

# The micro-finance and self-employment environment for the socially excluded

## Country report Sweden

### Introduction



GDP growth 2004	2.4%
Size of informal sector as % of GDP	19.0%
% of self-employed/active population	4.7%
Unemployment rate 2003	5.6%
LT unemployed as % of unemployment rate 2003	17.9%
Risk of poverty, % of total population	9.0%
Risk of poverty as % of unemployed	24.0%
Risk of poverty as % of self-employed	19.0%
National proportion of Nascent Entrepreneurs	2.03%

Key data Sweden. Source: Eurostat and GEM Report

Sweden is a constitutional monarchy with approximately 8.9 million inhabitants. It has a central government and 21 counties. As the main sources in the desk and field research came from organisations that reside in Stockholm, the outcome of this study should be seen in this light. It is recommended that more attention be given to the regional settings in follow-up studies.

### Who are the socially excluded?

In Sweden approximately 800,000 persons live under the **poverty line**. This is 9 per cent of the total population, which is relatively low compared to the average in the EU (15 per cent).

The socially excluded consist of different vulnerable groups of which the homeless and drug addicted are the most disadvantaged. Large categories that are threatened by poverty are e.g. single-parent families, young people, old people and immigrants.

**Unemployment** is one of the main causes for people at risk of poverty or social exclusion. Around 25 per cent of the people with a low income are unemployed. The unemployment rate increased up to almost 6 per cent in 2004, with almost 18 per cent of these long-term unemployed. A large group in Sweden among the self-employed is at risk of poverty: 25 per cent of the low-income earners are self-employed. The large group of self-employed in the agricultural sector could explain this.

**Immigrants** have more difficulties finding a job. The employment rate among those born outside Europe is 54 per cent compared to 70 per cent among the Swedish.

## Entrepreneurial context

Rate: 3.0

After a period of strong economic growth at the end of the 1990s and beginning of 2000, Sweden's economy is now declining due to the uncertain international situation. The unemployment rate has increased.

Sweden has an entrepreneurial context that is mainly focused on **large companies**. People prefer **waged employment**. The development and support of small enterprises is in an initial phase. During the last few years start-ups have become an issue.

More than 99 per cent of all private enterprises in Sweden are SMEs of which 71 per cent are solo entrepreneurs. More than 90 per cent of the businesses were set up out of opportunity. Compared to other (European) countries the proportion of entrepreneurs in society is below average: the proportion of nascent entrepreneurs is 2.03 per cent (Global Entrepreneurship rate = 5.34-per cent).

The average age of the self-employed is 46 years, compared to 41 years for those in waged employment; 30.7 per cent of the self-employed are female vs. 47.8 per cent in waged employment.

**Immigrants** are over-represented in self-employment compared to waged employment, especially in the retailing and restaurant sector; 13.8 per cent of the self-employed and 9.7 per cent of all employed are foreign born. They are younger and have a higher educational level than the native self-employed.

There has been a rapid increase in the supply of entrepreneurship courses and programmes at universities and schools. Entrepreneurship has gained acceptance among public authorities, which is necessary when overcoming cultural barriers in attitude towards entrepreneurship.

## Policy for micro-enterprises

Rate: 2.5

The general complaint in interviews is that there are too many complicated administrative and tax procedures for micro-enterprises, which makes it very cumbersome to start and run a small business. For ethnic entrepreneurs the registration process is even more complicated to understand.

There are two organisations that work nationwide, NUTEK and ALMI. They provide business support to start-ups and established businesses. There is a *Startlinjen* (Start-up line): an internet-service where start-ups can find all the relevant information needed to start a business. *Starta eget bidrag* (start-up grants) are intended for job seekers who start their own business. The grant is intended to supplement the business owner's living expenses during the start-up period and will be provided if the business is deemed likely to be financially viable and provide lasting employment for the job seeker. The target group is unemployed individuals, people at risk of losing their jobs and people living in regional development areas.

There are no special micro-credit programmes in Sweden. The impression from interviews is that there isn't a current debate concerning micro-credit. Beside banks, ALMI is the only (public-funded) company providing loans to established companies and start-ups, complementary to commercial loans.

The commercial banks do not show much interest in small and micro-enterprises. The attention given to small and micro-enterprises also differs per region. For example it is very difficult to get loans in the north because of the problem of collateral. For that reason a new initiative, a Credit Guarantee Association (in Västerbotten), is about to start. The seed capital of the members' contribution will be used as a guarantee for commercial banks.

In the **National Action Plan against Poverty and Social Exclusion 2003–2005**, the promotion of starting a business is mentioned in relation to the social economy (co-operatives, associations).

## Welfare bridge

Rate: 2.0

The inactivity trap (once unemployed you will stay in the social security) does exist in Sweden. Many people get stuck in the system due to sickness, unemployment and early retirement.

There are many labour market programs to activate people. Over the last few years the policy is more and more targeted towards sanctioning people when they don't fulfil their obligations. But still it is a problem to activate people. As one expert said: "The welfare system in Sweden (and the culture) is very much accustomed to 'care' for everybody."

Concerning the promotion of self-employment as a career, the main emphasis in employment policies lies on waged employment. For job seekers there are start-up grants (*Startlinjen*). People get their living expenses covered during the first six months of their start-up period.

The walls between the social, employment and financial systems are high. The financial sector does not show much interest in the issue of support to self-employment as a career for the unemployed. The instrument of micro-credit is non-existent in Sweden.

## Legal framework for micro-finance providers

Rate: 2.0

There is no specific framework for micro-finance providers. Banking activities can be carried out in the form of limited liability companies, savings banks or co-operative banks. The financial services of ALMI (complementary loans to small enterprises) are under direct government control.

## Financial bridge for the socially excluded

Rate: 1.5

The banking sector does not have a policy for small and micro-enterprises. From interviews the general impression is that it is very difficult for start-ups to get a loan without collateral. The underlying reason for not lending to socially excluded can be summarised as follows: It is difficult for them to get a loan from banks. Not only because they have no collateral but also because they have no history as an entrepreneur. This shows the prejudice and misconception that the socially excluded don't have entrepreneurial experience.

Many mergers in the 1980s and 1990s have resulted in the existence of four large banks, which have more than 80 per cent of the total assets on the banking market. In addition, there are a number of co-operatives, savings banks and foreign banks. The density of branches is low but Internet banking is very common in Sweden. There are no partnerships between banks and micro-finance institutions (they don't exist). ALMI co-operates with (local) banks because they give complementary loans to commercial loans.

## Funding for micro-credit providers

Rate: 1.5

In Sweden there are many subsidies and funds available for all kind of NGOs and programmes funded by the central and local government and the European Union. However, in relation to self-employment and micro-finance there is no policy and no debate on this issue. Most programmes have a bias towards waged employment. In addition, from interviews it became clear that the total finance for social and employment programmes is decreasing due to the economic situation.

## Final scoring

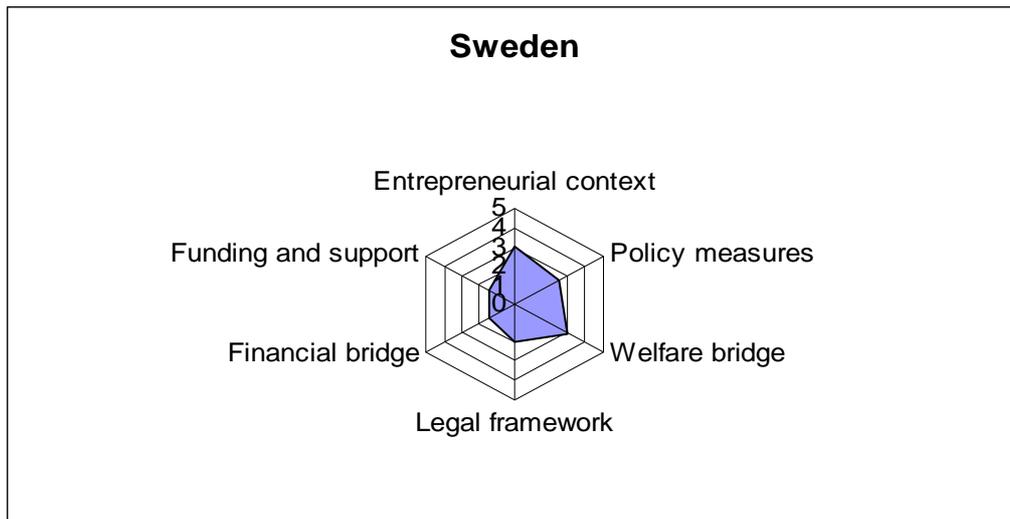


Figure 28: Final scoring of Sweden

The results of the six dimensions on the environment of micro-finance and self-employment for the socially excluded, show that although there are many initiatives to activate the socially excluded there is no clear policy for self-employment and micro-finance as instruments for the unemployed and socially excluded. Apart from two organisations that are active at national level, self-employment and micro-finance is not an issue. In addition, the three systems (financial, employment and social) do not actively co-operate.

The main bottleneck in Sweden seems to be the administrative procedures, bureaucracy and taxes upon establishing a business. On the one hand people are encouraged to start a business, on the other hand the business environment is unfavourable for the small business sector.

## Lessons learned

Here, we make the distinction between:

- The tools, practical examples and dimensions that Sweden can bring in as an example for the other European countries
- The tools, practical examples and dimensions from other European countries that might be useful for Sweden.

The lessons learned from Sweden:

- It is important not only to develop policy measures to support micro-enterprises but also to create an environment that is small-business minded in terms of entrepreneurial context, legal framework, tax system and co-operation between the different systems.

The lessons from other European countries that might be useful for Sweden:

- In the field of micro-finance and co-operation of the three systems (financial, employment and social) a debate on micro-credit and the role to be played by banks, savings banks, welfare and employment institutions should be very helpful.

## Sources

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