



# **EEPO Review: Start-up incentives, September 2014**

Germany

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Economix Research & Consulting  
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European Employment Policy Observatory (EEPO)

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## **1 Introduction: start-up incentives as an active labour market measure**

Business start-ups are vital for the prosperous development of an economy. They contribute to innovation and job creation. However, the dynamics and the level of business start-ups do not necessarily tell much about the competitiveness of the economy yet. Thus, it is possible that in the context of rising unemployment the rate of self-employment increases. Furthermore, rising self-employment can also be the result of reorganisation within industries and a trend towards increased flexibilisation of employment resulting in a substitution of dependent employment by self-employment. In this context the trend towards bogus self-employment has retained much attention in the political debate (Waas 2012). However, it seems that bogus self-employment plays only a minor role in terms of absolute numbers. The problem seems to be concentrated on some industries (Brixy 2014).

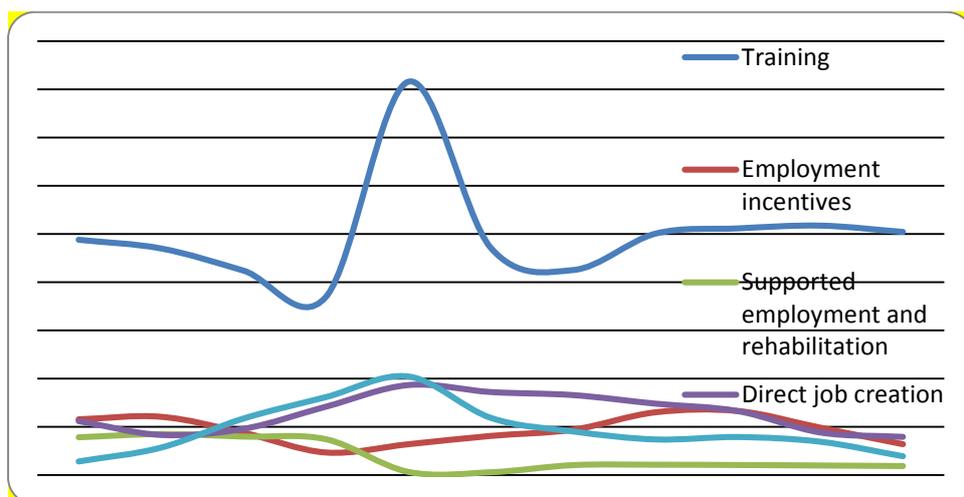
Business start-ups and self-employment have been regarded as a way out of unemployment in Germany, based on two effects: compensating for low demand for labour from existing companies; and contribution of start-ups to economic growth. Germany increased the promotion of business start-up incentives as an Active Labour Market Policy (ALMP) a decade ago in the context of high unemployment, since then unemployment as well as business start-up incentives have decreased.

In international comparisons, the business start-up rate in Germany remains relatively low (as is the case in a number of innovation-driven economies). The number of new enterprises has been decreasing in Germany since 2006, a trend which has continued following recovery from the economic crisis (see Annex Figure A1). Accordingly, the self-employment rate in Germany has decreased since 2011 (OECD, Entrepreneurship at a Glance 2014).

The business start-up rate amounted to 2.4 % in 2000, 1.5 % in 2009 and 1.7 % in 2013. In 2013, about 306 000 business start-ups were recorded as a main job and 562 000 start-ups recorded as a secondary job (*Nebenerwerb*). Former unemployed and inactive people were overrepresented amongst new entrepreneurs (13.5 % of all new entrepreneurs, 23 % of starts-ups as a main job, and 26.8 % as a secondary job) (KfW 2014a, KfW 2014b). Overall, the share of those formerly unemployed among business start-ups decreased from 22.5 % in 2005 to 13.5 % in 2013. Over the same period the unemployment rate decreased from 10.5 % to 5.2 % (according to Labour Force Survey data). In sum, over 1.8 million business start-ups by unemployed people were recorded from 2002 to 2011 (Caliendo et al. 2012a). However, the number of business start-ups as a main job decreased between 2012 and 2013, while the number of business start-ups as a secondary job increased (KfW 2014a, KfW 2014b). This could be the result of reduced public spending for business start-ups (see below). Overall, however, business start-ups (main job and secondary job) created more 400 000 additional jobs. In terms of the characteristics of entrepreneurs, in 2013, those aged 25-44 years represented the bulk of self-employment (as a main job) – this group more often held a university degree or a *Meister*-degree (of the dual vocational training system) than the average population. While solo-entrepreneurs represented the majority of self-employment, this share decreased from 68 % in 2011 to 63 % in 2013.

While 17 % of start-ups (as a main job) received support from the Federal Labour Agency in 2013, the financial contribution for business start-ups amounted to only 2 %; the larger share of financial support for business start-ups (28 %) come from other start-up loans and grants from the German government-owned development bank (KfW) and federal states (*Länder*) (KfW 2014b). Business start-up incentives as an active labour market programme have played only a minor role among all ALMPs in Germany (Figure 1 and Figure A 2).

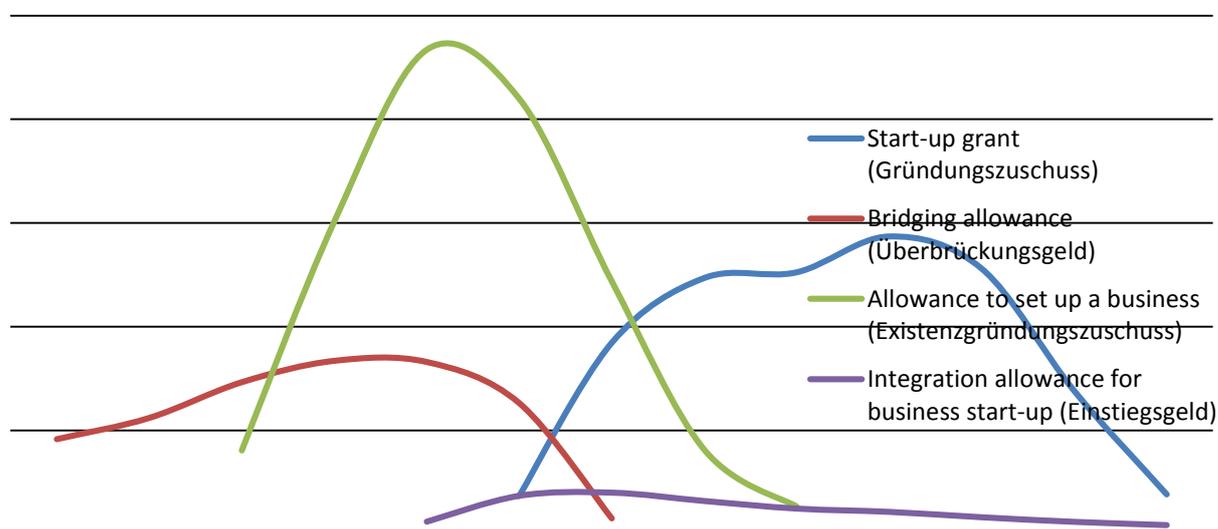
**Figure 1: Number of participants in active labour market programmes**



Source: Eurostat, LMP data base

In the course of the Hartz reforms the business start-up grant was established to promote self-employment for unemployed people. After a few years, the allowance to set up a business (*Existenzgründungszuschuss*) introduced by the Hartz reforms in 2004 - better known as Ich-AG ('Me Inc' or solo company)<sup>1</sup> - was cut-down and replaced by the start-up grant for unemployment benefit I recipients in 2006 and the integration allowance for business start-ups (*Einstiegsgeld bei selbständiger Erwerbstätigkeit*) for unemployment benefit II recipients in 2005 (Figure 2). The number of participants in this measure has gradually declined since 2006 (Bernhard et al. 2013).

**Figure 2: Active labour market policy instruments to promote self-employment, number of participants (stock)**



Source: Federal Employment Agency 2014a and Statistical Department of the Federal Employment Agency

<sup>1</sup> It comprised monthly payments of EUR 600 in the first year, EUR 360 in the second and EUR 240 in the third year. The yearly income could not exceed EUR 25 000. No business plan needed to be approved by external institutions in the beginning of the measure but became obligatory by the end of 2004.

The recent decline in the number of participants in business start-up incentives is the result of active labour market instrument reform which took effect in 2012 (*Gesetz zur Verbesserung der Eingliederungschancen am Arbeitsmarkt*). One of the elements of this reform was the cutting-back of start-up incentives. Since 2012, the allocation of business start-up incentives is at the discretion of Public Employment Service (PES) staff (*Ermessensleistung*), and access to the measure has been restricted. One major underlying reason for cutting back the ALMP budget was the fall in unemployment; the number of registered unemployed halved between 2005 and 2013 (falling from 4.65 million in 2005 to 2.27 million in 2013).

## **2 Start-up incentives today: detailed description**

### **2.1 Overview over start-up incentive programmes of major stakeholders**

The Federal Republic of Germany, the *Länder* and the European Union all have programmes in place to support self-employment. Most of these programmes take the form of loans, but some involve non-repayable grants. Government support loans typically have low interest rates, long repayment periods, and in many cases, a grace period before the borrower needs to commence repayment. For those not entitled to start-up grants, start-up loans are the next best option. In Germany, cheap loans are available from both the Credit Institute for Reconstruction (Kreditanstalt für Wiederaufbau – KfW), which is owned by the Federal State and the *Länder*, and the regional state banks. The Federal Government (not the *Länder*) also offers a number of support loans, managed by the KfW, although applied for via the own bank of the borrower, including:

- KfW business founder loan Start-up Money (ERP-Gründerkredit-StartGeld). The programme targets business founders, self-employed professionals and small enterprises which have been active in the market for less than three years and require little start-up capital. It is granted for the establishment, and the takeover of, an enterprise, or for the acquisition of an interest in an enterprise. It targets the consolidation of a young enterprise in the first three years specifically. The promotional funds available consist of a loan with a term of 5 or 10 years and up to EUR 100 000 in total for capital expenditure and working capital. The bank bears only 20 % of the credit risk and KfW bears 80 %. This makes it easier for the bank to decide on the loan - provided the business idea holds the prospect of sustainable economic success. The loan interest rate is more favourable than for a conventional bank loan; it is fixed for the entire term of up to 10 years. On request, two repayment-free years may be granted.<sup>2</sup>
- KfW business founder loan Universal (ERP-Gründerkredit – Universell). The programme targets business founders, self-employed professionals and small and medium-sized enterprises (SMEs) which have been active in the market for less than three years and have funding requirements of up to EUR 10 million. The programme aims to promote the establishment or takeover of an enterprise. It focuses on the consolidation of a young enterprise in the first three years specifically. The promotional funds available consist of a loan with a term of up to 20 years and up to EUR 10 million for capital expenditure and working capital. The loan interest rate is more favourable than for a conventional bank loan; it is fixed for up to 10 years, or even for the entire term. On request, one to three repayment-free years may be granted.
- ERP entrepreneur capital for new start-ups (ERP-Kapital für Gründung). The programme targets business founders, self-employed professionals and small enterprises which have been active in the market for less than three years and do not have enough equity. The programme aims to promote the establishment or

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<sup>2</sup> <https://www.kfw.de/inlandsfoerderung/Privatpersonen/Existenzgr%C3%BCndung/index-2.html>

takeover of an enterprise or the acquisition of an active partnership. It focuses on the consolidation of a young enterprise in the first three years specifically. The promotional funds available consist of a KfW subordinated loan with a term of 15 years and a maximum loan sum of EUR 500 000. However, the borrower must have a minimum amount of equity. Investments in eastern Germany and Berlin receive special support.

### **Counselling services**

A variety of services are offered by the local Chambers of Trade and Industry (*Industrie- und Handelskammer, IHK*) or the Chambers of Crafts (*Handwerkskammern, HWK*). They provide a comprehensive range of services ranging from personal advice to drawing up business and financial plans:

- Chamber of Trade and Industry (IHK): provides general counselling on all business start-up issues (free of charge). Telephone numbers and internet addresses are available from the German Association of Chambers of Commerce and Industry (DIHK) see internet ([www.dihk.de](http://www.dihk.de)).
- Chambers of Crafts (HWK): provides general counselling on all business start-up issues (free of charge). Telephone numbers and internet addresses are available from the German Confederation of Skilled Crafts and Small Businesses, see internet ([www.zdh.de](http://www.zdh.de)).
- Programme „Alt hilft Jung e.V.“ (Old helps young): provides intensive counselling and support offered by former technical and executive employees from the economy, with the main focus on commercial counselling. Advice seekers pay a small contribution. Local contacts are mediated by the Federal Association (*Bundesarbeitsgemeinschaft*) in Bonn, see internet ([www.althilftjung.de](http://www.althilftjung.de)).
- Counselling centres of the KfW Bankengruppe: offer business start-up and preparatory counselling through 70 locations, with the main focus on financing, see internet ([www.kfw.de](http://www.kfw.de)).

### **Regional initiatives and competitions**

National, regional and local start-up initiatives and competitions offer assistance for concept development. Information is available from the corresponding business promotion unit (see below) and on the internet:

- National Agency for Women Start-ups Activities and Services (bga): In order to mobilise the potential of female-led business start-ups in industry and on the market, Germany supports women entrepreneurs. The National Agency for Women Start-ups Activities and Services (bga), which is sponsored by the German Federal Ministry for Education and Research, the Federal Ministry for Family, Senior Citizens, Women and Youth and the Federal Ministry of Economic Affairs and Energy, represents a first step towards increasing the number of businesses started by women. The bga offers the political, business, academic and public sectors a platform for information and services related to women entrepreneurship in all areas and phases of company foundation, consolidation and succession.<sup>3</sup>
- *Coaching*: those who have already made the first steps and got their business up and running can apply for business consultancy services via the GCD scheme (*Gründungscoaching Deutschland*, see below 2.3). The application should be made with the local Chamber of Trade and Industry (*IHK*) or Chamber of Crafts (*Handwerkskammer*) which can be found in every federal district.

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<sup>3</sup> Internet: [http://www.existenzgruenderinnen.de/EN/Home/home\\_node.html](http://www.existenzgruenderinnen.de/EN/Home/home_node.html) and: [www.gruenderinnenagentur.de](http://www.gruenderinnenagentur.de)

## 2.2 Start-up programmes funded by the Federal Labour Agency for the unemployed

The Federal Labour Agency offers business start-up grants, seminars and one-to-one advice from business consultants, as well as support programmes to promote professional consultancies, and cheap loans from the KfW bank. While the Labour Agency's programmes are intended primarily for those trying to get off unemployment benefit, the Federal Government itself provides a range of additional support programmes for new business owners. In the regions, the KfW bank in Berlin, the *HEI* initiative in Hamburg, and the *KBG* capital investment company for North-Rhine-Westphalia are examples of funding sources at the federal state level.<sup>4</sup>

The Federal Labour Agency also provides counselling through the services of other institutions, such as start-up counselling centres of cities, the Chambers and other types of consultancies. In addition, coaching can be provided through an ESF-financed programme (see below).

### Startup grants

Start-up grants (*Gründungszuschuss*) can be allocated to the unemployed below the age of 65 years who are eligible for at least 150 days of unemployment benefit I until they start their business (before the 1 January 2012 the eligibility criteria was 90 days, Wolff and Stephan, 2013). Beneficiaries must work for at least 15 hours a week, as only then the start-up activity can be regarded as terminating unemployment. A further eligibility condition is the proof of corresponding qualifications and abilities for running a business. This can be acquired through participation in start-up training. Furthermore, the claimant needs to demonstrate that the business concept is sustainable, and this needs to be certified either by the relevant Chamber, a bank or an industrial association. In addition to this expertise statement, the claimant needs to hand in a description of the planned business, a CV, a financial plan and capital needs as well as expected turnover and benefit. The grant is paid in two phases: during the first six months (previously nine months), continue to receive unemployment benefit supplemented by a monthly grant of EUR 300. If the applicant can demonstrate that he/she puts the money to good use in the start-up phase, they may be granted an additional EUR 300 a month for a nine month period (previously six months).<sup>5</sup>

Concern had been expressed by researchers about the potential abuse of this measure - that people may ask for start-up grants at the end of their unemployment benefit I eligibility period, in order to maximise their revenues from the Federal Labour Agency. However, there is no evidence to suggest this has happened so far (Caliendo et al. 2012a).

Compared to the previous two programmes, an increasing number of older unemployed and on average unemployed persons with higher skills level are asking for a start-up grant (Caliendo et al. 2012a).

### Integration allowance (*Einstiegsgeld*)

The integration allowance for means-tested unemployment benefit II recipients can be granted for taking-up employment subject to social security or for business start-ups (§ 16b Book II of the Social Code SGB II). Beneficiaries can be financially supported by jobcentres during a period of up to two years if they become self-employed. Eligibility criteria refer to a positive assessment of the planned self-employment and to the ability

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<sup>4</sup> Internet: <http://www.gruenderszene.de/expert-articles/financing-a-startup-in-germany-finding-state-funding-and-support>

<sup>5</sup> Internet:

[http://www.existenzgruender.de/englisch/self\\_employment/launch/support\\_programmes/index.php](http://www.existenzgruender.de/englisch/self_employment/launch/support_programmes/index.php)

of the claimant to run a business.<sup>6</sup> In principle, the granting of the allowance is based on the results of profiling and the elaboration of the Individual Action Plan. The entrepreneurial activity is regarded being a main job if the claimant works more than 15 hours a week. The entrepreneurial activity needs to be profit-oriented (Federal Labour Agency 2013 c). If, and how much, support is granted is decided by the personal contact at the local labour agencies.

According to interviews conducted by the Institute for Employment Research (IAB), the planned length of integration allowance for business start-ups in 2011 amounted on average to five to seven months. For a fifth of beneficiaries, the planned length was 12 to 13 months (Bernhard et al. 2013).

For older unemployed reliant on means-tested unemployment benefit II, the pilot Programme Perspective 50+, which is based on regional partnerships, is in place. Start-up incentives such as 'employment pact 50+ experience counts' (*50plus – Erfahrung zählt!*) have been implemented in some jobcentres and these regional partnerships are also implementing awareness raising strategies, counselling, coaching and follow-up.<sup>7</sup>

## 2.3 ESF-financed programmes

### Federal Level

#### Coaching for start-ups out of unemployment (Gründercoaching bei Gründungen aus Arbeitslosigkeit)<sup>8</sup>

The Start-up Coaching Germany (Gründercoaching Deutschland) and the Start-up Coaching for exiting unemployment (*Gründercoaching Deutschland –*

*Gründungen aus Arbeitslosigkeit*) are two ESF-financed schemes offered by the KfW, running from 2008 to 2013. The coaching of CGD targets start-ups and young enterprises. If the start-up or acquisition of a business does not date back more than five years, business founders can benefit from advice from a qualified management consultant. The promotional funds available consist of a grant towards the fee of the management consultant if it does not exceed EUR 6 000. Applicants starting a new business from a situation of unemployment are eligible for a grant of 90 % of the adviser's fee in the first year after starting the business provided it does not exceed the sum of EUR 4 000.<sup>9</sup>

Those unemployed receiving a start-up grant on the basis of eligibility to unemployment benefit I (as well as beneficiaries of means-tested unemployment benefit II) can participate in the start-up coaching programme for the unemployed. Among the participants in this specific programme, about 40 % were women and a third of participants were aged under 35 years; 12 % of participants had a migrant background. Less than 1 % had left school without a degree, but roughly 30 % had a university degree or *Meister*-degree of the dual vocational education system. About 84 % were eligible for unemployment benefit I and 16 % for means-tested unemployment benefit II. About 36 % of participants came from East Germany (Caliendo et al. 2014).

The evaluation of the programme showed clearly positive results for the coaching of business start-ups by the unemployed, while it showed mixed results for other start-ups when compared to the relevant control groups. One explanation for the better results for start-ups by the unemployed could be that this target group has a stronger

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<sup>6</sup> Internet: <http://doku.iab.de/kurzber/2013/kb2713.pdf>

<sup>7</sup> Internet:

[http://www.perspektive50plus.de/fileadmin/user\\_upload/medien/publikationen/Broeschuere\\_Unternehmen\\_mit\\_Weiblick\\_2009.pdf](http://www.perspektive50plus.de/fileadmin/user_upload/medien/publikationen/Broeschuere_Unternehmen_mit_Weiblick_2009.pdf)

<sup>8</sup> Internet: [http://www.esf.de/portal/generator/734/programm\\_\\_gruendercoaching.html](http://www.esf.de/portal/generator/734/programm__gruendercoaching.html)

<sup>9</sup> Internet: [https://rp-plattform.kfw.de/RP\\_Plattform/antrag/m0.rpp](https://rp-plattform.kfw.de/RP_Plattform/antrag/m0.rpp)

need for coaching (Caliendo et al. 2014). It is planned to repeat the programme in the current ESF programming period.<sup>10</sup>

#### *The Community of Practice on Inclusive Entrepreneurship (COPIE)*<sup>11</sup>

The Community of Practice on Inclusive Entrepreneurship (COPIE) is a learning network of ESF Managing Authorities and Implementing Bodies at national and regional level in Europe. The COPIE partners share a common concern to widen entrepreneurship and make support systems work better across diverse populations. Led by the Federal Ministry of Labour and Social Affairs in Germany through the ESF unit, learning and good practice exchange on inclusive entrepreneurship between partners is organised around five thematic areas: action planning, entrepreneurship education, quality management, integrated business support, and access to finance.

#### **The German Microcredit Fund**

The Federal Ministry of Labour and Social Affairs and the Federal Ministry of Economic Affairs and Energy have set up two joint initiatives: the German Microcredit Fund which aims to institutionalise a nationwide offer of microcredits; and the above-mentioned Start-up Coaching Germany programme. The German Microcredit Fund has a total size of EUR 100 million, with EUR 60 million provided by German ESF funds and EUR 40 million provided by the German government. The Fund's implementation is assigned to the GLS Bank with the main task being the establishment of a national network of microfinance institutions (MFIs) who channel the microcredits. Currently, there are 51 MFIs currently operating in Germany, and, since 2010, 4 598 credits with a total volume of more than EUR 24.8 million were issued. As for the Start-up Coaching Germany programme, the total ESF budget for this programme is EUR 470 million.

During a peer review COPIE partners (see above) were specifically interested in the technical details of Microcredit Fund cooperation, client monitoring processes, and risk management. As the service provider for German MFIs, the German Microfinance Institute (DMI) underlined the increasingly important role of networks in microfinance concerning capacity building, and quality and risk management at a federal level in Germany.<sup>12</sup>

#### **2.3.1 EXIST – University-Based Business Start-Ups**

EXIST is a support programme of the Federal Ministry of Economic Affairs and Energy (BMWi) aimed at improving the entrepreneurial environment at universities and research institutions and at increasing the number of technology and knowledge-based business start-ups. It is thus not targeting the unemployed. The EXIST programme is part of the German government's Hightech Strategy for Germany and is co-financed using ESF funding.<sup>13</sup> The EXIST Business Start-up Grant supports the preparation of innovative business start-up projects at universities and research institutions. The grant aims to help scientists, university graduates and students developing their business ideas into business plans and to advance their ideas for products and services. To cover their living expenses, entrepreneurs receive a grant between EUR 800 and 2 500 per month, depending on their degree, for a maximum period of 12 months. In addition, they receive materials and equipment (worth EUR 10 000 for solo start-ups and EUR 17 000 for team start-ups), funding for coaching (EUR 5 000) and, if necessary, child benefit of EUR 100 per month and child. The university or non-university research institution offers them infrastructure during the pre-start-up phase and provides

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<sup>10</sup> The approval of the new ESF programming period 2014-20 will be in the autumn 2014. For further information on the ESF programming period in Germany see internet: [http://www.esf.de/portal/generator/20280/foerderperiode\\_\\_2014-2020.html](http://www.esf.de/portal/generator/20280/foerderperiode__2014-2020.html)

<sup>11</sup> Internet: <http://cop-ie.eu/>

<sup>12</sup> Internet: <http://cop-ie.eu/node/399>

<sup>13</sup> Internet: [http://www.exist.de/englische\\_version/](http://www.exist.de/englische_version/)

technical and start-up-related assistance. EXIST helped foster entrepreneurial spirit in 46 universities and research institutes between 2006 and 2008.

**Regional level: the example of the of ESF in Brandenburg for start-up incentives<sup>14</sup>**

The EU made around EUR 620 million available to the *Land of Brandenburg* in East Germany for support programmes in the ESF period 2007 to 2013. These are supplemented by national funds, e.g. from municipal authorities, associations, organisations, companies, the *Land of Brandenburg* or the employment promotion of the Federal Labour Agency.

The regional budget for ESF Brandenburg for job seekers is received by all counties of the *Land of Brandenburg* for measures which improve the chances of job placement and the social participation of the unemployed. The Ministry for Labour makes the budget available to the municipal authorities for independent use. This way they can better take into account local needs and develop projects specific to local long-term unemployment. Pilot services offer unemployed individuals training and advice for setting up a company and follow up support is available.

**2.4 Summary of evaluation results**

Most evaluation studies have showed positive results. Five years after business start-ups, 55-70 % of programme participants remained self-employed (full-time or part-time). But there are indications that an important share of the unemployed would have set-up a business without the incentives. However, even in these cases the start-up incentive arguably had a positive impact on the sustainability of the business start-ups. Evaluation results also show positive employment effects for unemployment benefit II recipients (Koch et al. 2011). There is no assessment of substitution effects and the size of deadweight effects remains unclear. The following table provides an overview of the main evaluation results.

**Table 1: Summary of evaluation results of ALMPs promoting start-ups and self-employment**

	<b>Start-up grants (Gründungszuschuss)</b>	<b>Start-up subsidies (SUS) and bridging allowance (BA) (Existenzgründungszuschuss and Überbrückungsgeld)</b>	<b>Start-up coaching</b>
Overall effect on labour market outcome	Fairly positive, no significant windfall gains (Caliendo et al. 2012a)	Substantial improvement of the labour market situation and employment prospects (Baumgartner/Caliendo 2007, Caliendo/Künn 2010, Wolff/Nivorozhkin 2008)	Fairly positive impact: reduction of entrepreneurship deficits by provision of information and expertise (Oberschachtsiek/Scioch 2011)  Inflow is strongly determined by regional patterns while individual characteristics are less important. This reflects a

<sup>14</sup> Internet: [http://www.esf.brandenburg.de/media\\_fast/667/Flyer\\_ESF\\_BB\\_e\\_2.pdf](http://www.esf.brandenburg.de/media_fast/667/Flyer_ESF_BB_e_2.pdf)

			particular regional specializa-tion and heterogeneity in promoting self-employment (Caliendo et al. 2014, Ober-schachtsiek/Scioch 2011)
Effect on further employment	Positive impact: evaluation shows that the large majority of beneficiaries remains employed roughly one year after the grant (Caliendo et al. 2012a and b)	<p>Evaluation shows that both programs are effective with respect to long-term income and employment outcomes (Caliendo/Künn 2010 and 2013, Wolff/Nivorozhkin 2008)</p> <p>Participants are much more satisfied with their current occupational situation compared to previous jobs (Caliendo/Künn 2010)</p> <p>Start-up subsidies for the unemployed tend to be most effective for disadvantaged groups in the labor market (Caliendo/Künn 2010 and 2013).</p> <p>Evaluation results show that programmes have the potential not only to combat Germany's problem of persistently high unemployment, but also to increase its notoriously low self-employment rate (Baumgartner/Caliendo 2007)</p> <p>BA funding of individuals starting self-employment has not only helped them to enhance their employment status and earn more in-come, but has also saved the FEA money by reducing its spending on unemployment benefits</p>	<p>Positive effect on further employment and income: relevant contribution by increasing the competences of potential entrepreneurs (Caliendo et al. 2014)</p> <p>The results show that treatment effects tend to be insignificant in statistical and economic terms. There is also evidence that external expertise reduces the duration of self-employment for the start-up coaching Germany programme. However, for the coaching programme for the unemployed results were positive. (Ober-schachtsiek/Scioch 2011).</p>

		(Baumgartner/ Caliendo 2007)	
		Effectiveness of start-up programs for unemployed <u>women</u> : Evaluation shows that 60-70 % of female participants are self-employed 56 months after start-up, of which on average 90 % were continuously self-employed. This indicates a high and persistent integration into self-employment. (Caliendo/Künn 2012).	
		Evaluation studies observe a total labor market integration of participants of 76-90 % (Caliendo et al. 2012a and b, Caliendo/Künn 2010 and 2012)	
Potential risks	Need of improvement of social security, in particular old age insurance (Gerner/Wießner 2012, Caliendo et al. 2012)	For the start-up subsidies the findings are not as encouraging as it can result in a negative monetary efficiency. Although the cumulative effects are high, the effect is dominated by the low remaining time of benefit entitlement and the relatively low level of benefits (Baumgartner/Caliendo 2007)	Risk of bureaucratic and non-transparent structures and processes (Caliendo et al. 2014)
		The large employment effects might not lead to a clear increase in working income after start-up (Baumgartner/Caliendo 2007).	Risk of quality downgrading if admission for coaching agencies is too easy (need of quality management, i.e. certification for coaches) (Caliendo et al. 2014)
		The founding process, development of businesses and program effectiveness is	Selection into support schemes (treatment assignment) seems to be a result of differences in local strategies in active labor market policy across Germany. Evaluation results show that few regions have very large shares of additional support and in most regions additional

	<p>influenced by prevailing economic conditions at start-up (Caliendo/Künn 2013)</p> <p>Substantial risk of deadweight loss, substitution and crowding-out effects (Caliendo/Künn 2013)</p>	<p>support for self-employment seems to be less attractive. This finding indicates a regional specialization in the promotion of self-employment (Caliendo/Künn 2013, Oberschachtsiek/ Scioch 2011)</p>
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Source: Caliendo et al. 2012 a, 2012b and 2014, Baumgartner and Caliendo 2007, Caliendo and Künn 2010, 2012 and 2013, Gerner and Wießner 2012, Heyer et al. 2011, Oberschachtsiek and Scioch 2011, Wolff and Nivorozhkin 2008.

### 3 Conclusion

Start-up incentives targeting the unemployed has been a relatively small ALMP; it has been relatively more important in times of high unemployment and was pushed by the Hartz reforms. In the context of falling unemployment its relative importance decreased. Nevertheless, individuals setting up a business in the context of unemployment are still overrepresented among new entrepreneurs.

Evaluation studies of start-up incentives as an ALMP have shown positive results. This can be linked to the small number of participants and a potential creaming effect. The deadweight and substitution effects have not been measured properly. It seems that start-up subsidies for the unemployed help to sustain their business creation. In terms of volumes, the subsidies provided by the Federal Labour Agency are much less important than other subsidy programmes of the Federal Government or the *Länder*. There are several examples of how ESF funding has been used to promote entrepreneurship and business start-ups, targeted at the unemployed or other groups.

Although bogus self-employment is an issue in Germany, it has not been analysed in the main evaluation studies whether start-up subsidies have increased bogus self-employment.

Key success factors for start-up subsidy programmes in Germany include:

- Well prepared selection of participants on the basis of business plans which have been certified by qualified external actors;
- Linking the granting of start-up incentives to profiling in the case of means-tested unemployment benefit II recipients;
- Providing business guidance, coaching and follow-up as part of start-up programmes;
- Developing cooperation between, and with other business actors, such as the Chambers and the KfW banking group.

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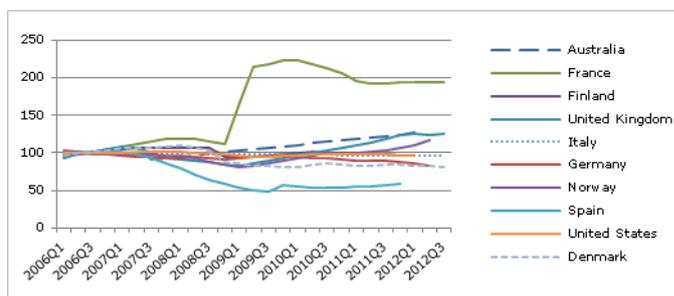
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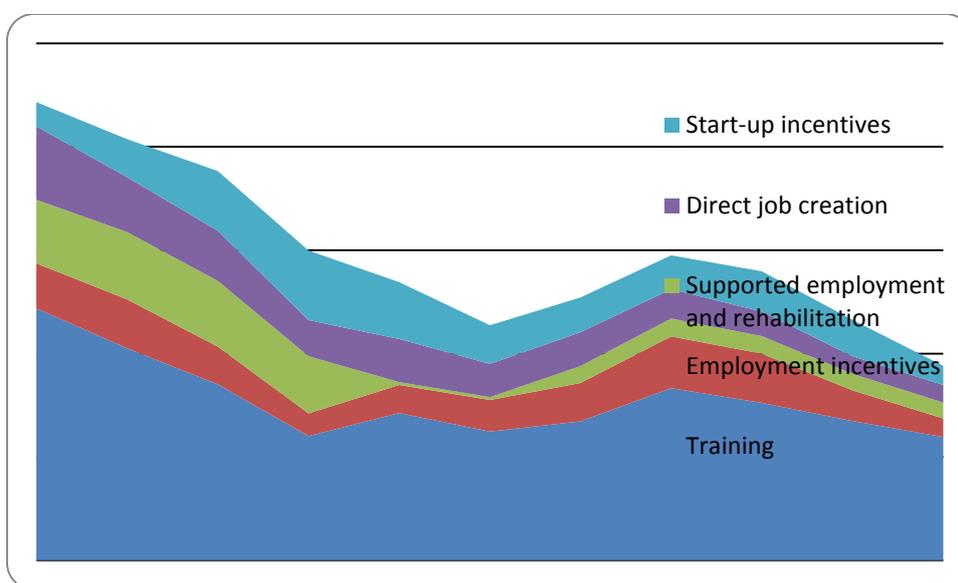
**ANNEX Tables and figures**

**Figure A1 New enterprises, selected countries,**  
Number of new enterprises, trend cycle, 2006=100



Source: OECD [Timely Indicators of Entrepreneurship](#)

**Figure A2: Active labour market policy measures (cat. 2-7) in million Euro in Germany**



Source: Eurostat, LMP data base

**Table A1: Promoting self-employment in the German Federal Länder**

German Federal Land	Promotion of self-employment: number of participants*	
	2012	2013
Baden-Württemberg	7 614	1 750
Bayern	12 587	2 568
Berlin	5 466	2 078
Brandenburg	2 020	570
Bremen	653	221
Hamburg	2 740	958
Hessen	4 387	1 426
Mecklenburg-Vorpommern	1 997	858

Niedersachsen	6 514	2 216
Nordrhein-Westfalen	13 624	4 300
Rheinland-Pfalz	3 113	999
Saarland	860	263
Sachsen-Anhalt	2 368	1 173
Sachsen	5 296	1 995
Schleswig-Holstein	2 848	837
Thüringen	2 739	1 175

\* receiving start-up grant (*Gründungszuschuss*) or integration allowance (*Einstiegsgeld*) for self-employment after a 3-months waiting period.  
Source: Federal Employment Agency 2014b.

**Annex A2: Measure Description Table**

Measure Title	Type of measure:	Target Group	Number of beneficiaries	Amount of subsidy/ duration of subsidy	Permanent or Temporary measure and dates of implementation	Conditionality imposed on beneficiary individuals or firms	Funding source and total budget	Measures complementing the initiative	Monitoring arrangements	Evaluation results available
Bridging allowance ( <i>Überbrückungsgeld</i> ,  now: start-up grant)	Start-up support, UB conversion	Unemployed persons.	2005: > 150.000	Amount equals the previously received UB + lump sum to cover  social security contributions, duration 6 months.	Temporary measure, 1986-2006.	Persons entitled to UB.	Federal Labour Agency.	Subsidy to cover the subsistence in the first stage  of business start-up, access to coaching seminars and microcredits.	Book Three of the Social Code (employment promotion / unemployment insurance) and Book Two of the Social Code (basic security benefits for job seekers in need).	Evaluation by the Institute for Employment Research: one of the most successful labour market policy instruments; 3 years after the start 70 % of the starters were still self-employed and almost one in two had at least one employee. The sustainability rate reflects the continuously high success of start-up promotion. Baumgartner/Caliendo 2007: efficient and effective policy.
Allowance to set up a business ( <i>Existenzgründungszuschuss</i> , now: start-up grant)	Ich-AG ('Me Inc' or solo company)	Unemployed persons.	2009: 13 178	1. year: EUR 600 per month.  2. year: EUR 360 per month,  3. year: EUR 240 per month.  Duration up to 3 years.	Temporary measure, 2003-2009.	Persons entitled to UB.	Federal Labour Agency.	n.a.	n.a.	Baumgartner/Caliendo 2007: Efficient policy tool, programme produces a significant and large gain in terms of earnings and the employment probability of the treated people. The results however show regional heterogeneity, the effect is particularly pronounced for men.

Start-up grant (Gründungszuschuss)	Start-up support	Unemployed persons below 65 years.	2013: 19.079 programme starts.	UB last paid + lump sum of EUR 300 for social security coverage, duration 6 months, the lump sum is for another 9 months after expiry of the first 6 months.	Permanent measure, since 2006 (merger of bridging allowance and allowance to set up a business).	UB I recipients entitlement to unemployment benefits of at least 150 days. Applicants have to present sustainability certificates issued by a competent body (e.g. chamber of industry and commerce or credit institution).	Federal Labour Agency, Total budget for start-up grants in 2013: EUR 227 million. 2014: EUR 427 million.	n.a.	n.a.	Evaluation results show positive impact (, cf. table 'Summary of evaluation results of ALMPs promoting start-ups and self-employment', i.e. Caliendo et al. 2012a and b).
Start-up coaching – setting up a business out of unemployment (Gründercoaching aus der Arbeitslosigkeit)	Start-up incentive (coaching)	Unemployed persons receiving Unemployment Benefit I or Unemployment Benefit II.	2008: 1 710 2009: 14 609 2010: 18 273, support may be provided in ca. 20 000 cases/year.	EUR 3 000-4 500 remuneration for coaching.	2008-2013, continuation of measure is currently negotiated in the context of new ESF programming period 2014-2020.	Persons entitled to UB I and UB II, application for support during first year after business foundation, participation based on receipt of start-up grant or integration allowance.	Federal Government, ESF, total budget 2008-2013: EUR 650 million.	n.a.	Close cooperation between the Ministry for Economic Affairs and Energy and the Ministry for Labour and Social Affairs. The Credit Institute for Reconstruction (KfW) has been implementing the programme.	Caliendo et al. 2014: participant structure: overrepresentation of women; lack of formal quality management tool; often insufficient financial remuneration; risk of quality downgrading if admission for coaching agencies is too easy; need of quality management; evaluation however points to positive impact and satisfaction of participants; relevant contribution by increasing the competences of potential entrepreneurs.
Integration allowance	Start-up subsidy	Needy unemployed	2013: 4.222	Benefit amounts	Permanent measure,	UB II recipients who take up a	Federal Government/F	Combination of benefits possible	Federal Labour Agency	Evaluation by Wolff/Nivorozhkin (2008) shows that about two years

(Einstiegsge ld)	ed entitled to UB II	In 2009: 20,000 persons started  self- employment	to 50 % of the base benefit plus ten percent of the base benefit for each  additional member of the household, duration up to 2 years if beneficiary becomes self- employed.	since 2005.	contributory job of at least 15 working hours weekly or start-up a business as their main occupation.	ederal Labour Agency,  Total budget for integration allowance in 2013: EUR 10.5 million.	(housing allowance,  UB II, heating allowance etc.), special training measures, start-up seminars,  information events, loans or subsidies for the purchase of equipment  and materials.	specifies how the UB II agencies are supposed to implement this discretionary programme.	after programme start, treatment raised the share of participants who do not receive UB II and who are registered neither as unemployed nor as job- seekers; however, low inflow into the into the self- employment scheme. Baumgartner/Caliendo 2007: programme had considerably improved the chance for employment for the participants.
			In 2009: Maximum of EUR 359 per month.						

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