

## Start-up Grant, Finland

*This case study presents an example of a welfare bridge scheme, which supports the unemployed in business creation. The description presents the objectives of the Start-up Grant, as well as the rationale. It also describes how the scheme works and the impact that it has had. The case study also discusses the challenges faced and the conditions for transferring it to another context.*

### Objectives

The objective of the Start-up Grant is to encourage new business creation and promote employment among the unemployed. Its goals are to encourage individuals to start up new businesses and to promote their growth and employment, thus maintaining and improving the survival rates of new start-ups (Lehto and Stenholm, 2001). The grant provides new entrepreneurs with a secure income to help secure the entrepreneur's subsistence during the time of business launch and initial development. The grant is usually provided for 6 months, but it can be extended twice so that the maximum period is 18 months.

### Rationale

A nationwide system of start-up grants was launched in 1980s. It was widely used during the severe recession in the early 1990s to promote self-employment and entrepreneurship among unemployed people when other job opportunities were scarce. Over recent years, labour markets have changed and atypical forms of work have gained in importance relative to standard employment contracts (Lehto and Stenholm, 2001). These trends have made entrepreneurship and self-employment more viable and relevant options for individuals to earn a living and for Finland to improve its competitiveness. However, one of the barriers faced for the unemployed to start-up businesses is lack of finance to cover living, working and investment capital expenses.

### Activities

The scheme was originally launched in 1984 as a pilot project, which was re-launched on a larger scale in 1988. It continues today. The scheme was initially targeted to unemployed people to support their business start-ups and employment. Those entitled for the Start-up Grant have to be registered as unemployed job seekers with the TE Office (Employment and Economic Development Office). However, since 2008 the Start-up Grant may also be granted to persons who are not unemployed, but are in process of moving from salaried employment, studies or domestic work into full-time self-employment.

The Start-up Grant consists of a basic grant, which in 2014 was EUR 32.66 per day (payable on 5 days per week based on the days the applicant works in the start-up company), and an extra grant worth up to 60% of the basic grant (i.e. EUR 19.60 per day),

which can be awarded for ideas that are assessed to have high potential. The Start-up Grant is usually granted in periods of 6 months, for up to 18 months. The average grant in 2013 was approximately EUR 800-850 per month for 9.5 months. It is paid on a monthly basis and is considered to be taxable income.

The Start-up Grant is provided by the TE Office. The main criteria for the Start-up Grant are (Ministry of Employment and the Economy, 2014):

- full-time self-employment;
- sufficient skills and competences for the intended business;
- potential for sustainable, profitable business;
- necessity for individual to earn a living;
- company is started only after the grant has been granted.

Applicants are required to briefly present the following in their application: personal work and entrepreneurship experience; education and training related to business management and entrepreneurship; name of the planned company; the legal form of the planned company; proposed ownership structure; business idea (including strengths and weaknesses); details of the proposed activity (e.g. premises, staff needed); production processes (e.g. facilities, factors of production); customers profiles (e.g. who, amount, regional coverage, needs); marketing plans (e.g. means and costs); distribution methods; competitor analysis (e.g. competitors and their offerings, own strengths in competitive arena); measures taken in advance of start-up; financing needs and sources (e.g. investments, working capital, own-finance, loans, grants); profit and loss statement (e.g. sales forecast, expected turnover and costs); organisation of accounting (e.g. needs for expert advice); and other grants received. The Start-up Grant is granted as *de minimis*, implying that a maximum of EUR 200 000 can be granted during the current and two previous taxation years for the applicant or company. The grant receiver is responsible for not exceeding the total threshold for *de minimis* grants provided by various public organisations (such as Finnvera – public risk financier), municipalities and provincial federations.

The TE Office consults third-party experts during the evaluation of applicants. The role of the third-party experts is to give general information and advice on starting up a company and to determine whether the business concept is viable and competitive. In its decision, the TE Office also considers the competitive situation and the need for the intended businesses in the region. Evaluation studies indicate that the application process functions relatively well; 70% of those receiving the grants report that it is easy to apply for the grant (Stenholm and Aaltonen, 2012; Stenholm, 2007; 2006).

One criterion for awarding the grant is that the applicant has entrepreneurial experience or training. When applicants are lacking this, they can attend free labour market training offered by the TE Office, including entrepreneurship courses organised by different educational institutions. The length of the courses is usually 4 to 8 weeks. Each service provider designs the training offer based on its own expertise and specific goals set for the course. During such training the applicant is expected to further develop the business idea and business plan and to gain better understanding on the measures to be taken when preparing start-up. The training also provides participants with basic skills in finance, accounting and taxation; marketing; managing risk; and human resource management. The aim of the training is to develop the areas that may prevent the applicant from running a viable business.

### **Project financing**

The provisions of the Start-up Grant are contained in the *Act on Public Employment and Business Service* and a Government Decree (Ministry of Employment and the Economy, 2014). The annual budget for Start-up Grants is approximately EUR 38 million. The scheme received approximately EUR 2 million annually from the European Social Fund between 2010 and 2012.

### **Challenges encountered**

The Ministry of Employment and the Economy has commissioned several studies on the Start-up Grant (Stenholm, 2013; Stenholm and Aaltonen, 2012; Stenholm, 2007; 2006) to learn about its impact and effectiveness.

Evaluations consistently identify the challenge of assessing an entrepreneur's need for the grant and how the grant impacts their start-up decision and process (Stenholm 2006; 2007; Stenholm and Aaltonen, 2012). It is difficult to balance the criteria of “necessity” on one hand, with the pre-requisites of profitable businesses on the other hand. This conflict is further demonstrated when discussing the potential secondary market effects of the scheme – about half of the start-up entrepreneurs perceived that they would have started the company without the grant received (Stenholm and Aaltonen, 2012).

More broadly, the scheme faces the challenge of providing guidelines for the experts who assess the entrepreneurs and the potential of their businesses. The application process relies partly on the expert statements assessing the potential of the intended business and although the officials preparing and making the grant decisions were relatively satisfied with the quality and content of the statements, these decisions were made based on individual perceptions. There is a need to ensure consistency across these decisions.

Evaluations also suggest that more support and advice for the applicants would have been helpful during the start-up process (Stenholm, 2006). To increase efficiency of the grant, it was suggested that public actors should increase collaboration as they may be serving the same potential entrepreneurs and it is an inefficient use of resources to analyse the same business idea and the entrepreneur multiple times (Stenholm and Aaltonen, 2012).

The Start-up Grant is a widely known and well-established instrument supporting business start-ups. Even though there is no particular awareness-raising campaign, the grant is visible in public sector Internet pages promoting support services for those considering entrepreneurship as an option. In addition, TE Office officials inform unemployed people searching for a job about the availability of the grant. However, the grant recipients are often not aware of some of the other related supports and the potential for extending the grants. Therefore, related information could be better promoted by the TE Offices (Stenholm and Aaltonen, 2012).

Finally, entrepreneurs who received the grant were unsatisfied with the amount and duration of the grant. The Ministry acknowledges that the grant is not enough to establish the business in the market but its goal is to support the living of the applicant (Stenholm, 2006). Those least satisfied were entrepreneurs who used the Start-up Grant along with other public financing, were unemployed before the business start-up, were older than 40 years old and had prior entrepreneurial experience (Stenholm and Aaltonen, 2013).

## Impact

The Start-up Grant is considered to have had a positive impact on many individual entrepreneurs. Based on the recent evaluation, it has enabled entrepreneurs to accelerate their start-up process and approximately half of the respondents considered the grant necessary for their subsistence. In addition, nearly half of the entrepreneurs felt the grant provided them with encouragement from the government – the grant was a positive signal for entrepreneurship at a societal level. The greatest impact was reported among women and those with modest prior experience in entrepreneurship or industry indicating that the grant may compensate the lack of individual networks (Stenholm and Aaltonen, 2012).

The grant also has positive impact on the survival rates of the businesses: 38% of the businesses established in 2005 were still alive in 2012, for example. The respective figures for those started in 2006 and in 2007 were 41% and 61%. However, the longitudinal evaluations show that the survival rate is higher among the businesses started by non-unemployed individuals than among those started by the unemployed. Further, the results indicate similar differences in the development of turnover and employment of the studied businesses. Those who started their ventures while being unemployed estimate their turnover and number of employees to be lower than their non-unemployed peers. In general, the higher survival rates are found among those with higher education degrees, more social capital and starting as a non-unemployed (Stenholm, 2013).

## Conditions for transfer

The Start-up Grant scheme has run in Finland for about 30 years, and the result of several evaluations have been taken into consideration when renewing the scheme. A number of success factors have been identified and should be central to transferring the experience to other contexts.

1. *Provision of subsistence.* The scheme is highly applicable for the unemployed, but is also relevant for other groups as it simply supports one's subsistence during the early months of the new business. Given the modest amount of money granted and the relatively short period over which it can be received (up to 18 months), the grant is not enough to finance a new start-up and ensure its survival, but it does increase the incentive for a start-up decision.
2. *Support access to business financing.* Since the grant is provided to support the entrepreneur rather than the business enterprise, it does not solve the start-up capital gaps of the company. Other financing schemes or bank loans need to be facilitated to complement this grant. Approximately half of the grant recipients also applied for finance from different sources, mostly from banks and Finnvera Plc, which is the state-owned risk financier. The financial needs of these start-ups are usually relatively modest as the businesses established with the support of the Start-up Grant often operate in service and retail industries.
3. *Define clear selection criteria.* On the one hand, evaluations indicate that the grant might be more important for those starting businesses from unemployment. On the other hand, companies started by people moving to self-employment from paid employment have greater turnover and potential for employment creation. Their survival rates are also higher. Thus, when transferring this experience to another context, the objectives (i.e. social vs. economic) need to be clearly defined so that the appropriate mix of recipients is selected and the deadweight costs are minimised.

4. *Involve the private sector in selection.* Using private sector expertise in the selection process can lead to better outcomes because they are likely have more expertise than the public sector in evaluating business proposals. It is important to select grant recipients who have a feasible business idea and a reasonable chance of success. It may even be damaging to provide the grant to those who are likely to fail because they may suffer personal financial losses and reduced self-confidence. For the unemployed population, this can increase their chances of social exclusion and falling into poverty.
5. *Have reasonable expectations.* The Start-up Grant is not likely to create highly innovative and growth-oriented companies. However, this does not diminish the value of such a scheme, which has contributed to a high number of new companies and new employment both in terms of self-employment and new jobs created in the start-up companies.
6. *Promote widely.* The Start-up Grant was able to achieve a sustained high take-up by promoting itself widely on many public websites and through public employment services.

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