateral. Capital markets tend to discriminate against unemployed individuals because they are perceived as having higher failure risks, which further hampers their ability to access loans (see (Perry, 2006^[6])). Thus, unemployed individuals may have less or even no access to formal loans. Moreover, these individuals may face further disadvantages because they are confronted with a devaluation of their start-up specific human and social capital during unemployment (Niefert, 2010^[7]). This includes a lack of prior experience in establishing business knowledge due to limited exposure to (self-)employment in the recent past, which is why they may have a stronger focus on dependent employment at the beginning of their job search. Here, imperfect information may result in unemployed individuals prioritising traditional employment and overlooking self-employment. (This is sometimes referred to as “lack of awareness” (Storey, 2003^[8])). Moreover, the negative experience of labour market setbacks resulting from job loss diminishes individuals’ self-efficacy, thus potentially reducing their inclination to view self-employment as a viable alternative to dependent employment (Caliendo et al., 2023^[9]). Finally, a higher share of individuals may feel “pushed”

into entrepreneurship because of a lack of employment alternatives (Caliendo, Kritikos and Stier, 2023^[10]). Such decisions are typically made hastily, with limited time invested in adequately preparing the start-up (e.g. developing a detailed business concept or comprehensive marketing and financial strategies) (Caliendo et al., 2015^[11]). Overall, these negative connotations may also lead to stigma effects of nascent entrepreneurs out of unemployment further fostering discrimination.

In addition, there are a number of specific rationales for welfare bridge schemes:

- **Impact on disadvantaged groups:** The labour market outcomes may be enhanced for some segments of the unemployed such as those with low levels of education or young people with limited job prospects (Caliendo and Künn, 2014^[12]).
- **Impact on women:** There is potential to improve the integration of unemployed women because they typically have lower participation rates in ALMPs (Caliendo and Künn, 2015^[2]). This is particularly true for risk-averse unemployed women who generally allocate less time to work (i.e. in the labour market). They perceive entrepreneurship as having fewer potential benefits so welfare bridge schemes could help more unemployed women view self-employment as a viable alternative to paid employment (Caliendo, Fossen and Kritikos, 2009^[13]).
- **Future employability:** Individuals who receive support during their self-employment period enhance their employability, build skills and grow their networks (Caliendo and Künn, 2011^[3]). Some evidence suggests that this may hold even more so for women whose business ventures fail (Caliendo and Künn, 2015^[2]).
- **Double dividend:** Newly established businesses have the potential to create additional jobs, thereby further reducing unemployment rates (Caliendo and Künn, 2011^[3]) and even if firms are small, they still might be innovative, thus strengthening economic growth and productivity (Audretsch, Kritikos and Schiersch, 2020^[14]).
- **Regional development:** The founding of firms could have a significant impact on regional development by improving innovation, structural change, economic growth, and job creation (Caliendo and Künn, 2014^[12]) because new firms can potentially increase the capacity of the market (Michael Fritsch, 2008^[15]).
- **Macro-economic impact:** New business entrants may also stimulate competition and boost the productivity of existing firms, helping to develop efficient markets and disseminate technology. This can foster economic stability, growth, and an overall increase in wealth (Kritikos, 2014^[16]).

However, governments need to recognise that welfare bridge schemes might also induce some negative effects such as moral hazard, deadweight effects and create precarious work. Each of these would be considered as undesirable outcomes. In the first instance, governments may end up supporting entrepreneurs that would have started their business even without government support (although the chances of success may be increased by a having access to a greater amount of resources). Another risk is that the new start-ups take markets away from existing businesses and force them to close. Therefore, the government risks funding substitution in the market with no net gain. A third risk is that job seekers create businesses that require them to work long hours to generate a small amount of income. In some cases, earnings may be below the minimum wage that could have been earned in employment and in addition, these self-employed workers would likely have less access to social security benefits than those working in minimum wage employment (Immervoll et al., 2022^[17]).

Key design features of welfare bridge schemes for job seekers

Designing welfare bridge schemes for job seekers is demanding. Governments need to balance issues of effectiveness and efficiency, while minimising potential negative effects such as moral hazard issues and deadweight loss. They must also consider the process of self-selection into entrepreneurship.

Since framework conditions vary greatly across countries, there is no single optimal design for welfare bridge schemes for job seekers. Instead, governments use an open decision process about who should be attracted and supported by such schemes. Accordingly, these schemes differ in the duration, amount, and eligibility criteria.

General access to support instrument

The majority of countries tie access to welfare bridge schemes with entitlements to unemployment benefits. Such a requirement safeguards several prerequisites when allocating such funds to individuals who would like to benefit from such schemes. This helps to ensure that individuals likely have a minimum amount of skills and abilities acquired through employment, as well as some professional and social networks, even if these may deteriorate while being unemployed. These help to ensure that the individual has a chance of succeeding as a self-employed worker, but a critical element is the self-selection for participation in the scheme. The German experience, for example, shows that individuals who start their self-employment activities coming out of unemployment with support from one of the major German start-up grant schemes are more often highly educated, middle aged, more often males, thus resembling the population of people starting businesses and rather than the overall population of unemployed people (Caliendo and Kritikos, 2010_[18]). In Germany, there was also experimentation with start-up subsidies for individuals who were not eligible for typical “unemployment benefits” (*Arbeitslosengeld 1*), which require a minimum period of one year in dependent employment but these individuals created much smaller and less sustainable businesses with lower incomes (Wolff, Nivorozhkin and Bernhard, 2016_[19]).

Amount of support

Most welfare bridge schemes link the amount of financial support to the level of eligibility to unemployment benefits. This is the case in France, Germany, Sweden and the United States (US), with Sweden reducing the amount of financial support as duration increases. Other countries (United Kingdom (UK), Finland, and Germany, when it introduced the second support scheme in 2003 – see case study in Annex 9A), also provide fixed amounts to beneficiaries ranging from EUR 590 per month in Finland and about EUR 1 450 in UK. While support based on previous working incomes (via the unemployment benefits) is attractive to those who earned relatively high incomes in dependent employment (which can be seen as an indirect measure of entrepreneurial skills, see (Åstebro and Chen, 2014_[20])), a fixed amount – as much as the longer duration of financial support – might be a design instrument that makes the decision to become an entrepreneur more attractive for individuals (e.g. women, lowly educated individuals) with low incomes before entering unemployment.

Duration of support

Experiences across countries such as Finland, Germany, Sweden, UK, and US suggest that a six-month period of subsidy payments is the minimally sufficient amount of time to successfully support the transition from unemployment to self-employment. There is some evidence showing that, in the first year after the founding of the business, the majority of individuals still earns less than their employed counterparts, while from the second year onward this is reversed (Caliendo and Kritikos, 2010_[18]). Some countries provide support for a longer time. In France, for example, support is provided for 15 months, support in Finland can be extended by two additional six-month periods if the business is not performing well. Germany had increased the support period to nine months (in 2006) but reduced it again to six months (in 2011) while adding a couple of additional months of social security payments, with little variation in the impact of the two programmes (Caliendo, Künn and Weißenberger, 2016_[21]). More importantly, between 2003 and 2006, Germany experimented with a long-term support scheme, the start-up allowance (SUA) for up to three years. This scheme attracted more heterogenous individuals who are

usually under-represented in typical start-up schemes, i.e. more women, younger and less educated individuals.

Entry conditions

Nearly all countries have introduced some type of reliability check to minimise moral hazard issues and deadweight losses. In Finland and the US, individuals must participate in entrepreneurship training programmes. In Germany, beneficiaries must receive approval of their business plan by a chamber of commerce or other similar external institution. Since 2006, they might be even required to gather business advice if case workers have the impression that the beneficiary lacks sufficient skills or abilities. In the UK, such assessments are implemented by local mentoring organisations, after a mentor is assigned to each potential entrepreneur to help in developing a business plan. In Sweden, applicants must demonstrate that they would be capable of starting and managing a new business (Caliendo, 2016^[4]).

Transfer rates

Another instrument increasing the probability of attracting entrepreneurs who feel truly committed to the programme is the introduction of transfer rates. Participants must give up their unemployment benefits at a ratio of 1:1 (sometimes at a lower transfer rate) in order to receive support from a welfare bridge scheme. That means for six months of financial support with a start-up subsidy six months of entitlements for unemployment benefits need to be given up. Thus, individuals cannot wait until their eligibility for unemployment benefits has come to an end. Accordingly, for a six-month scheme, they must decide to start their entrepreneurial activities the latest six months before the entitlements for unemployment benefits end. A shorter time period of financial support of less than six months is usually not approved. This criterion has two effects. First, individuals who are aware of the transfer rate but originally aimed to start their entrepreneurial activities at the end of their entitlements for unemployment benefits, now feel compelled to venture their businesses earlier in time. Thus, public funds are saved (i.e. tax money or money from unemployment insurance), increasing the efficiency of the instrument. Second, individuals who are not aware of the transfer rates and would have decided later on self-employment, are excluded from the instrument, potentially lowering the effectiveness of the programme in terms of numbers of supported individuals if these individuals would have become otherwise successful entrepreneurs (Caliendo and Kritikos, 2009^[22]).

Entitlements

In most schemes, applicants are entitled to use it when they met all eligibility criteria. This signals commitment by the agency which makes the instrument reliable towards the unemployed individuals striving for entrepreneurial activities. In Germany, for example, this important criterion was changed during the 2011 reform of the scheme. Since then, caseworkers have the discretionary right to reject eligible applicants if they deem the subsidy unnecessary in light of the individual's re-employment probability (Caliendo and Tübbicke, 2021^[23]). Similarly, in Finland the final decision is made by the employment offices which, however, usually follow in their decision the suggestions based on the assessment of third-party experts (Tokila, 2015^[24]).

Insurance in case of business closure

Insurance in case of business failure or closure can be designed in various ways. The German experience tested a range of different options. Under the schemes accessible until 2006, individuals – after starting their entrepreneurial activities – kept their remaining entitlements for unemployment benefits for four more years. In other words, if their business was closed in the subsequent four years and they did not find a job in dependent employment, they could return into the unemployment benefit system, making use

of their remaining entitlements. With the introduction of transfer rates in 2006, there were mostly no or only little remaining entitlements for unemployment benefits. Therefore, a new option of voluntary insurance against unemployment for the participants was implemented in the German scheme in 2006, when the new start-up grant was introduced. The prerequisite for having access to this insurance benefit is the payment of 12 monthly contributions. The business founders are then entitled to unemployment benefits for six months if their business fails or is closed. A third option in the German system and in many other Western EU countries is to offer basic social welfare to all individuals who are unemployed but have no access to unemployment benefits. This option is also open for individuals whose business failed or was closed and were not able to return to regular employment.

Use of welfare bridges in EU Members States and OECD countries

The overall use of start-up incentives and supports among active labour market policy measures is common across EU Member States and OECD countries. Various types of measures are offered, including entrepreneurship training, start-up grants and loans, business consultancy and more. However, start-up supports account for only a small share of expenditures on active labour market policies. The vast majority of countries allocate less than 1% of ALMP expenditures to start-up supports, with some notable exceptions being Poland (3.8% in 2021), Spain and Costa Rica (4.3% each) (OECD, 2023^[25]).

Welfare bridge schemes are currently used in 15 EU Member. Table 9.1 provides several examples of schemes, including schemes in two non-EU OECD countries. The table provides a brief overview of each scheme and highlights some of the major changes made to schemes since they were introduced. While there are some similarities across the schemes, there are many differences in the scale of the schemes, as well as the amount and duration of support provided and how support is accessed. Some of these schemes date back to the 1970s and it should be noted that many have undergone major changes since they were introduced. For example, the German scheme had four major phases between 1986 and the present day. There are also examples of schemes that have evolved to offer support to groups beyond job seekers (e.g. the scheme in France is no longer limited to job seekers) and schemes that were stopped for various reasons, including concerns about supporting precarious work (e.g. Slovenia).

Three longer case studies are described in Annex 9.A, providing additional details on the schemes in France, Germany and Sweden. These cases aim to showcase the different approaches used in delivering this type of support.

Table 9.1. Examples of welfare bridge schemes in EU Member States and OECD countries

Country	Scheme	Time	Scale	Access	Amount	Duration
Austria	Start up subsidy	1995-present	4 000 businesses start-ups supported accounting for 15% of all newly founded businesses	Registered job-seekers and those facing job loss are eligible. A business idea is assessed and individual must have relevant qualifications.	Amount covers management consultancy, training and living allowance. Some variations across regions.	6 months
Finland	Start-up grant – Support for new entrepreneurs	1984 - present		Being a full-time entrepreneur, having adequate skills for the intended business, the business activity has the potential for continuous profitable activity and the grant should be necessary for the entrepreneurs subsistence.	At least equal to basic unemployment allowance, paid for a maximum of five days per week. In 2023 the grant is EUR 37.21 per day and around EUR 740 per month.	6-12 months
France	<i>Aide aux Chômeurs Créateurs ou Repreneurs d'Entreprises</i>	1997-2019		Registered unemployed and receiving unemployment benefit payment, or registered unemployment but not receiving benefit be registered for at least 6 of past 18 months; or an employee in a business in bankruptcy or liquidation; or recipients of certain social security benefits (e.g. RSA, API).	Exoneration from some social security contributions. This benefit was on average EUR 1 370.	Up to 12 months but can be extended to 24 months under certain conditions.
		1979-1997			Lump-sum payment corresponding to the future unemployment benefits they would have received if they continued to search for employment.	Maximum of 15 months
Germany	Start-up Grant	2011-present	About 20 000 people per year.	Case workers had right to reject applications. Minimum waiver of unemployment benefits was increased from 3 to 5 months.	Amount of entitled unemployment benefit payment, plus EUR 300 to cover social security contributions.	6 months, with an additional 9 months of reduced support (EUR 300 per month).
	Start-up Grant	2006-11		Entitlement to unemployment benefits and an approved business plan. Aimed to have full-time activities. Age limit of 65 years old. Had to demonstrate knowledge and experience, or complete a training course. Transfer rates were introduced. Had to waive remaining unemployment benefits (at least 3 months).	Amount of entitled unemployment benefit payment, plus an additional lump sum for social security equity to about 70% of unemployment support.	9 months plus an additional 6 months of reduced support could be accessed.
	Start-up Allowance	2003-05	Up to 350 000 supported individuals per year (2004)	Entitlement to unemployment benefits and an approved business plan. Aimed to have full-time activities. Age limit of 65 years old.	Amount of entitled unemployment benefit payment, plus an additional lump sum for social security equity to about 70% of unemployment support.	3 years

Country	Scheme	Time	Scale	Access	Amount	Duration
	Bridging Allowance	1986-2002	About 5 600 individuals were supported in 1986 and this reached 125 000 in 2002.	Entitlement to unemployment benefits and an approved business plan. Aimed to have full-time activities. Age limit of 65 years old.	Amount of entitled unemployment benefit payment, plus an additional lump sum for social security equity to about 70% of unemployment support.	6 months
Hungary	Start-up incentive programme	2015-present	About 2 000 people in 2018-19.	Registered with the Public Employment Service for at least one month and must contribute at least 20% of their own resources as collateral and maintain entrepreneurship activities for at least three years.	Lump-sum payments up to HUF 3 million.	
		2003-14	About 5 000 people in 2003-04.			
Netherlands	Self-employment with unemployment benefit	2004-present	25 000 in 2021.	Entitlement to unemployment benefits and capacity to run a business including creation of a business plan and feasibility of the idea.	71% if the unemployment benefit during first 26 weeks, then it is reduced by 29%.	6 months
Poland	Government Programme First Business- Support at Start	2021-27	Target 7 000 by 2023.	Registered unemployed until reaching retirement age, final year students in higher education institutions and Graduates of higher education institutions within 4 years from the date of graduation or receiving their vocational qualification, carers of disabled persons.	From 2022, a loan of up to PLN 99 000 can be obtained, from 2023 up to PLN 129.	Repayment period is up to 7 years
Sweden	Start up Grants Programme	1984-present		Be unemployed or at risk of being unemployed, be registered with the Swedish Public Employment Service	Equivalent to unemployment benefit.	6 months
United States	Self-employment Assistance	1993-present	From 2002 to 2022, there were over 40 000 participants (total). In 2022, there were 1 404 participants.	Entitlement to regular unemployment insurance under state law. Individuals who have been permanently laid off from their jobs.	Same weekly amount as the worker's regular unemployment insurance benefits.	Same duration as regular unemployment insurance. This can be up to 52 weeks but the maximum in most States is 26 weeks.
United Kingdom	New Enterprise Allowance	2011-19	From 2011 there have been 247 000 starts to NEA. By 2019, 137 000 businesses were set up through the NEA programme by 134 000 individuals.	Aged 18 and over, who are: claiming Jobseeker's Allowance (JSA) or Employment and Support Allowance (ESA); the dependent partners of JSA/ESA claimants; Income Support (IS) claimants who are lone parents or who are sick/disabled; and some Universal Credit (UC) claimants.	An allowance worth GBP 1 274 over 26 weeks, paid at GBP 65 a week for the first 13 weeks and GBP 33 a week for a further 13 weeks. Participants may also be able to access a start-up loan, if required.	6 months

Note: This table is intended to showcase the range of approaches used in EU Member States and OECD countries and is not fully exhaustive.

The impact and effectiveness of welfare bridge schemes for job seekers

There are various dimensions to measure the impact and effectiveness of welfare bridge schemes.

One of the key measures is the rate at which beneficiaries create a business and across most schemes, 80% to 90% of beneficiaries successfully start a business. Other metrics to consider include the survival rate of the businesses created along with the likelihood that beneficiaries remain in the labour market, either operating their business or transitioning into employment. However, few evaluations examine impact on job creation and innovation to measure the “double dividend” and only one study tries to estimate the deadweight loss effects. Most of the evaluation evidence and research on these issues has been undertaken in Germany, where start-up subsidy schemes have been substantially larger historically than in other EU Member States and OECD countries.

Descriptive evidence

Business survival

The majority of assessments of welfare bridge schemes show that business survival rates are in-line with overall firm survival rates. For several EU Member States, survival rates are about 80% to 90% after one year (Finland, Germany, Hungary, and Spain), around 70% to 80% after two to three years (Denmark, France, Germany, UK), and 50% to 60% after four to five years (France, Germany, Poland, UK). (For an overview over these results see (Caliendo, 2016^[4])). In Germany, for some schemes there is an even higher survival rate of up to nearly 70% after 4.5 years (Caliendo and Künn, 2011^[3]). Only two studies measured business survival beyond five years, pointing to 36% in Finland and 51% in France after eight years, and to 26% in Finland after 14 years (Tokila, 2015^[24]; Duhautois, Redor and Desiage, 2015^[26]). These findings are similar to those of studies investigating business survival rates of start-ups (overall), which find an average decline in the survival rate of about 10 percentage points (p.p.) per year (Bartelsman, Scarpetta and Schivardi, 2005^[27]; Helmers and Rogers, 2010^[28]). The exception is an evaluation of the Self-Employment Assistance Program in the US over the period 2013-15, which found that 40% of businesses start-up continued to operate one year later (Weigensberg et al., 2017^[29]).

Firms started by previously unemployed individuals who received support from welfare bridge schemes have relatively high survival rates, often even higher than survival rates of start-ups out of non-unemployment. Three recent studies making direct comparisons between start-ups out of unemployment and non-unemployment find that there are differences in the exit rates from self-employment between the two types. In Germany, business survival rates were 81% after 1.5 years for those founder who received support from the start-up grant scheme compared to 73% of unsupported business founders over the same period (Caliendo et al., 2015^[11]). Similarly, studies in Finland (Tokila, 2015^[24]) and France (Duhautois, Redor and Desiage, 2015^[26]) find that subsidised start-ups are more likely to survive than non-subsidised firms up to 14 years after start-up in Finland and after two years of start-up in France.

There is not much evidence on the business survival rates by different participant profiles. For women entrepreneurs in comparison to men, both coming out of unemployment, two studies point to slightly lower survival rates among women, for instance after 3.5 years around 77% for men and 69% for women (Caliendo, Künn and Weißenberger, 2016^[21]; Caliendo and Kritikos, 2010^[18]). This finding is consistent with overall studies on business survival rates of businesses operated by women (see e.g. (Fairlie and Robb, 2009^[30])). Other researchers have investigated the effect of regional disparities on business survival rates but find inconclusive results for two start-up grant schemes. They found that there is variation in the survival rates depending on whether the local economic conditions are strong or poor,

but there is no clear direction in which way the local economic conditions influence outcomes (Caliendo and Künn, 2014_[12]).

Job creation

The majority of job seekers who start businesses often remain solo entrepreneurs, operating their businesses without employees. In France, about 18% of businesses created by someone who came from unemployment in 2015 created at least one additional job (Bonnet, De Visme and Profovas, 2018_[31]). Of these, 78% of businesses created by the unemployed make use of the ACCRE schemes. Historically, about 20% to 35% of the supported start-ups in Germany had at least additional one employee within the first three years after starting their entrepreneurial activities, with shares of firms hiring employees increasing the longer they are in the market. This is slightly below average when compared to all start-ups where it has been found that typically one-third of all start-ups create jobs in the first three years (Caliendo and Kritikos, 2010_[18]). Evidence from the United States is in-line with the results of the French scheme. An evaluation of the Self-Employment Assistance Program in New York and Oregon (United States) for the period 2013-15 shows that 16% of supported businesses created at least one additional job in their first year (Weigensberg et al., 2017_[29]).

Some small gender differences are observed in Germany, which is the only country where evidence is available. About 33% of the men and 26% of the women participants in German schemes had hired at least one employee. The corresponding numbers for the start-up allowance programme (SUA), that was implemented between 2003 and 2006 and attracted more disadvantaged groups, are 14% of men and 9% of women, with the number of additional jobs varying between three to four individuals (Caliendo and Kritikos, 2010_[18]).

Overall, available evidence shows that start-ups from unemployment create fewer jobs on average than businesses started by people in employment. A comparison in Germany found that start-ups out of regular employment create jobs in 56% of the cases (compared to 36% among the previously unemployed) with six jobs created versus only three to four among the previously unemployed (Caliendo et al., 2015_[11]). Furthermore, most supported individuals who did not have employees at the time of the survey did not plan to have any in the future, even if the businesses grew (Caliendo and Kritikos, 2010_[18]). Accordingly, in a more long-term analysis in Germany, it is observed that start-ups out of unemployment do not catch up to start-ups founded by individuals from non-unemployment (Caliendo, Künn and Weissenberger, 2020_[32]).

Innovation

One of the main criticisms of welfare bridge schemes for job seekers is that the businesses created are less innovative and this is generally confirmed by research. In Germany, businesses started out of employment have more applications for the protection of corporate identity than businesses by previously unemployed, while differences for the filing of patents are not statistically significant (Caliendo et al., 2015_[11]). Again, as for additional jobs, there is no catching-up process by previously unemployed business founders in terms of their innovation activities. In the long-run businesses started out of non-unemployment had also significantly more applications for the filing of patents than businesses by previously unemployed (Caliendo, Künn and Weissenberger, 2020_[32]). Yet these findings do not imply that start-ups from unemployment are not innovative, simply that they are significantly less likely to apply for corporate identity protection.

Job satisfaction

Job satisfaction is an increasingly important determinant of working conditions. While low job satisfaction may demotivate individuals in their entrepreneurial activities, potentially inducing firm closure, high job satisfaction may unfold positive effects on entrepreneurial motivation and survival in

entrepreneurship. Compared to their previous employment, start-up programme participants experienced in Germany improvements in terms of the satisfaction with their work, income levels, and career advancement opportunities. However, compared to previous employment, there was a decline in satisfaction factors such as workload, working hours, and social security (see also (Caliendo and Tübbicke, 2022^[33]). Despite these negative changes, individuals placed higher value on the improvements in the first three categories due to their higher absolute values (Caliendo and Künn, 2011^[3]). Moreover, female entrepreneurs in German programmes were more satisfied with their entrepreneurial activities than with their employment experience (Caliendo and Künn, 2015^[2]).

Reintegration into the labour market

Evidence suggests that schemes typically integrate the previously unemployed individuals fairly well into the labour markets, even if businesses created exit. Usually, the total employment shares as the sum of self-employment or dependent employment adds up to 80 to 90% (as observed for Germany in various combinations after 1.5, 2, 2.5, 3.5, and 4.5 years, but also for schemes in Sweden and UK), with dependent employment shares increasing proportionally to the decreasing self-employment shares over time (Meager, 1996^[34]; Caliendo and Kritikos, 2010^[18]; Caliendo and Künn, 2015^[2]; Caliendo, Künn and Weißenberger, 2016^[21]; Behrenz, Delander and Månsson, 2016^[35]). Among those who experienced business closure, a significant proportion managed to secure regular employment right after their closure. This might be attributed to the establishment of labour market networks, connections to business partners, and improvements to employability and human capital during the period that they operated their business.

Causal evidence from Germany

Evaluation studies that aim to reveal the causal impact of the welfare bridge schemes on the supported entrepreneurs coming from unemployment are scarce. Moreover, as existing studies are implemented from the policy perspective of active labour market programmes and comparisons are usually restricted to the group of unemployed individuals who started a business using the scheme with the overall group of unemployed. To date, there are no studies that compare individuals who started a business out of unemployment while receiving a grant with comparably similar individuals who started a business out of unemployment without receiving a grant. To estimate the treatment effects, propensity score matching approaches are typically applied while trying to make sure that the identifying conditional independence assumption (CIA) is valid, which states that, conditional on observed characteristics, the counterfactual outcome is independent of treatment (Rosenbaum and Rubin, 1983^[36]).

Reintegration into labour market

A larger number of studies show, in particular for Germany, that unemployed individuals funded with welfare bridge schemes were much more likely to be in entrepreneurship or dependent employment when compared to non-funded individuals. This is typically demonstrated by a comparison of the share of beneficiaries who continue to operate their start-up plus the share who closed their businesses and moved into employment, relative to the labour market outcomes of (unsupported) unemployed people who are “statistical twins;” i.e. as comparable as possible in as many observable characteristics as possible. Results vary across programmes and according to macroeconomic conditions. Differences are found to be up to as large as 30 p.p. after two to three years (Caliendo and Künn, 2011^[3]). There were also observed 15 p.p. differences after five years of having utilising the welfare bridge scheme. This means that if the probability of being self-employed or employed after having received the start-up grant scheme was 90%, in the control group the probability of being employed or self-employed was 75% after five years. Most studies also find larger differences in the short- and medium-terms (after one and after three years) (Caliendo and Künn, 2011^[3]), pointing also to a higher immediate success of the schemes, with other unemployed individuals needing much more time to be integrated again in the labour

markets. These high differences are also found for the one programme in Germany that experimented with long-term support over three years, i.e. the Start-Up Allowance. It attracted a different kind of individual to start a business (Caliendo and Kritikos, 2010^[18]). Only one study for the later start-up grant scheme, introduced in 2011, finds smaller differences below 15 p.p. after two years (Caliendo, Künn and Weißenberger, 2016^[21]), probably owing to the better macroeconomic environment. This is similar to the results of evaluations in Sweden and France that point to an effect of 10 p.p. to 20 p.p. (Behrenz, Delander and Månsson, 2012^[37]; Duhautois, Redor and Desiage, 2015^[26]).

Some of these studies show a similar impact of the scheme for women as compared to men, and sometimes an even larger positive impact. Results from two early German programmes that were in place until 2006 (i.e. Bridging Allowance (BA) and Start-Up Allowance (SUA)) show a positive impact on employment prospects 4.5 years after establishment of the start-up. SUA female participants had a 24 (36) p.p. higher employment probability compared to non-participants in West (East) Germany. Similarly, female BA participants have a 25 (27) p.p. higher probability in West (East) Germany. How substantial these differences are, becomes clear when revealing monthly differences in terms of being in entrepreneurship or employment: female SUA participants in West (East) Germany remained in self-employment or regular employment for an average of 27 (29) months longer than female non-participants (Caliendo and Künn, 2015^[2]). A later study for the German start-up grant that started in 2006, finds smaller, albeit still positive effects (Caliendo, Künn and Weißenberger, 2016^[21]). These smaller differences might be owed again to different economic conditions where it was easier for the control group to find a job.

The effect of participants' age on the effectiveness of welfare bridge schemes is less clear because there are multiple effects that make expectations less clear. On the one hand, younger individuals have less working experience which may reduce their success probability in entrepreneurial activities in the treatment group. On the other hand, in the control group the re-employment probability of younger is also lower when compared to middle aged individuals. Moreover, education levels strongly matter among younger individuals in their reemployment probability, meaning that young lowly educated individuals have again a lower probability to find a job than young individuals with high education levels. It seems that the latter effect is the one, driving results in Germany, at least for the early bridging allowance (BA) programme. Here, higher effects are observed for participants aged younger than 30 years old. However, this observation does not consistently hold for all German programmes. For instance, the start-up allowance programme that existed parallel to the BA programme, attracted more younger individuals, but has higher effects for participants aged older than 30 years old. At least, in terms of income effects, younger individuals are better off in both programmes (Caliendo and Künn, 2011^[3]). Overall, there have not been observed consistent differences for effect sizes when investigating entrepreneurs of differing ages.

Income

Welfare bridge schemes tend to have a positive income effect in the medium-term. By comparing the generated incomes between the treatment group (i.e. supported entrepreneurs coming out of unemployment) and the control group (the comparable statistical twins of unemployed who did not receive the grant) allows again for a causal interpretation. On average, 4.5 years after venturing the business, individuals who had received support, have a net income that is EUR 400 to EUR 700 higher per month than non-participants. This points to economically significant gains from entrepreneurship (Caliendo and Künn, 2011^[3]; Caliendo, Künn and Weißenberger, 2016^[21]). For women, differences are slightly smaller in the earlier programmes that were in place until 2006. In West (East) Germany, the estimated effects of the SUA programme are EUR 153 (EUR 344), while for the BA programme, they are EUR 255 (EUR 270). In the later programme after 2006, differences were also much larger for women, amounting to EUR 600. Given that average incomes are about EUR 1 600 for women, this effect is again substantial. The positive impact on income is largely attributed to higher employment rates among programme participants in comparison to non-participants (Caliendo and Künn, 2015^[2]).

However, supported entrepreneurs make less on average than those who did not start-up from unemployment. Several German evaluations assessed outcomes 1.5 years after establishment of the start-up. Subsidised business owners had a monthly income of an average of EUR 2 389 per month, around EUR 684 less than regular owners (Caliendo et al., 2015^[11]), with not much differences in later periods (Caliendo, Künn and Weissenberger, 2020^[32]). Thus, the welfare bridge schemes yielded positive income effects when the supported start-ups were compared to their control group of other unemployed individuals, but they make less money when compared to “regular entrepreneurs”.

Family decisions for potential women entrepreneurs

Evaluations in Germany found that participation in welfare bridge schemes for job seekers does not significantly reduce fertility among female participants. Evaluations assessed the influence on fertility with observations for 56 months after starting the subsidy for the two early programmes, i.e. the SUA and the BA that were accessible until 2006. Here, the disparity between female participants and non-participants in terms of the proportion who have taken at least one period of maternity/parental leave within the observation period was investigated. This analysis shows insignificant effects, indicating that participation in the SUA and BA programmes does not significantly reduce fertility. Extending this into an analysis of employment considering fertility, the large and positive employment effects in the studies on SU and BA are not outweighed by partly negative effects on fertility, contrary to other existing ALMP programmes. An explanation could be that females postpone fertility decisions during the start-up period. At the start of the observation period, non-participants exhibit a higher likelihood of entering maternity/parental leave. However, as the observation window progresses, participants experience higher probabilities of taking maternity/parental leave (Caliendo and Künn, 2015^[2]).

Education level

German evidence shows that welfare bridge schemes appear to contribute to the reduction of the risk of long-term unemployment amongst the most disadvantaged unemployed, including those with low education levels. Expectations would generally be that more educated unemployed individuals have a high probability to find a new job again in the labour market, while longer unemployment spells are usually connected to individuals with lower education. This is important as, in the matched comparison, employability for the control group also matters. It can be expected that reintegration differences between participants in the treatment group and matched non-participants in the control group should be smaller for higher educated individuals when compared to lower educated individuals. Indeed, the accumulated effect for the low educated group is approximately five months larger compared to individuals with higher levels of education, with expectations also being confirmed in the sense that the control group consisting of highly educated individuals has a higher likelihood of being employed than the corresponding control group for low-educated individuals. In terms of income effects, the results are mixed. There is a further interesting design effect: low-educated participants experienced significantly higher income effects than the highly educated, when compared to the appropriate control groups under the start-up allowance regime (that existed between 2003 and 2006) that was specifically designed to attract the more disadvantaged groups by having a more long-term support. Under the BA design that rather attracts individuals with “typical” characteristics of nascent entrepreneurs, the highly educated are better off compared to their low education counterparts in terms of income (Caliendo and Künn, 2011^[3]). This is an important finding for the future design of such programmes. It is usually expected that highly educated are better prepared for entrepreneurial activities which is true also for the programmes supporting start-ups out of unemployment. However, the comparison to similar types of in this case lowly educated individuals who do not choose the entrepreneurship track, the reintegration through entrepreneurial activities shows to be a particularly promising approach. It seems that in groups that are at higher risk of also becoming long-term unemployed, i.e. among low educated individuals, welfare bridge schemes potentially contribute to the reduction of the risk of long-term unemployment amongst disadvantaged unemployed.

Personality types

One evaluation investigated the impact of personality types on the effectiveness of welfare bridge schemes and found limited interaction between personality and outcomes. The following types were assessed: agreeableness, conscientiousness, neuroticism, extraversion openness, and willingness to take risks, which earlier research proves to be important factors influencing entrepreneurial development (Caliendo, Fossen and Kritikos, 2014^[38]). Among men, the programme is significantly more effective for more open individuals than less open individuals. The difference in outcomes for other traits are limited and insignificant. Among women, statistically significant differences are present for openness and readiness to take risks, in the opposite direction as men (Caliendo, Künn and Weißenberger, 2016^[21]). Thus, effect sizes do not strongly differ between studies excluding or including personality traits.

Lessons for policy makers

Using eligibility criteria to ensure quality start-ups and avoiding precarious work

A critical design element of such instruments is the eligibility criteria. Governments need to ensure that only viable business ideas are being financed by welfare bridges with individuals feeling committed to the idea to start an own sustainable business. Therefore, it will remain important that a business plan has to be developed in a way that unemployed individuals need to put some effort into creating and describing their business idea. By doing so, it is also possible to address the main concerns against such policy schemes (e.g. public funds would be better invested in innovative start-ups, businesses created may require long working hours for little income). However, this hurdle should not be too demanding so that more skilled entrepreneurs would stop applying for such schemes. That means that requirements should remain at a “doable” level and that the decision on whether a business plan is evaluated should remain with trustable institutions outside of labour agencies whose case workers are usually not trained in that kind of assessment. It is also an important feature of such instruments that the access to the financing instrument is connected to an entitlement once all eligibility criteria including the positive evaluation of the business plan has been met. Importantly, this creates reliability of the public institution towards potential entrepreneurs.

Designing the scheme for the context

A number of contextual factors are also important to consider for the design of welfare bridge schemes. These include:

- **Economic cycle:** Start-up support schemes for job seekers will have different impacts at different points during the economic cycle (e.g. recession, depression, boom periods), notably by reaching different target groups. During recessionary period, these schemes will likely have a greater impact because there are more job seekers. However, they can also have a role in opening up more pathways to work during periods of growth. While the overall impact may be lower during periods of growth, there would likely be greater benefits in terms of developing local markets and avoiding economic stagnation (Koellinger and Roy Thurik, 2012^[39]).
- **Primarily target group:** Governments need to define the main target group. If the aim is to attract the typical entrepreneur (i.e. more men than women, more middle aged, more highly educated) to transition from unemployment to entrepreneurship, a six-month subsidy with the amount of the support oriented at the entitlement of unemployment benefits seems to be the appropriate instrument. If more disadvantaged groups should be addressed where the impact of the instrument might be higher from a labour market perspective, grants should be offered for longer periods and amounts should be fixed at sufficient levels to allow for a basic financing of living costs and social

security contributions, independently from unemployment benefit entitlements. Importantly, schemes should not be developed for certain disadvantaged groups exclusively, as such approaches often lead to very low take-up numbers and may unfold other unwanted effects by attracting mostly individuals with low entrepreneurial abilities. In other words, disadvantaged individuals should be addressed through specific design instruments, but not through excluding non-disadvantaged groups from the access to the instrument.

- **Non-financial support:** If government aims to support a stronger growth of these businesses and make the entrepreneurs more ambitious in creating larger or more innovative businesses, such grant schemes may be complemented by mentoring or coaching services (see also (Caliendo et al., 2014^[40]) for an evaluation of a publicly financed coaching offers for start-ups out of unemployment) that may provide valuable support and feedback to the entrepreneurs.

Minimising deadweight effects

Overall, potential deadweight effects appear to be relatively low according to limited evidence from Germany. A deadweight effect appears, when a subsidy is paid to recipients who would have started a new business even without the subsidy and when the subsidy had no impact on their subsequent business success. It is important to take both criterion into consideration. There is only one study that does consider the impact on business survival during the first six months and finds that the share of subsidised firms that are potentially affected by deadweight effects is around 10% to 20% (Caliendo et al., 2015^[11]). To minimise these effects, governments can use screening mechanisms that require just enough effort to dissuade those who would start their business even without support but not so much that few people use benefit from the measure. The screening process can also be used to steer self-employment activities away from sectors that have no barriers to entry and high levels of competition.

Improving outreach and take-up among the most disadvantaged groups

Part of the rationale for using welfare bridge mechanisms may go beyond moving job seekers into work by trying to specifically reach selected marginalised groups. The German experience has demonstrated that the targeted sub-groups of job seekers could be better reached if the length of the support period is increased, or if the amount of support is set as fixed payment that is higher than the unemployment benefits of those individuals who might have earned low incomes before their unemployment. In the latter case, these individuals would receive low unemployment benefit payments, which is likely not attractive enough to start self-employment activities. In particular, with respect to female business founders, previous research suggests that, in the overall population, women are, on average, more risk averse than men (Caliendo, Fossen and Kritikos, 2009^[13]). As the willingness to take certain risks is one driving force of the decision to become an entrepreneur, a higher share of risk averse female persons in the population can explain to some extent why more than twice as many male than female start-ups are observed. This was changed when the start-up allowance (SUA) was introduced that could support unemployed individuals for up to three years in their transition to entrepreneurship (Caliendo et al., 2015^[41]). This long-term support in the SUA with a fixed amount of money might have given potential female business founders some form of security, thus making their decision to start entrepreneurial activities easier despite their higher risk aversion. With respect to less formally qualified start-ups, the lumpsum payment offered under the SUA led also to higher financial support than under the BA (where the subsidy depended on their last wage income). One can speculate that the higher amount of money gave these groups of persons enough financial support to survive the initial period of self-employment until they expected to be able to pay for their living out of their self-employment incomes.

Conclusions and policy recommendations

Welfare bridge schemes are, from an ALMP perspective, an effective tool that supports unemployed individuals in re-entering work through business creation. A return to unemployment is observed significantly less often when compared to the control group of other unemployed people who are similar in their characteristics. If designed appropriately, evidence so far shows and, thus, policy makers can expect with high probability, that:

- Either the supported individuals are able to start a sustainable business, where:
 - these new entrepreneurs often earn more than in an alternative option if they had continued to try finding a dependently employed position; and
 - they create jobs for others in 15%-35% of all cases according to limited evidence;
- or where the supported individuals, if they should have given up their business again, often find a new job in an employed position.

However, governments should not expect that these supported businesses started by previously unemployed will be as dynamic as unsupported businesses started by individuals out of an employed position or out of an earlier entrepreneurial position. These two groups (start-ups out of unemployment versus out of non-unemployment) differ in many characteristics. Welfare bridge schemes provide finance support to unemployed individuals to increase the chances that their business activity establishes itself as economically viable. This type of mechanism cannot bridge all of the barriers to business creation faced by job seekers. Therefore, firms started by individuals coming out of unemployment cannot be expected to be as innovative and dynamic in terms of job creation as firms ventured by individuals coming out of non-unemployment.

Governments aiming to introduce or improve the effectiveness of welfare bridge schemes could have the following priorities:

- Provide sufficient funds for start-up subsidies, in particular when unemployment is high;
- Ensure that financial support is provided for at least six months, with a mechanism that adapts the sum of financial support to the amount of unemployment benefits that the unemployed individuals would have otherwise received;
- Consider increasing the amount of financial support provided and/or the length of time that support is offered if specific groups of unemployed who face greater challenges are targeted (e.g. NEETs);
- Ensure that individuals are committed to starting their own businesses with the help of these funds by requiring some effort prior to receiving support, which could include the preparation of a business plan that is evaluated by an expert body and by asking them to give up entitlements for unemployment benefits (i.e. transfer rates) in exchange for the start-up grant;
- Offer publicly subsidised non-financial services for successful start-ups out of unemployment who have growth potential and whose entrepreneurs are motivated to grow their firms; and
- Consider introducing a short-term (three to six months) insurance scheme to offer some support to beneficiaries if their business fails.

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Annex 9.A. Examples of welfare bridge schemes in EU and OECD countries

Start-up grants for job seekers are used in several EU Member States and OECD countries, each implementing a slightly different model. Three different examples (France, Germany, and Hungary) are presented to illustrate the different ways in which these types of schemes are designed and implemented.

Aid for the Unemployed Creating or Taking over a Business, France

Objectives and rationale

The Aid for the Unemployed Creating or Taking over a Business (*Aide aux chômeurs créateurs et repreneurs d'entreprise, ACCRE*) was a regulatory measure that aimed to facilitate both the creation of new businesses and the takeover of existing businesses by job seekers. The first ACCRE scheme was introduced in 1977, which targeted registered unemployed people. This scheme provided a partial or total temporary exemption from social security contributions, social protection guarantees and minimum social benefits. In 2019, the support scheme was expanded to the full population under the name Aid to Business Creators and Buyers (*Aide aux créateurs et repreneurs d'entreprise, ACRE*) (OECD/EC, 2023^[42]).

The underlying rationale of the ACCRE support scheme is that unemployment and inactivity may be negative signals on the labour market for those who look for employment. Moreover, the general objective of the support was to help unemployed people by supporting their new businesses and allowing them to “create their own job” and to remove financial and administrative barriers in the first year of operation. This period has the highest risk of business failure due to the range of barriers faced by unemployed people, including the lack of resources to cover initial living, working and investment costs associated with creating or taking-over a business.

Description

The scheme was launched in 1997 to offer job seekers a way to create their own job. The scheme provided registered job seekers with a lump-sum payment corresponding to the future unemployment benefits they would have received if they continued to search for employment. Eligibility was then extended to two categories of people. The first being unemployed people who started a new business or who took over a firm. However, entry was not conditional on whether someone received unemployment benefits, i.e. those outside of the labour market were eligible. The second category of eligible beneficiaries were those who received minimum wage (i.e. *salaire minimum de croissance, SMIC*).

Eligible beneficiaries were required to have a business plan approved by the Ministry of Labour at the local level before receiving the support. If all requirements were met, unemployed individuals who were eligible for unemployment benefits and were not paid by their start-up were able to continue to receive their unemployment benefits for a maximum of 15 months. In the case of business failure, their right to unemployment benefits begins from the date when they started their business. However, if the unemployed individual is compensated by their new business, they are exempted from social contributions for one year. If all requirements are met but the individual is not eligible for unemployment benefits, they are exempted from social security contributions on their pay for a one-year period. Recipients of minimum income continue to receive their minimum income for one year after the creation of their business if they are not

compensated by the new business. In the case that they are compensated, they are then exempted from social contributions on their pay for a one-year period.

Since 2019, eligibility for the scheme shifted to become more inclusive of other people who are disadvantaged in the labour market, becoming Aid to Business Creators and Buyers (*Aide aux créateurs et repreneurs d'entreprise*, ACRE). Conditions for the ACRE require participants to have created or taken over a business individually or as a principal owner and have not benefited from the previous scheme (ACCRES) in the last three years. If the entrepreneur uses the legal form of micro-entrepreneurship, they can only benefit from ACRE if they are a compensated jobseeker (i.e. receive unemployment benefits) or have been registered as a non-compensated jobseeker for more than six months in the last 18 months. Prior to 2019, the ACCRES scheme had similar conditions but did not distinguish on legal form and was open specifically to the unemployed, certain beneficiaries of welfare support, those creating businesses in disadvantaged urban areas, and youth under 26 years old. ACRE beneficiaries benefit from an exemption on certain social security contribution usually paid by entrepreneurs. If total professional income of the beneficiary is less than 75% of the annual limit for social security contributions (i.e. EUR 30 852 in 2022), the person benefits from a total exemption. If their personal income is between 75% and 100% of the annual limit (i.e. between EUR 30 852 and EUR 41 136 in 2022), they receive a proportional partial exemption (BpiFrance, 2023^[43]). ACRE exemptions apply for a period of 12 months. However, micro-entrepreneurs can benefit for up to 24 months under certain conditions.

Moreover, the ACRE benefit can be combined with other available supports such as (Ministère de l'économie des finances et de la souveraineté industrielle et numérique, 2023^[44]):

- The New Support for the Creation or Take-over of a Business (*Nouvel accompagnement pour la création et la reprise d'entreprise*, NACRE), which offers personalised support to business creation for the unemployed (pre-creation, during the fundraising phase and in the first years of operation).
- The Aid for the Take-over or the Creation of a Business (*Aide à la reprise ou à la création d'entreprise*, ARCE) which allows the unemployed to receive 45% of their remaining unemployment benefits as a lump sum to be used as capital for their business.
- Beneficiaries of welfare support for the economically vulnerable, such as the Specific Solidarity Allocation (*Allocation de solidarité spécifique*) can also continue receiving this support while benefitting from ARCE during a transition period of up to 12 months.

Evaluation results

Overall, the impact of the ACCRES programme on firm survival was positive. The most recent impact evaluation finds that ACCRES supported start-ups had a higher survival rate after two years of operation through eight years of operation, which supports the positive impact of the scheme in the short and long-term (Duhautois, Redor and Desiage, 2015^[26]). After eight years of operation, the study found that the survival rate among firms that benefited from ACCRES was still higher than those who did not (47% vs. 38%). However, certain founding conditions were found to be important in the long-term success. Businesses that had higher financial resources in addition to the ACCRES support were more likely to survive than other firms who had fewer financial resources. This is likely linked to selection criteria for the ACCRES programme where potential participants were evaluated on the basis of their financial resources, their capital investment to start their business and their participation in other public subsidy programmes.

Since the implementation of the updated scheme (ACRE), there has been further evaluation of the impact of the scheme. However, the new conditions limit the ability to analyse the individual impact of ACRE as often people benefit from joint measures. In 2019, a joint evaluation of the ACRE, ARCE and NACRE support schemes found that unemployed people who benefitted from the programmes were 10% more likely to secure funding for their businesses (DARES, 2019^[45]), which led to higher starting capital for supported unemployed entrepreneurs compared to those who did not benefit.

Start-up subsidy schemes in Germany

Objectives and rationale

The major rationale of all German programmes is to support the venturing of businesses by unemployed persons. The short-term objective of all variations of the start-up grant schemes was, and is, to finance the living expenses and the social security of these business founders in the initial period of their entrepreneurial activities, during the period when their earned income from their self-employment is often low. There are basically three long-term objectives:

- Most importantly, the previously unemployed individuals who received these grants should be re-integrated into the labour market, be it as self-employed or dependently employed, while being able to earn sufficient income.
- Secondly, the so-called double dividend becomes increasingly important, in the sense that the supported entrepreneurs coming out of unemployment should not only create their own, but further jobs in their newly founded firms.
- Third, a further objective is that the programmes should be implemented effectively and efficiently, keeping deadweight losses at a low level.

Description

All schemes in Germany had some common design features. Until mid of 2006, there were two programmes, the first scheme, the bridging allowance (BA) (*Überbrückungsgeld*), introduced in 1986, and the start-up allowance (SUA), introduced in 2003. Eligibility conditions for both programmes (with a short grace period for the SUA with respect to the requirement of a business plan) were the same and as follows:

1. An entitlement to unemployment benefits (*Arbeitslosengeld I*), which requires a minimum of 12 months of having been in dependent employment subject to social security contributions.
2. The unemployed were asked to prepare a business plan for their planned firm. Access to the support schemes was then granted conditional on their business plan being approved externally, usually by the local chamber of commerce. This approval had to certify the viability of the project based on the business founder's business plan. Thus, approval of an individual's application did not depend on the local labour office.
3. Moreover, start-ups were only funded if individuals were aiming for "full-time" self-employment activities.
4. There was an age limit of 65 years.

If all requirements were met, the unemployed individuals were entitled to receiving the grant. The grant scheme of the bridging allowance (BA) supported the first six months of entrepreneurship by providing the same amount of money that the recipient would have received in case of unemployment. Since the unemployment scheme also covered social security contributions, including health and retirement insurance, etc., an additional lump sum for social security was granted, equal to approximately 70% of the unemployment support.

In January 2003, the start-up allowance (SUA), the second programme, was launched in addition to the BA to support unemployed people starting new businesses. The goal of the SUA was focused more on provision of social security for the newly self-employed persons, not for the first six months but for the first three years. Therefore, different from the BA, the support was not related to the individual's benefit level but comprised a lump sum payment of EUR 600 per month in the first year, EUR 360 per month in the second year, and EUR 240 per month in the third year, with the condition that support in the second and third years was granted only if the income of the entrepreneur did not exceed EUR 25 000 in the previous year.

SUA recipients were obliged to contribute to the statutory pension insurance fund. Hence, between January 2003 and July 2006, unemployed individuals could freely choose between the two programmes to support their new businesses. Access to BA and SUA was possible for the full period of entitlement to unemployment benefit, i.e. from the first day of unemployment until the end of the entitlement to unemployment benefits. Hence, there were no transfer rates when making use of one of the two programmes. Furthermore, residual entitlements to unemployment benefits were retained for four years from the date of when the BA or the SUA were received. If business failed, the affected individuals were allowed assert residual claims of their unemployment benefits within this period of four years.

There was no need to pay back the grants if the business failed unless there was evidence of fraud. In 1986, following the introduction of the bridging allowance (BA), about 5 600 start-ups from unemployment were supported. These constantly increased to around 125 000 individuals receiving the support instrument in 2002. At the beginning of 2003, the bridging allowance was complemented by the second instrument, the start-up allowance (SUA). These two instruments were used by 250 000 individuals in 2003 and 2005, and even by 350 000 individuals in 2004 to bridge the initial phase of their self-employment. Accordingly, the share of subsidised start-ups from unemployment among all start-ups increased from around 1% in 1986 to more than 50% in 2004. The increased importance of start-up support for the unemployed was also reflected in 2005 in the expenditure of more than EUR 3 billion.

The major challenge of the two programmes were the high take-up rates during the years 2003 to 2005 which exceeded expectations. In particular, the fact that the SUA was granted for up to three years yielded budgetary challenges. Therefore, in summer 2006, the grant schemes underwent a first major reform. The two programmes were merged to the start-up grant (SUG). The above-mentioned entry requirements remained in place. The merger of the two programmes took place in the sense that parts of the three-year programme (the SUA) were introduced to the BA, leading to the SUG. Compared to the BA, the funding period for the start-up grant increased from six to nine months. Moreover, a second support period was added, where individuals could receive EUR 300 per month to pay for social security for further six months if they could prove full-time entrepreneurial and business activities.

Moreover, new eligibility criteria were added. First, the unemployed individuals planning to start their own businesses had to prove sufficient knowledge and skills to carry out the self-employed activity. If case workers of the federal employment agency had doubts about the knowledge or skill levels, the agency was able to request mandatory participation in business advice that supported preparing the business plan and the start-up activities. The second new eligibility criterion was the introduction of transfer rates. To receive the grant, entitlements to unemployment benefit had to be given up in the same amount. However, this criterion only applied in principle, because a minimum transfer rate was also set: individuals who had less than nine but still more than three months' entitlement to unemployment benefits only had to waive the remaining entitlements. Thus, the entitlement to the start-up grant ended 90 days before the entitlement to unemployment benefits expired. Residual entitlements to unemployment benefits were again retained for four years from the date of incorporation. However, this was now only relevant for individuals who were still entitled to unemployment benefits for more than nine months when they started their business. If their businesses failed, remaining claims to unemployment benefit could be asserted again within this period.

Between 2006 and 2011, after the merger of the two instruments that created the start-up grant (SUG), between 120 000 and 145 000 individuals received support. In 2011, the instrument underwent a reform with the aim to improve efficiency, leading to a reduction of the SUG budget by EUR 1 billion (approximately 75% of the original budget). There were three changes in 2011 reform (Bellmann, Caliendo and Tübbicke, 2018^[46]):

1. The major change that was introduced related to the entitlement rule and aimed at enforcing the budgetary cuts. While previously applicants were entitled to the programme when they met all eligibility criteria, since 2011 caseworkers were granted discretion to decide if the subsidy was necessary considering the individual's re-employment probabilities.

2. The minimum waiver of unemployment benefits was increased from three to five months, the entitlement to the start-up grant now ends five months before the entitlement to unemployment benefits expired.
3. The support rules were tightened. The first funding period for the start-up grant was reduced again from nine to six months (as in the original bridging allowance), while the second support period, where individuals could receive EUR 300 per month to pay for social security was increased to nine months if they could prove full-time entrepreneurial and business activities. Indeed, with the introduction of the new start-up grant, the number of supported cases dropped to about 20 000 individuals per year (Bundesagentur für Arbeit, 2023^[47]).

Evaluations results related to the impact of instrument prior to 2011 reforms

The impact of the start-up grant schemes before the last reform of 2011 is extensively evaluated.

The gross success rates determine the employment status of the funded persons after a certain period. Remaining in the primary labour market (i.e. continuing self-employment, or returning to dependent employment) is regarded as success while a return to unemployment would counted as a failure. At 4.5 years after firms were founded, a large proportion, i.e. an average of 60% of those receiving the start-up grant, were still self-employed, more than 20% have found employment subject to social security contributions, and only 12% have registered as unemployed again.

The welfare bridges were also found to be effective. The "effectiveness" measure compares the success rates of funded start-ups with those of a comparison group of unemployed people who are not funded by start-up grant. Funded entrepreneurs were much more likely to be in the labour force, namely by 22 p.p. 56 months after the start of funding. Thus, the concern that start-ups from unemployment are often not sustainable is not supported by the findings.

Evaluations also show that self-employment income from start-ups supported with the SUG or previous BA was higher than unsupported start-ups by the unemployed. 2.5 years and 4.5 years after starting self-employment, the majority of the self-employed earned more than they did before in dependent employment (Caliendo and Kritikos, 2010^[18]). When compared to comparable non-participants (unemployed who were not supported with the SUG), the self-employed also earned between EUR 435 and EUR 618 more per month. Thus, many of the self-employed earned a higher income than they did before in dependent employment or individuals in comparable dependent employment positions.

Start-up Grants, Sweden

Objectives and rationale

The Start-Up Grant programme aims to facilitate the creation of new businesses by the unemployed. The initiative first introduced in 1984 and has aimed to provide financial support to registered unemployed people. The scheme provides income support for people starting businesses for a period of six months where earnings from self-employment are not deducted from the subsidy. The start-up grant is equivalent to the unemployment compensation and is provided by the Swedish Social Insurance Agency.

Description

The start-up subsidy is available to registered jobseekers over the age of 18 years old. To be eligible for the subsidy, people must have been looking for employment without success for a certain period of time or are at risk of becoming unemployed. Moreover, recipients cannot have debts with the Swedish Enforcement Authority (*Kronofogdemyndigheten*). People must also have developed a business idea but have not yet started the business. If someone has previously started an enterprise, it must have been dissolved for more than a year before applying for the subsidy.

Applicants are reviewed and approved by the Employment Agency (*Arbetsförmedlingen*) in order to receive the support. The initiative places an emphasis on determining whether entrepreneurship and self-employment is an appropriate avenue for the individual. As part of the application, individuals must have a business idea, business plan, budget and have considered market conditions. In the case that individuals need support to complete these steps, they are directed to various trainings available to support business creation. The duration of the support payment is limited to a maximum of six months, during which the monetary value of the payment is equivalent to that of the unemployment benefit. This implies that the individual is granted a daily compensation ranging from SEK 910 (EUR 90) to SEK 365 (EUR 36). Individuals who possess a disability have the opportunity to obtain additional assistance valued at SEK 60 000 (EUR 6 000). In addition to the financial support, the programme offers support and advice for the first year of operation.

The scheme has undergone some modifications since it was launched. In 1992-92, the possibility to extend support for six months was added. Changes to the eligibility criteria were also slightly adjusted at this time. The minimum age was reduced from 20 years old to 18 years old.

Evaluation results

An impact evaluation of the start-up subsidy programme was undertaken in 2016. The data combine administrative data from the Swedish Public Employment Service with the register data from Statistics Sweden for the period 2003-07. The evaluation looked at the probability of leaving unemployment for paid or self-employment after two years and five years. The study considered the jobseekers who were unemployed in 2003 and who participated in the initiative for a six-month period starting in 2003. There were more than 15 000 people who benefited from the start-up subsidy in 2003. Participants were compared with three categories of jobseekers. The first group included those who were eligible (i.e. registered at the public employment office) but did not participant in the subsidy scheme. The other two groups included those who received only job search assistance and those who were transferred to other programmes other than the start-up subsidy scheme.

Overall, the start-up subsidy scheme was found to have positive, long-term effects on recipients in terms of leaving unemployment and receiving an unsubsidised employment position. The largest impact reported occurred between those who received the start-up subsidy compared to those who participated in other support schemes. Recipients of the start-up scheme were 44 percentage points more likely to have left unemployment for employment (Behrenz, Delander and Månsson, 2016^[35]). After five years, recipients are still nearly 35 percentage points more likely to have left unemployment. The study also investigated the effect of education obtainment on the impact of the start-up subsidy programme. Participants of the start-up subsidy scheme were more likely to leave unemployment for paid self-employment or to pursue further education after two and five years. The greatest impact was observed among the unemployed with compulsory schooling as their highest level of education. This indicates that the scheme notably helps low skilled workers in finding an entry point to the labour market.

Part III Country profiles



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