

Support of business creation in Germany: A successful policy?

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Udo Brixy
Institute of Employment Research (IAB)
Nuremberg, Germany

Promoting entrepreneurship
and self-employment
across Europe

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Outline

1. Goals of the promotion of start-ups
2. Programs aimed to support start-ups
3. The significance of entrepreneurs out of unemployment
4. Is it a good policy to support unemployed founders?

Goals determine the measures

Supporting start-ups in Germany aims to achieve two different goals:

- Economic policy seeks to enhance structural economic change and innovation
 - Social policy wants to fight unemployment by turning unemployed into self-employed
- Policy measures should always be evaluated according to the goal that should be achieved

Sources of funding of start-ups in Germany (I)

- KfW
 - Loans at reduced prices for start-ups
 - KfW “StartGeld”: up to 50,000 € loan
(German part of the CIP/EIP-program)
 - Assistance
 - “Gründer-coaching”: financial assistance for coaching
with special aid for unemployed (ESF)
- Micro-Credits
- Exist (high-tech start-ups)
- Many more programs on the level of federal states
and even communities...

Promotion of start-ups out of unemployment

- Since 1986 promotion of start-ups is part of the Active Labour Market Policy (ALMP)
- For 20 years Bridging Allowances (“Überbrückungsgeld”) were the single instrument
- 2003: “Hartz Reforms”: Additional instrument is introduced to motivate especially small start-ups often from low qualified persons called Me Inc. (“Ich-AG”)
- 2006: integration to one single instrument with elements from both predecessors: Start-up subsidy (“Gründungszuschuss”)

Promotion of start-ups out of unemployment

Bridging Allowance: Program used from 1986 until 2006

- Idea: to cover entrepreneurs' maintenance during the start-up phase
- Registered unemployed received allowance for six months only but relatively high financial support (depending on the individuals' previous earnings) plus social security payments

Promotion of start-ups out of unemployment

Me Inc.:

Program used from 2003 until 2006

- Idea: to cover the cost of social security during the start-up phase
- Low threshold: until end of 2004 no confirmation of viability of the planned business were necessary
- Income must not exceed 25,000 € per year
- lump-sum payment of up to three years:
600/360/240€ (1st/2nd/3rd year)

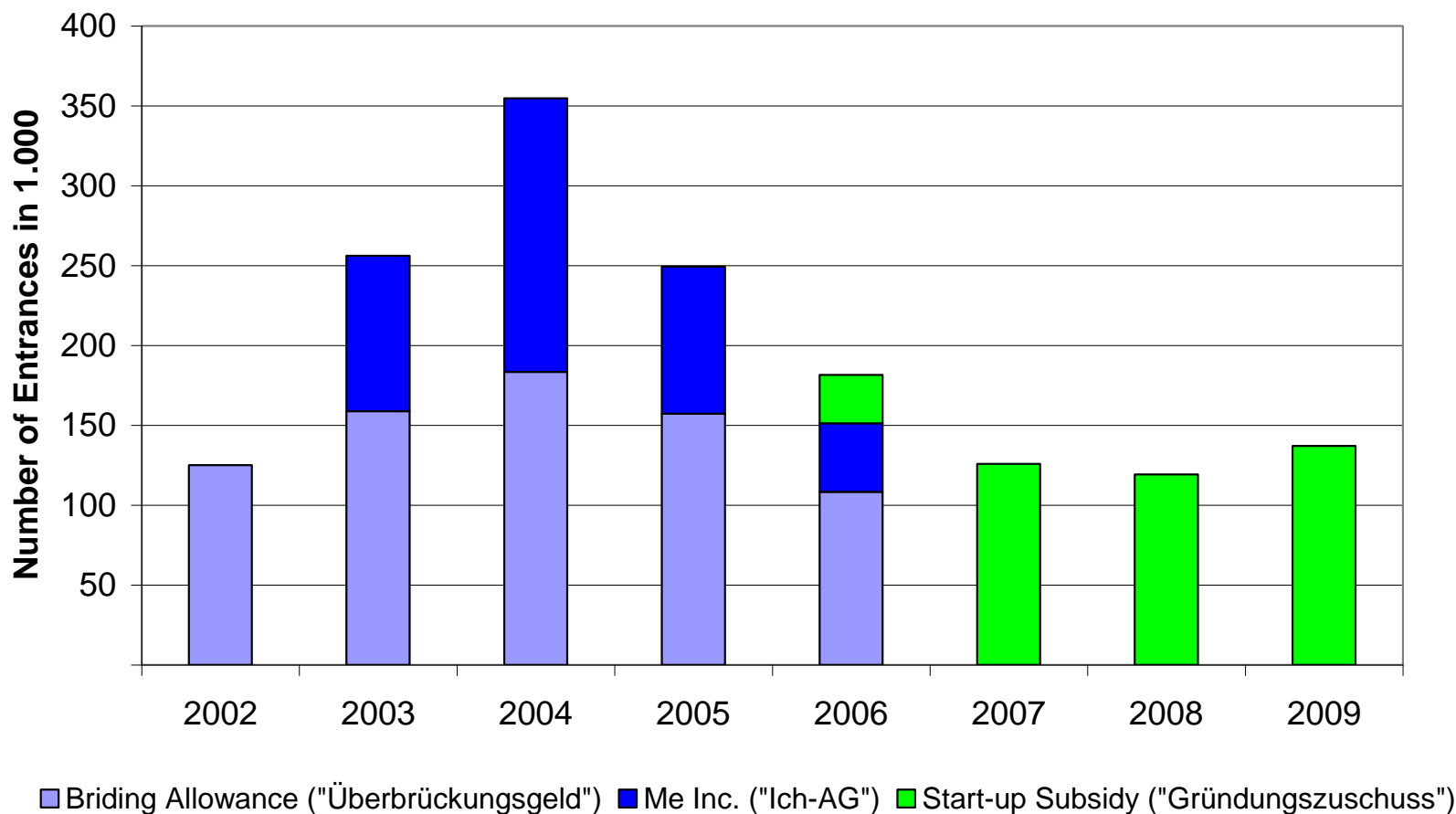
Promotion of start-ups out of unemployment

Start-up subsidy.: Program used since 2006

- Idea: to integrate both programs into one
- Support up to 9 months
- Unemployment benefits plus a lump-sum payment to cover the costs of social security
- Higher than “Me Inc.” but lower than bridging allowance

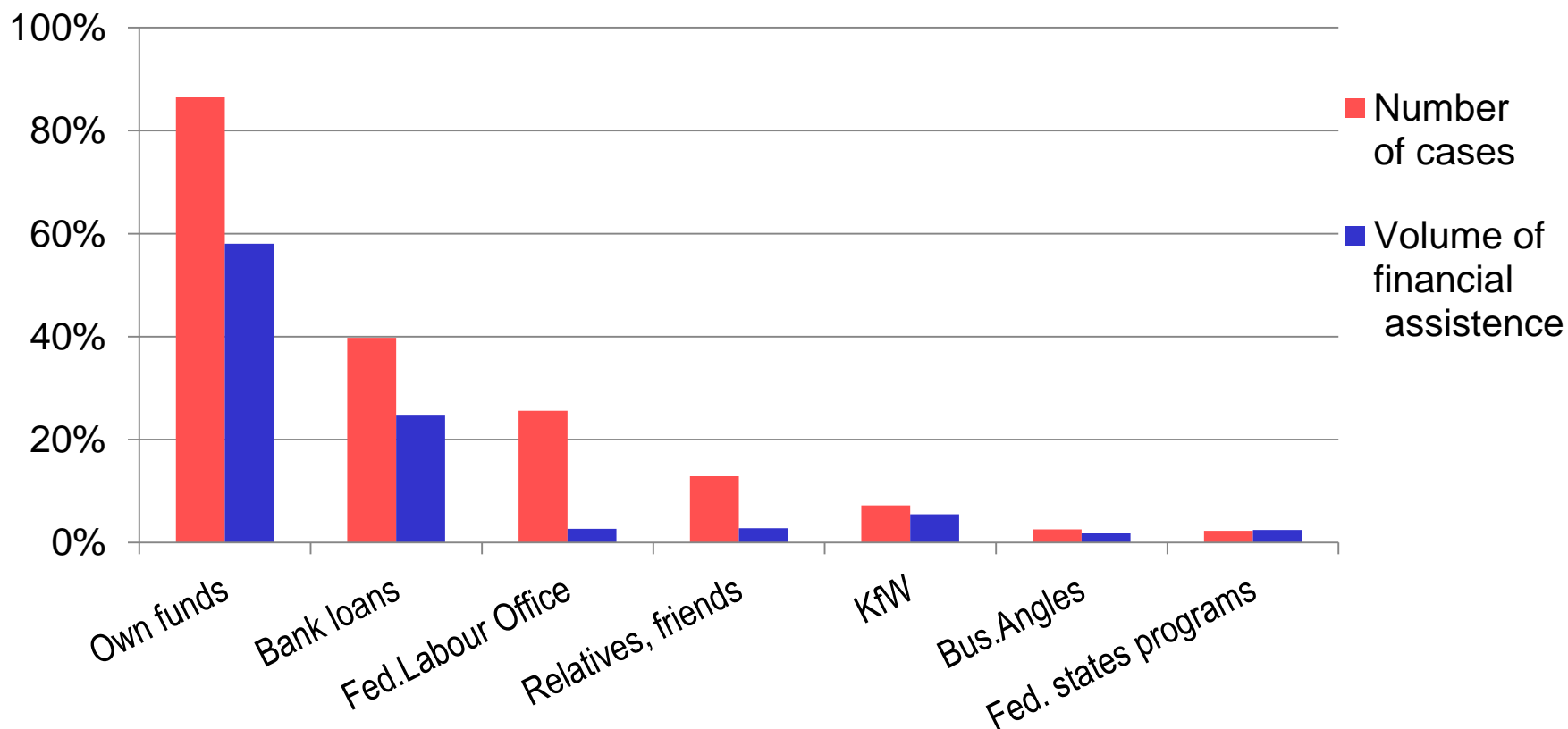
Promotion of start-ups out of unemployment

Number of Start-ups Subsidised by the BA



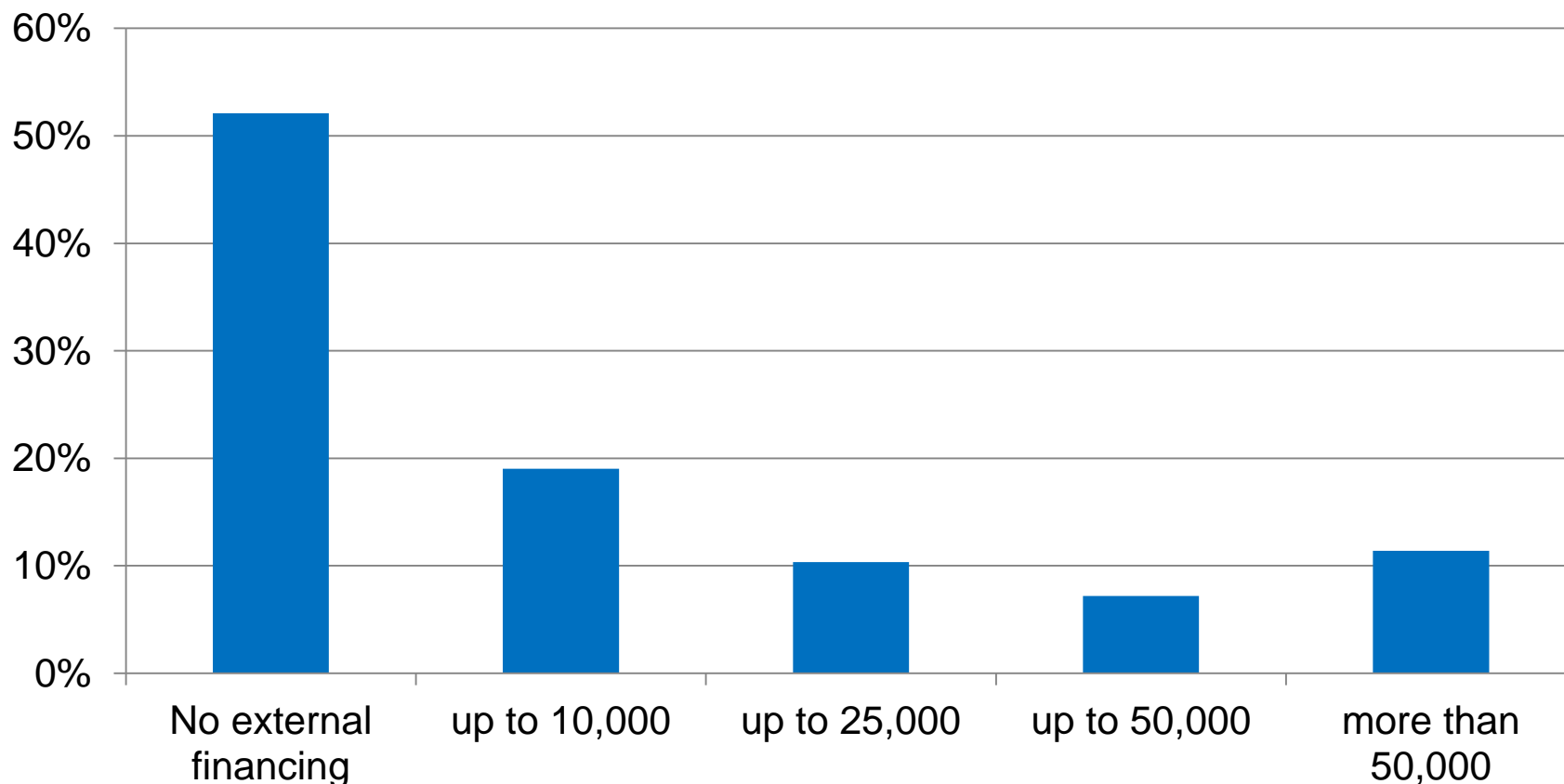
Funding of start-ups in Germany

Amount of external funding of start-ups in Germany - average funding 2007 to 2008 -



Funding of start-ups in Germany

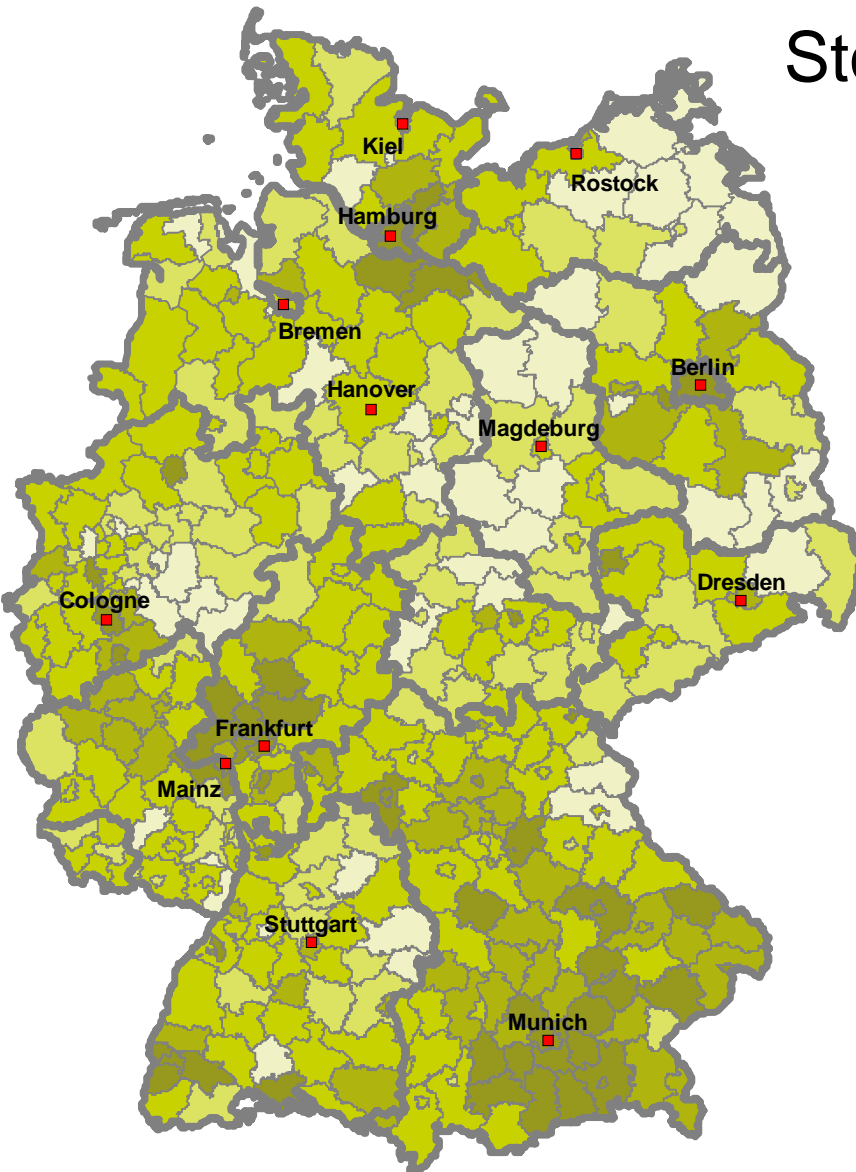
Amount of external funding of start-ups in Germany Average funding 2005-2008 in Euro



Is it a good policy to support unemployed founders?

- Bridging Allowance and Me Inc. both have been evaluated in detail using up-to-date quantitative techniques
- Compared with a control-sample those who took part in one of these two measures were:
 - less likely to be unemployed 4 ½ years after founding
 - have a higher income
- Results suggest that both programs are especially effective for low qualified

Stock of subsidised start-ups in % of the registered unemployed



Share of Entrepreneurs receiving financial support from programs of the Federal Employment Agency in November 2009
District-Level (NUTS III)

≤ 8,75	(60)
≤ 10,56	(82)
≤ 14,18	(161)
≤ 15,99	(56)
≤ 32,50	(53)

Is it a good policy to support unemployed founders?

Conclusions

- In Germany support for unemployed founders plays an important role
 - Difficult to avoid deadweight effects
 - Regional differences within Germany are big and should be taken into account
- Many programs lack a clear focus (aside from unemployment-schemes)
- There are numerous programs on different scales so that the question arises if this can be efficient