EEPO Review: Start-up incentives, September 2014
Denmark

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September 2014
EUROPEAN COMMISSION
Directorate DG Employment, Social Affairs and Inclusion
Unit C.1 – Europe 2020: Employment Policies: European Employment Strategy and Governance
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Luxembourg: Publications Office of the European Union, **2014**

ISBN ABC 12345678

DOI 987654321

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

An overview of the role of self-employment on the Danish labour market, including comparison data for the EU, is presented in Table 1. As the data indicates, the share of self-employment in total employment in Denmark has remained stable from 2000 to 2013. Compared to the EU-27, the share is considerably lower, which can mainly be explained by the lower employment in agriculture and small-scale service firms compared to many other Member States. Also the share of own-account workers in total self-employment is lower than in the EU. It has, however, increased significantly during this period as a result of a reduction in the number of self-employed with employees and an increase in the number of own-account workers of almost the same size. Here the economic crisis could be an explanation, since it has led to a decline in the number of firms, for example, in the construction sector and may have forced the former owners into the status of own-account workers. However this issue has not been studied in depth.

Table 1: The role of self-employed and own-account workers on the Danish labour marked and EU-27

<table>
<thead>
<tr>
<th></th>
<th>Denmark</th>
<th>EU-27</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2000</td>
<td>2013</td>
</tr>
<tr>
<td>Share of self-employed in total employment (%)</td>
<td>8.0</td>
<td>8.2</td>
</tr>
<tr>
<td>Own-account workers as share of total number of self-employed (%)</td>
<td>47.6</td>
<td>60.3</td>
</tr>
</tbody>
</table>

Source: Eurostat

When it comes to policies to support start-ups, a number of programmes are in place to support those who want to start their own business. These are all under the auspices of national and regional bodies like the Danish Ministry for Business and Growth and the regional Growth Fora. However since 1998, no national programmes have been in place that are specifically targeted at supporting the unemployed to become entrepreneurs.

A national programme introduced in 1985 (and abolished in 1998) targeted the unemployed. It had provided a subsidy equal to 50% of normal unemployment benefits (for up to a period of 3.5 years) for unemployed members of an unemployment insurance fund (of at least 5 months), who wanted to start their own business. In the mid-1990s, the average yearly number of participants reached 14 000 compared to the total average number of persons in active programmes of around 75 000 (Hansen, 2001). The scheme was therefore a significant element of active labour market policies.

Two evaluations were conducted (Rosdahl & Mærkedahl, 1987, Høgelund et al, 1992). The latter showed that after two years 76% of new firms were still active and that each employed on average a 0.8 full-time employee in addition to the self-employed. However, other data indicated significant deadweight - that 27% of new businesses would have been established if the programme had not existed. Also, many of the surviving firms were found to be running a deficit or providing an income at only the level of unemployment benefits. In addition, of those who failed to survive as entrepreneurs, 60% returned to being unemployed. This meant that, on average, failed start-ups led to a personal debt for the unemployed of around EUR 17 300 (DKK 130 000). Finally, a significant weakness identified was the potential 'crowding out' effect.
that start-ups with the subsidy had in terms of the broader labour market (i.e. the reduced opportunities for other new firms).

Despite the lack of national programmes specifically targeting those that are unemployed, there still remains a range of support that unemployed people can access to support re-entry and access to employment (such as education and training courses targeted at improving the skills and competences of those unemployed).

Furthermore – and as a more recent development inspired by the economic crisis – a number of municipalities have introduced local programmes, where those that are unemployed are offered “micro-loans” to finance the necessary expenses for equipment and other preconditions to start a business (on the basis of meeting certain conditions, including the preparation of a robust business plan).

Finally it should be mentioned that the Danish unemployment benefits system allows the self-employed to become members of an unemployment insurance fund and receive normal unemployment benefits if they have to close down their business. Those formerly self-employed, and not insured, can apply for means-tested cash benefits like any other individual. In both cases those becoming unemployed will be subject to the standard programmes of active labour market policy.

2 Start-up incentives today: detailed description

The following sub-sections present a more detailed analysis of the current state of affairs with respect to start-up incentives for the unemployed and income support for the self-employed.

2.1 Training of unemployed in entrepreneurship

Until the end of 2014, those that are unemployed have the right to six weeks of training after four months of unemployment. There are a wide range of courses available, including courses on entrepreneurship - offered by a range of approved educational institutions. Following the implementation of the reform of active labour market policy, which will take place from 2015, the right to six weeks of training will be restricted to unemployed people who do not have a further education qualification above the level of skilled workers. In addition, the jobcentre can offer all those unemployed further training in competences relevant to starting a business; however, this is not an entitlement and depends on the judgement and available resources of the jobcentre. Based on the available statistical information from Statistics Denmark, the actual take-up of courses in entrepreneurship by the unemployed is relatively small. For this reason they have not been subject to a targeted evaluation.

2.2 Micro-loans to unemployed

A new trend in the support to unemployed people has (since 2007) been the introduction of micro-loans, which started as a pilot project in the municipality of Aarhus (Social Udviklingscenter, 2012a). The pilot project targeted the most vulnerable groups of unemployed people, mainly users of social day centres. A total of 13 unemployed people were eligible for the pilot project with seven benefitting from a loan up to a maximum of EUR 6 700 (DKK 45 000); the smallest loan amounted to EUR 700 (DKK 5 000).

The municipality of Aarhus established a second project in November 2010. A key learning point from the pilot project was that complex social problems commonly associated with those that are unemployed often had the potential to limit the impact of the support to prepare them for starting their own business. The second project therefore targeted unemployed people (and recipients of disability pension) which were assessed to be closer to the labour market (notwithstanding some employability barriers). In terms of the project infrastructure, administration processes were also stream-lined, with responsibility for the project allocated to a single civil servant at the job-centre supported by a coach with both social and business competences.
The evaluation of the second pilot project gave the following main results (Social Udviklingscenter 2012b):

- A total of 60 unemployed people applied to take part in the project; 19 were deemed eligible for support. About one-third of the participants dropped out of the project. Micro-loans of up to EUR 6 700 (DKK 50 000) were granted to the remaining 12 participants in May 2011.

- Of the 12 start-ups supported under the project (seven formerly unemployed and five in receipt of disability pension) a further four dropped out, leaving eight start-ups that remained active by the end of the project in August 2012.

- Of the eight participants, who completed the project and successfully started their own business, three of the former unemployed were fully self-supporting, while the remaining five still received public support – all of them disability pension.

- The start-ups represented a wide range of businesses, including cleaning, children’s clothing, hairdressing and accounting.

A separate analysis was made of the economic impact of the project for the local municipality (CASA, 2012). Directly, the project involved more expenses than traditional incentives. They included: the costs associated with the intensive training courses; and, the costs of direct financial support for the start-ups. The net gains were identified as: increased tax revenues for the municipality from a higher participation rate among participants; the costs saved in welfare cash benefits and early retirement. The economic analysis did not include empirical observation of the long-term effect of the project; in addition no control group was used. This made calculations about economic impact reliant on a number of assumptions about the long-term situation of participants and their potential prospects had they not participated in the project. This analysis showed a considerable economic surplus over a five-year period for each participant, on the assumption that they had become gainfully employed after taking part in the project and paying back the loan they had received. Estimates included the smallest success-rate that would still lead to a surplus for the municipality. If it was assumed that a successful participant would otherwise have been unemployed during the next five years, a success-rate of only 6 % would be sufficient to create a surplus. If the participant would have got a job after three years, the limit increased to 10 %.

The results of the pilot projects were considered a success, and subsequently micro-loans were rolled out and now form part of the activation measures that the municipality of Aarhus has for unemployed recipients of cash benefits, disability pension and sickness benefits. Around 90 people apply for the micro-loans each year, which converts into approximately 20 start-ups. The micro-loans granted can be between EUR 130 and EUR 6 700 (DKK 1 000 and DKK 50 000), with the average amount distributed EUR 3 300 (DKK 25 000). During the first six months of the start-up period the unemployed participants receive a rehabilitation allowance depending on their age and family situation. Those participants who are not granted a micro-loan keep their normal benefit. No formal evaluations are available of the outcome of the start-ups, but the manager of the programme estimates that a little more than half of the start-ups are successful.

Based on the experiences from the two pilot-projects, the current programme (often referred to as the ‘Aarhus model’) is composed of the following phases:

- A first screening: only applicants with a good business idea and a real desire to be self-employed are considered; during this phase many are rejected from taking part in the programme.

- Preliminary ‘coffee-meetings’: during this phase the project arranges individual meetings between the potential entrepreneurs and a specialist coach. The meetings are usually conducted in a café or in a rented meeting room. They are set as a business meeting between two potential partners and not a meeting between a client and a social worker. The goal of the meetings is to give the
supervisor knowledge of the background, resources and challenges of the unemployed and thus assess, whether there is basis for continued cooperation with respect to a micro-loan.

- Development of competences: this period lasts 3 to 6 months and aims at developing the individual's skills and business competences through personal guidance. In addition, the municipality arranges a number of joint courses in subjects like accounting, tax law and issues with respect to insurance. These courses are aimed at improving the entrepreneur's expertise and strengthening the network among the future entrepreneurs.

- Final seminar: this consists of group assignments, presentations by professional business coaches, and participants’ own presentations.

- Start-up period: following the final four-day seminar, the decision is taken by the project manager as to who is ready to start a business with a micro-loan. During this phase, the participant will continue to receive supervision from the project.

For the “Aarhus-model” the legal foundation is contained in a special paragraph in the Law on Active Social Policy, which allows the municipality to give loans to persons eligible for rehabilitation support subject to it being the best way to regain employment. Since insured unemployed people are not eligible for rehabilitation under this law, micro-loans cannot be granted to them and are reserved exclusively for unemployed people with no insurance.

Several other municipalities have been inspired by the ‘Aarhus-model’ and have, or are planning to implement the model (Ugebrevet A4, 2014). Micro-loans have already been launched in Copenhagen, where in 2013 and 2014 a total of EUR 100 000 (DKK 700 000) were allocated for this purpose.

In the absence of more comprehensive evaluations, an overall assessment of micro-loans as a start-up incentive must be based on qualitative judgments. An important observation is that the number of participants and the number of start-ups remains very low. Even if the programme in Aarhus was introduced in all Danish municipalities with its present volume, the total number of yearly start-ups would amount to little more than 400 new firms, in context the total number of start-ups in Denmark is around 30 000 new firms per year. The total number of those in receipt of cash benefits (as unemployed and or through disability pension) is estimated at 250 000 people, as a measure of full-time equivalents (2013), of these around 30 000 are unemployed recipients of cash benefits.

The quantitative potential for the schemes involving micro-loans in their present form is probably limited due to the strict targeting of support under the programme. Furthermore, those that cannot develop a robust business plan and the necessary skills to run their own firm in the long-term run the risk of being much worse off than before receiving the start-up incentive as the micro-loan increases individual personal debt. This makes the screening and training of prospective entrepreneurs a core element in the Aarhus-model. Similarly, extending the target group to, for example, the insured unemployed runs the risk of increasing deadweight under the programme and crowding-out effects (i.e. negative impact on firms without a subsidy).

At present the main conclusion is therefore that there is some potential for granting micro-loans to well-prepared unemployed groups with some employability barriers. Here the experiences mainly from Aarhus have shown that some from this target group, albeit clearly a minority, are able to become self-supporting through micro-loans.
CASE STUDY BOX

Country: Denmark

Measure title: Micro-loans for the unemployed to start their own business

Main aims:
The main aim is to make motivated unemployed people and recipients of disability pension self-employed by providing them with both the skills and the financial resources to start their own business.

Short description of the initiative:
The measure is based on a careful screening of the applicants, close supervision and coaching to develop robust business plans, and on the provision of courses to develop relevant competences such as: accounting, knowledge of tax regulation, and insurance issues. The micro-loans granted have a maximum of EUR 6 700 (DKK 50 000). The initial phase of screening and training last for 3 to 6 months. After the start-up, participants receive during the first six months a rehabilitation benefit, if they are unemployed. If they are pensioners, they receive their usual disability pension. If the start-up is unsuccessful the participant will revert back to the usual welfare benefit.

Target group:
The target group consists of unemployed recipients of cash benefits and those in receipt of disability pension or sickness benefit, who are motivated to start their own business (and who have taken part standard programmes without any success). Those unemployed who are a member of an unemployment insurance fund are not eligible for legal reasons.

Target enterprises: All sorts of individual start-ups with a realistic business plan will qualify. The measure does not support social enterprises or cooperatives.

Eligibility conditions: The recipient must have a robust business plan and must be judged as qualified for entrepreneurship. Participants must also have taken part in the standard programmes offered to the unemployed without success.

Budget for the measure / share of EU funding: Since the measure is developed locally by a small number of municipalities, there is no information about the overall budget or its funding.

Accompanying measures: As mentioned above, an important part of the programme is individual coaching and training in entrepreneur skills. Participants also receive income support for up to 6 months before the start-up and for 6 months after the start-up.

Summary of evaluation findings:
No large scale evaluations have been conducted, but a pilot project implemented from 2010 to 2012 has been evaluated by the organisations involved. Out of 12 persons receiving a micro-loan 8 became fully or partly self-supporting through self-employment.

Policy lessons:
There is realistic potential for granting micro-loans to well-prepared unemployed groups with some employability barriers. Here the Danish experience has shown that some from this target group, albeit clearly a minority, are able to become self-supporting through micro-loans.

References:
2.3 Unemployment insurance and active labour market policies for self-employed

In Denmark, economic support for the unemployed is organised within a two tier system. The majority of the unemployed are supported by independent unemployment insurance funds, which are often affiliated with the trade unions. They are membership organisations, where a membership fee has to be paid. Furthermore, the state pays part of the expenses for the unemployment insurance benefit. Since the membership fee is unrelated to the total number of unemployed, the share of the cost carried by the Government increases during economic downturns, where the Government finances by far the largest part of the benefit.

The second tier of economic support to the unemployed is the means-tested cash benefits, which are part of social policy and paid to the unemployed who are not members of an unemployment insurance fund and, in addition, fulfil the means-testing criteria.

Since 1976 it has been possible for the self-employed to enter one of the Danish state supported unemployment insurance funds and receive benefits at the same level as insured wage-earners. Self-employed people can receive unemployment benefits, if the following conditions are fulfilled:

- The person must have been a member of an unemployment insurance fund for at least one year and have been employed as self-employed for at least 30 hours per week during the last year. The assessment thereafter is based on information about the opening hours and turnover of the firm, and on a description of the specific tasks of the self-employed person in running the business.
- The unemployed person must have formally closed down their business and have, effectively, stopped being an active self-employed person before qualifying for benefits. The claims criteria include very limited options for continuing part-time active self-employment whilst in receipt of unemployment benefits.
- Whilst claiming unemployment benefits, must actively look for work and take part in the mandatory active programmes that are offered by the jobcentre.

As mentioned in the introduction, there are no programmes within active labour market policy, which provide support to the insured unemployed to start their own business, however, some training can be offered for those who want to prepare for a business start-up.

Two of the 27 Danish unemployment insurance funds specialise in insuring the self-employed against unemployment. Furthermore a number of other unemployment insurance funds accept the self-employed as members, but without having them as their primary target group. The total number of members of the two specialist unemployment insurance funds is 170,000. The total membership of all Danish unemployment insurance funds is 2.1 million (2013). Furthermore, some self-employed people may also join other unemployment insurance funds. The total number of self-employed in Denmark is around 200,000 people. Thus the vast majority of self-employed in Denmark are eligible for unemployment insurance benefits.

3 Conclusion

Start-up incentives for the unemployed has for decades been almost non-existent within Danish labour market policy. This has been the case since the abolishment of a large-scale national scheme providing start-up grants for unemployed members of the unemployment insurance funds. The scheme was closed down in 1998 following rather negative evaluations that pointed to significant dead-weight losses and negative effects.
for those unemployed, who did not succeed as entrepreneurs. Also the rapid decline in overall unemployment probably played an important role.

However a new trend has emerged in recent years, where a small number of municipalities has experimented with projects that involve granting micro-loans to motivated unemployed people. This measure seems at present to be gaining momentum, although it is still of little quantitative importance. The municipality of Aarhus has the most advanced programme, which is targeted at unemployed recipients of cash benefits, disability pension and sickness benefits, who show an interest in starting their own business. On a yearly basis, a total of around 90 people take part in the training and around 20 make a start-up. During the first six months of the start-up period the unemployed participants receive a rehabilitation allowance.

Unfortunately no evaluation is yet available of the result from the current phase of the Aarhus-program, but evaluations of the pilot-project from 2010 to 2012 indicate that a significant share of those unemployed, who were granted a micro-loan, were able to become fully or partly self-supporting. The evaluations also proved the need to carefully screen the applicants for the programme and to prepare them thoroughly for life as an entrepreneur. Furthermore, those that cannot develop robust business plans, and the necessary skills to run their own firm in the long-term run the risk of being much worse off than before receiving the start-up incentive as micro-loans increase individual personal debt. This makes the screening and training of prospective entrepreneurs a core element in the Aarhus-model. Similarly, extending the target group to, for example, the insured unemployed runs the risk of increasing deadweight under the programme and crowding-out effects (i.e. negative impact on firms without a subsidy).

At present the main conclusion is therefore that there is some potential for granting micro-loans to well-prepared unemployed groups with some employability barriers. Here the experiences mainly from Aarhus have shown that some from this target group, albeit clearly a minority, are able to become self-supporting through micro-loans. This experience may well be relevant to other national contexts.

Finally, the Danish system of granting unemployment benefits to the unemployed (former) self-employed indicates that it is possible to establish an economic safety net also for this group. A precondition is however a strict monitoring of the unemployment status of the former self-employed, both through documentation concerning the business closure and of the job-search activities conducted.

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### Annex 1: Measure Description Table

<table>
<thead>
<tr>
<th>Measure Title</th>
<th>Type of measure:</th>
<th>Target Group</th>
<th>Number of beneficiaries</th>
<th>Amount of subsidy/duration of subsidy</th>
<th>Permanent or Temporary measure and dates of implementation</th>
<th>Conditionality imposed on beneficiary individuals or firms</th>
<th>Funding source and total budget</th>
<th>Measures complementing the initiative</th>
<th>Monitoring arrangements</th>
<th>Evaluation results available</th>
<th>If no evaluation is available, what is the expert’s assessment of the impact of the measure?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro-loans to unemployed</td>
<td>Start-up incentive</td>
<td>Unemployed motivated to start a business</td>
<td>n.a.</td>
<td>EUR 130 to 6 700 (DKK 1 000 to 50 000)</td>
<td>Implemented in the municipality of Aarhus as a permanent measure since 2012. Pilots in other municipalities</td>
<td>Beneficiaries must prepare an approved business plan and take part in training.</td>
<td>Funded from local sources.</td>
<td>Benefits</td>
<td>Local Pilot project in Aarhus was evaluated, but mainly descriptively. No control group was used. Result were positive in the sense that a fair number of the start-ups were successful in getting the participant partly or fully self-supporting</td>
<td>Monitoring arrangements</td>
<td>Evaluation results available</td>
</tr>
</tbody>
</table>

*There is potential for granting micro-loans to well-prepared unemployed and others with some employability barriers. Some from this target group, albeit clearly a minority, are able to become self-supporting through micro-loans.*
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