

# **Evidence Synthesis of the Flexi-wage Expansion evaluations**

November 2024

## **Author**

Aimee Walker, Senior Research and Evaluation Analyst, Insights MSD

Purvai Gupta, Research and Evaluation Analyst, Insights MSD

## **Acknowledgements**

We would like to thank the following people for their contributions and comments in preparing this report: Marc de Boer, Sophia Riley, Moira McConnell, Kiri Saul, Amy Richardson, Mary-Anne Bing, and Aaron Orr.

## **Report disclaimer**

The views and interpretations in this report are those of authors and are not the official position of the Ministry of Social Development.

## **Creative Commons**

This work is licensed under the Creative Commons Attribution 3.0 New Zealand licence. In essence, you are free to copy, distribute and adapt the work, as long as you attribute the work to the Crown and abide by the other licence terms. To view a copy of this licence, visit [creativecommons.org/licenses/by/3.0/nz/](https://creativecommons.org/licenses/by/3.0/nz/). Please note that no departmental or governmental emblem, logo or Coat of Arms may be used in any way which infringes any provision of the Flags, Emblems, and Names Protection Act 1981. Attribution to the Crown should be in written form and not be reproduction of any such emblem, logo or Coat of Arms.

## **Published**

Ministry of Social Development PO Box 1556 Wellington [www.msd.govt.nz](http://www.msd.govt.nz)

May 2025

**ISBN:** 978-1-99-110586-8

# Contents

Executive Summary.....	4
Key Findings .....	5
Introduction .....	8
Method .....	10
Findings .....	12
Participation and Effectiveness .....	12
Challenges with Implementation.....	15
Learnings & Recommendations .....	20
Appendix 1: Key Evaluation Questions .....	22
Appendix 2: How the key evaluation questions were answered .....	25

## Executive Summary

Flexi-wage is a suite of job placement programmes that help people into work via a wage subsidy that is provided to either employers as a hiring subsidy or directly to people who are pursuing self-employment. The hiring subsidy works by providing employers with a wage subsidy to employ and train job seekers who do not currently meet the entry requirements of a role, while the self-employment wage subsidy reduces the financial barriers associated with starting a business.

Prior to the COVID-19 pandemic, the Flexi-wage suite included a range of different programmes depending on the type of employment participants were being subsidised for. In 2021, the Flexi-wage suite was streamlined into two programmes: the Flexi-wage subsidy (FWE) and Flexi-wage Self Employment (FWSE). As part of the Government's COVID-19 economic recovery plan, the eligibility criteria and funding for FWE and FWSE were expanded in anticipation of high rates of unemployment resulting from the pandemic. In addition to people who were at risk of long-term benefit receipt, the expansion eligibility criteria included people who were identified as disadvantaged in the labour market. In terms of funding, the programmes received an additional \$300 million (of which \$30 million was 'ring-fenced' for FWSE) for the 2021-2023 period.

To understand the effectiveness of the expansion and its implementation, quantitative impact analyses and qualitative evaluations of FWE and FWSE were conducted in 2023-2024:

- Quantitative impact analyses of FWE and FWSE were conducted by the Ministry of Social Development (MSD) using Statistics New Zealand's Integrated Data Infrastructure. This type of analysis evaluates the impact of a programme by examining participants' outcomes and comparing them with a counterfactual group.<sup>1</sup> Comparisons between the impact of the programme pre- and post-expansion were also conducted in order to understand if the changes of the expansion impacted the effectiveness of the programme.
- Qualitative evaluations of FWE and FWSE were conducted on behalf of MSD by GravitasOPG to examine the implementation process. To do this, a mixed-method case study approach was adopted, and involved participant interviews, surveying, and document analysis.

This report used document analysis to synthesise the headline findings from the four resulting evaluation reports. Document analysis uses texts (in this case, reports) to draw out central themes, narratives, and understanding, enabling the overall key learnings about the Flexi-wage expansion to be summarised.

---

<sup>1</sup> A counterfactual group is made up of people with similar characteristics to programme participants who, in this case, did not take part in FWE or FWSE. By comparing the outcomes of the two groups, we can understand what the likely impact of the programme was on participant outcomes.

## Key Findings

### **The expansion increased access to both programmes for individuals closer to the labour market, which may have limited the impact on participant outcomes.**

The expansion of FWE increased the average number of participants per year from 6,500 to 11,000 and increased the proportion of those not on any main benefit before starting the programme (18 percent to 30 percent).

The quantitative impact analysis of the expansion of FWE showed that the programme remained effective when targeted at subgroups similar to pre-expansion settings (i.e., participants on a main benefit and being at risk of long-term benefit receipt). However, the programme was less effective when targeting the expanded set of eligible participants, who were not on a main benefit and potentially closer to the labour market.

The qualitative evaluation of FWE found evidence that some employers received the subsidy for employees they would have hired without the subsidy, suggesting that the expansion suffered from deadweight loss. This provides some explanation for the lack of observed impact on outcomes for this cohort as compared with those who participated in FWE pre-expansion.

The expansion of FWSE increased the average number of participants per year from 198 to 535. While the proportion of participants not in any employment before starting FWSE increased (46 percent to 58 percent), most participants (both pre- and post-expansion) had spent at least 60 percent of their adult lives in New Zealand in employment. This suggests that most FWSE participants have some employment history and are therefore closer to the labour market.

Further, the qualitative evaluation of FWSE noted that the profiles of individuals most likely to sustain a business (e.g., those with relevant work experience) did not match the profiles of individuals eligible to participate in FWSE (those who are disadvantaged in the labour market and at risk of long-term benefit receipt).

### **The expansion of FWE was effective at improving employment and income outcomes for participants, although these were not significantly different to those observed pre-expansion.**

Participants who enrolled in FWE after the expansion spent an additional 21 weeks in employment compared to the counterfactual group one year after enrolling in the programme.

Pre-expansion participants similarly remained in employment almost one year longer than the counterfactual group over a four-year period. The Flexi-wage subsidy (pre-expansion) had the largest four-year cumulative impact on improving employment and income outcomes when compared with other hiring subsidies administered by MSD.<sup>2</sup>

---

<sup>2</sup> It is worth noting that the impact of factors such as deadweight loss and substitution effect are not accounted for in the impact analyses as they are difficult to estimate. International literature suggests that these effects can be substantial and means that the impact analysis results overstate the effectiveness of the Flexi-wage subsidy on impacting overall employment.

### **The expansion of FWSE increased time spent in employment and net income, but participants were unlikely to sustain self-employment.**

Impact analysis of FWSE (post-expansion) suggested that the programme was effective in increasing time spent in self-employment, time spent in any employment, and net income received from all sources for participants 0.5 years after starting the programme.

However, short-term outcome trends for post-expansion participants indicate that FWSE was unlikely to achieve higher rates of self-employment. This is in line with analysis of the pre-expansion programme, which found that very few participants were able to sustain and earn an income from their business.

### **There were several challenges associated with the implementation of the expanded programmes.**

Qualitative evaluation findings identified that the implementation of the expanded programmes varied across regions and were affected by some overarching issues. In part this was attributed to the rapid launch of the expansion in anticipation of an economic downturn resulting from the COVID-19 pandemic, which meant that there was not enough time for the changes to the programmes to 'settle in'. For both FWE and FWSE, the interpretation of the changes to the eligibility criteria was inconsistent, resulting in discrepancies in promotion and allocation of subsidies. For FWSE specifically, there were also inconsistencies in business plan support and approvals and a reliance on staff with 'specialist' skills.

Some regions also felt pressure to spend the additional funds, which may have resulted in the referral of clients who were not well-suited for the programmes.

### **Key information was not always clearly communicated to programme participants.**

The qualitative evaluations found evidence of knowledge gaps about critical details for both FWE and FWSE participants, which indicated an issue of poor communication between MSD staff and programme participants.

Many employers hiring subsidised employees through FWE were not aware of additional supports they could access to support the skill development of their FWE employee. Some employers were unaware that the employee they hired through FWE would not meet entry-level requirements for the role and that they would need to support the employee to upskill and gain experience. This potentially contributed to a mismatch of participating employees and employers within the FWE expansion.

For FWSE, there was evidence that expansion participants lacked a baseline set of business knowledge and skills. While participants have access to additional funds via the Business, Training and Advice Grant (BTAG) to support them with skills development, the evaluation found that these funds were almost always exhausted on support to develop a business plan, with very little available for ongoing business mentoring. As a result, some FWSE participants were not aware of, nor prepared for, the tax obligation associated with receiving the subsidy. This resulted in unexpected bills at the end of the financial year.

**Changes to the expanded programmes are recommended to ensure they are implemented as intended.**

As the expansion of the Flexi-wage programmes increased participation of individuals who were relatively closer to the labour market, the qualitative evaluations recommended changes to the programmes to ensure greater alignment with the target cohort and improved implementation of the services. Increased participation of individuals closer to the labour market means that there is a greater representation of individuals who would have had statistically similar outcomes had they not participated in Flexi-wage, making the size of the impact on this subgroup smaller. Both domestic and international evidence suggests that wage subsidies have greater impacts on people who are long-term unemployed or receiving a benefit for over four years.

Evidence suggests that clearer internal communications and guidelines regarding FWE are recommended. The qualitative evaluation highlights that this would be an effective strategy for reducing knowledge gaps for programme participants and would thereby lower the extent of deadweight loss which resulted from the misinterpretation of the purpose of the subsidy.

In terms of FWSE, the evaluations recommended more substantive changes to the scope and scale of the programme, to better match the realities of MSD's client base. Some of the core challenges associated with the programme's expansion (e.g., inconsistent interpretations of the programme and definitions, varied implementation across regions, and dependence on staff with 'specialist' skills) were evident in the programme's predecessor (Enterprise Allowance) indicating a consistent issue for self-employment programmes.

## Introduction

Flexi-wage refers to a suite of job placement programmes with a wage subsidy for the participants. Historically, it included several smaller programmes depending on the type of employment the participants were being subsidised for, including a hiring subsidy to employers (Flexi-wage Subsidy) and a self-employment wage subsidy (Flexi-wage Self Employment). Flexi-wage Subsidy (FWE) and Flexi-wage Self-employment (FWSE) assist those who are at risk of long-term benefit receipt or otherwise disadvantaged in the labour market to find sustained employment. These wage subsidies operate by either incentivising employers to employ and train job seekers who do not currently meet entry-level job requirements (FWE) or by reducing the financial barriers associated with moving into self-employment (FWSE).

In order to facilitate wraparound support for the participants of the programmes, both FWE and FWSE have some additional components:

- As part of FWE, employers who hire FWE participants can access in-work assistance and additional training assistance to facilitate support and upskilling opportunities for the participants.
- FWSE is intended to be packaged with the Self-Employment Start-Up Grant<sup>3</sup> and the Business, Training and Advice Grant (BTAG).<sup>4</sup>

In 2021, several changes were made to the Flexi-wage suite of programmes. As part of those changes, the smaller programmes within the Flexi-wage suite were merged into two main components – Flexi-wage Subsidy (FWE) and Flexi-wage Self-employment (FWSE). At the same time, the Government expanded Flexi-wage and made the following changes in anticipation of an economic downturn resulting from the COVID-19 pandemic:

- Narrowing the suite of Flexi-wage programmes to just two programmes: the Flexi-wage subsidy (FWE) and Flexi-wage Self Employment (FWSE).
- Broadening the eligibility criteria to include those who are assessed as 'disadvantaged in the labour market', which includes people who are not necessarily at risk of long-term benefit receipt or receiving a main benefit.
- Increasing the funding for the programmes by an additional \$300 million, of which \$30 million was 'ring-fenced' for FWSE.

### **The expansion introduced set payment bands which reflected the expanded eligibility criteria for FWE.**

As part of the expansion, the average subsidy level increased from \$4,594<sup>5</sup> to \$7,500, with support capped at \$22,000. Three set payment bands were also implemented, which were designed for people working full-time (30 hours or more) with the option to

---

<sup>3</sup> The Self-Employment Start-Up Grant is a lump sum payment or payments of up to \$10,000 to cover essential business start-up costs.

<sup>4</sup> BTAG is intended to fund coaching to help applicants develop a business plan, vetting the business plan, and post-approval business mentoring.

<sup>5</sup> In the 2019/20 financial year. Retrieved from: [Expansion of the Flexi-Wage Scheme - Ministry of Social Development \(msd.govt.nz\)](https://www.msd.govt.nz/about-us/news-and-media/news-releases/2020/04/expansion-of-the-flexi-wage-scheme/)



be paid pro rata for participants working part time. A breakdown of these payment bands and their criteria is defined below<sup>6</sup>:

<b>Band 1</b>	people disadvantaged in the labour market	\$276 per week for 24 weeks (a total of \$6,624)
<b>Band 2</b>	people at-risk of long-term benefit receipt	\$276 per week for 36 weeks (a total of \$9,936)
<b>Band 3</b>	people at-risk of long-term benefit receipt and disadvantaged in the labour market (with/without specific employment needs)	discretionary rate up to a total of \$22,000

**The expansion standardised the payment rate for FWSE and increased the maximum BTAG grant amount.**

The expansion set the rate of the FWSE subsidy to the equivalent of 30 hours per week at the (then current) minimum wage, or \$600 per week over 28 weeks, or \$16,800 total (GST inclusive). Previously, the FWSE subsidy was paid at a discretionary rate and duration, which meant that clients were uncertain about the level of support they would receive and also complicated the process for staff.

In addition, monthly subsidy claims were changed so that they were paid in advance, rather than arrears, and the maximum BTAG grant available in any 52-week period was increased from \$1,000 to \$5,000.

<sup>6</sup> Note that on the 5th of February 2024, these bands were adjusted as follows: - Band 1 a maximum of \$5,638.68 over 24 weeks - Band 2 a maximum of \$11,277.36 over 36 weeks - Band 3 up to \$22,000 in a 52 week period. These changes reflect that an employer is likely to require a greater investment of time and resource when supporting people further from the labour market (Band 2), compared to people who are disadvantaged in the labour market (Band 1).

## Method

### **The expansion of the Flexi-wage programmes was evaluated in 2023/24.**

Evaluations of both the Flexi-wage Subsidy expansion (FWE) and Flexi-wage Self-Employment (FWSE) were undertaken in 2023/24 to understand the effectiveness and impact of the expansion of the programmes.

Quantitative impact analysis of the programmes was conducted by MSD using Statistics New Zealand's Integrated Data Infrastructure.<sup>7</sup> The impact analyses evaluate the impact of the programmes on the participants' outcomes pre- and post- expansion and compares them with a counterfactual group.<sup>8</sup>

The qualitative evaluation of FWE and FWSE involved a mixed-method case study approach utilising participant interviews, surveying, and document analysis, and was conducted by GravitasOPG.<sup>9</sup> Given the difference in the nature of the programmes, a separate report was produced for each programme, which resulted in four reports in total:

1. GravitasOPG (2023a). Evaluation of the Flexi-Wage Subsidy Expansion Product: Evaluation Report. Ministry of Social Development. Wellington.
2. GravitasOPG (2023b). Evaluation of the Flexi-Wage Self-Employment Product: Evaluation Report. Ministry of Social Development. Wellington.
3. de Boer, M. (2024a). The effectiveness of Flexi-wage Expansion. Ministry of Social Development. Wellington.
4. de Boer, M. (2024b). The effectiveness of the Flexi-wage Self-employment programme. Ministry of Social Development. Wellington.

As the evaluation reports focus on the findings for each programme separately, the purpose of this evidence synthesis is to explore the headline findings from the expansion as a whole. Using a qualitative document analysis approach, the above reports were analysed to draw out central themes and learnings, to inform an overall narrative about the Flexi-wage expansion. Thus, this report adopts a narrative approach to its structure, by exploring the key successes, challenges, learnings, and recommendations of the expansion, rather than responding to each key evaluation question independently. Please see Appendix 1 for a summary of the key evaluation questions and Appendix 2 for reference as to how these were answered by the respective reports.

### **Findings from the evaluations were triangulated to draw robust conclusions, but there are limitations associated with each evaluation approach.**

There were limitations associated with both the qualitative and quantitative evaluations, which affects the scope of the findings. While the key limitations are discussed in brief

---

<sup>7</sup> For a more detailed discussion of the methods used in the quantitative evaluations, see pages 46-67 of de Boer (2024a) and 47-69 of de Boer (2024b).

<sup>8</sup> A counterfactual group is made up of people with similar characteristics to programme participants who, in this case, did not take part in FWE or FWSE. By comparing the outcomes of the two groups, we are able to understand what the likely impact was of the programme on participant outcomes.

<sup>9</sup> For a more detailed discussion of the methods used in the qualitative evaluations, see pages 53-60 of GravitasOPG (2023a) and pages 42-47 of GravitasOPG (2023b).

below, a more fulsome discussion can be found in the respective methodology sections of each report (refer to footnotes 9 and 11 for details as to how to find these).

#### *Qualitative evaluation limitations*

Due to constraints on the scope and budget as well as privacy concerns, the qualitative evaluation of FWE was not able to collect data or interview participants employed under the subsidy. Instead, the qualitative evaluation drew upon the perspectives of employers, Work Brokers, and MSD staff to fill information gaps.

Similarly, FWSE recipients who participated in the evaluation chose to take part and were not randomly selected. This recruitment method has the potential to skew the data via self-selection bias, as people who had a particularly positive or negative experience may have been more inclined to take part.

Additionally, ethnicity data was not available for either FWE employers or FWSE subsidy recipients, which meant that Māori and Pacific participants could not be purposively sampled in a safe and ethical way.<sup>10</sup> For this reason, the numbers of Māori and Pacific participants included in the evaluation were lower than intended in the project plan. Consequently, the evaluation was not able to extrapolate findings on the short-term outcomes for Māori and Pacific participants.

#### *Quantitative impact analyses limitations*

The quantitative impact analyses address some of the limitations of the qualitative evaluations, by examining the statistical impact of FWE and FWSE on participant outcomes. While this goes some way to understanding the impact on Māori and Pacific participant outcomes for both programmes and for FWE employees specifically, it does not provide insight into participant experience, nor other unobserved factors such as motivation.

Further, there are limitations to the quantitative impact analysis method itself. Namely, the underlying assumption of the analysis is that in addition to the participant and counterfactual group sharing similar observed characteristics, we assume that they also share similarities in unobserved characteristics. While we aim to mitigate this by including a diverse range of observed characteristics<sup>11</sup> to generate a counterfactual group, the risk remains that differences in unobserved characteristics exist and are impactful.

By design, impact is analysed in two-year increments. This enables us to show short-term (0.5-2 years) and medium-term (4 and 6 years) impacts. Where possible, medium-term outcomes are reported, however only short-term outcomes were possible for the expansion period.

---

<sup>10</sup> The evaluation team felt that it would be unethical to ask participant ethnicity during recruitment and then deny the participant the opportunity to participate if they were not Māori or Pacific.

<sup>11</sup> These characteristics include demographic information, location, labour market conditions, socio-economic history, government service use, etc. Would be good to include the full range of characteristics here if possible.

# Findings

## Participation and Effectiveness

### **The expansion increased access to both the Flexi-wage subsidy and Flexi-wage Self Employment.**

The qualitative evaluation of the Flexi-wage subsidy (FWE) found that the changes to the eligibility and increased funding resulted in higher rates of contract approvals compared to pre-expansion. Analysis of reporting dashboards showed that prior to expansion, there were an average of 6,500 starts each year, which increased to 11,000 per year during the expansion period. Despite this, uptake remained around one-third less than budget allowed for, which appeared to be because the predicted high unemployment rates did not eventuate.

Similarly, changes to Flexi-wage Self Employment (FWSE) in 2021 led to an increase in participation in the programme compared to pre-expansion, from an average of 198 participants per year to an average of 535 participants per year. However, unlike FWE, the qualitative evaluation of FWSE showed that there was also a high attrition rate through the application process, due to the time and effort required by clients.<sup>12</sup>

### **The increased participation in FWE was mainly from people not receiving a main benefit.**

The Flexi-wage Subsidy expansion (FWE) saw an increase in the proportion of participants who were not on any main benefit before starting the programme (18 percent to 30 percent). This corresponded with a reduction in the proportions of participants on Sole Parent Support (13 percent to 6 percent), Jobseeker Work-Ready (57 percent to 52 percent), and on benefit for less than three months (29 percent to 21 percent) before enrolling in FWE. These changes suggest that FWE shifted away from primarily supporting people who were on a benefit into work.

The distribution of participants by ethnicity, did not change much except a minor decrease (less than 5 percent) in the proportion of European/Pākehā which corresponded with a minor increase in the proportion of Māori and Pacific participants post expansion.

### **The expansion changed the composition of FWSE participants, by increasing the participation of people who identified as Pacific and Māori and those who were not employed before starting the programme.**

Impact analysis showed that during the expansion period the composition of FWSE participants also changed. This included an increase in the proportion of people who identified as Pacific (9 percent to 14 percent) and Māori (24 percent to 27 percent), and reduction in people who identified as European (76 percent to 68 percent).

There was also a similar increase in the proportion of participants who were not on any main benefit before starting FWSE (9 percent to 12 percent) and an increase in the proportion of participants who were not employed before starting FWSE (46 percent to 58 percent).

---

<sup>12</sup> Attrition was not necessarily perceived as a negative outcome by interviewed staff, as it helped identify and remove clients that were not well-suited to self-employment early in the process.

However, the majority of participants (51 percent), both pre- and post-expansion, spent at least 60 percent of their adult lives in New Zealand employment. This indicated that the increased number of participants who were not in work prior to starting FWSE (post-expansion), were likely to be individuals closer to the labour market with prior work experience.

**The expansion introduced a higher cost per participant for both programmes.**

Impact Analysis showed that the cost of FWE increased from an average of \$4,729 per participant (2012-2020), to an average of \$6,767 during the expansion period (2021-2023).

Between 2012-2020, the average cost per participant start for FWSE was \$9,455, which increased to \$24,515 during the expansion period.

**The Flexi-wage subsidy remained effective at improving employment and income outcomes during the expansion period, but this was not an improvement upon pre-expansion effectiveness.**

To understand the effectiveness of the expansion, the impact analysis compared participant outcomes pre- and post-expansion for both programmes. The evaluation found that the Flexi-wage subsidy (FWE) pre-expansion was effective in improving employment and income outcomes. In fact, when compared to some of the other hiring wage subsidies<sup>13,14</sup> administered by MSD, Flexi-wage has shown the largest four-year cumulative impact on employment and income. For those who started in 2016, over a four-year period participants spent an additional  $51.0 \pm 3.90$  weeks in employment as well as earning an additional  $\$21,133 \pm \$3,919$  in income from all sources.<sup>15</sup>

Although the impact analysis cannot yet evaluate the FWE post-expansion participant outcomes over a four year period, evaluation showed improved employment and income outcomes one year after starting the programme. For those who started during the expansion period (2021 – 2023), participants spent an additional  $21 \pm 1$  weeks in employment and earned an additional net income of  $\$8,383 \pm \$929$  from all sources. These findings are supported by the survey of FWE employers conducted as part of the qualitative evaluation, which found that 59 percent of surveyed employers had retained all or most of their FWE staff a month after the final subsidy payment, and 63 percent reported that none of their FWE employees had returned to benefit a month after the conclusion of the subsidy.

The impact of the programme on the time spent in employment was similar across different ethnicities and age groups. However, the impact of time spent in employment for people not on a main benefit was significantly lower at approximately 11 additional weeks, reiterating that the outcomes of the participants that are not on a main benefit are closer to their counterfactual group when compared to the other participants.

The quantitative impact analysis of FWE showed that while the programme remained effective in the short-term post-expansion where targeted at subgroups similar to pre-

---

<sup>13</sup> Regional Wage Subsidy (2001-2004), Job Plus (2001-2008) and Skills Investment (2009-2012).

<sup>14</sup> Note that because alternative hiring subsidy programmes operated at different periods, we cannot rule out the possibility that these differences are a result of differences in wider policy or labour market settings rather than through better programme design.

<sup>15</sup> this includes earnings as well as transfer payments (e.g., income support payments).

expansion settings, it did not make substantive improvements on its impact when compared to expanded set of participants who were potentially closer to the labour market. This means that despite being an effective programme overall, the increased investment in the longer duration and higher cost-per-participant did not improve the subsidy's effectiveness. Instead, the changes introduced in 2021 may have made FWE less cost-effective than it was during the pre-expansion period.

These findings imply that the broader targeting utilised during the expansion did not increase the effectiveness of the programme. The expanded eligibility criteria increased participation from participants who were closer to the labour market with fewer barriers to employment. The outcomes of these participants did not significantly differ from non-participants with similar individual characteristics, which resulted in the impact of the programme on their outcomes being significantly lower than the impact on other participants.

**The expansion of Flexi-wage Self Employment increased time spent in employment and net income, but the rate of sustained self-employment was low.**

Similar to FWE, the impact analysis of Flexi-wage Self Employment (FWSE) pre-expansion showed that for participants who started between 2013 and 2016, the programme was effective in increasing time spent in self-employment (an additional  $50.0 \pm 8.10$  weeks), any employment at all (an additional  $26.0 \pm 11.0$  weeks) and income (an additional  $\$13,042 \pm \$12,180$  in total) over a four-year period after starting the programme.

The impact analysis for the expansion period (2021 – 2024) cannot yet evaluate for impact after four years of starting the programme but the analysis shows that the short-term outcome trends were similar for pre- and post-expansion participants.<sup>16</sup> Half a year after starting the programme the post-expansion FWSE participants:

- Spent an additional  $8.70 \pm 1$  weeks in self-employment or business partnership.
- Spent an additional  $6 \pm 1.30$  weeks in any employment.
- Earned an additional net income of  $\$24,225 \pm \$2,095$  from all sources.

However, the high impact on income was largely attributable to the payments participants received, and findings suggest that participants' income from employment was lower than the comparison group. The high variance in income (e.g.,  $\pm \$12,180$ ) indicates that very few FWSE participants earned an income from their business, and that the rate of sustained employment was low.

Further analysis indicated that the expansion of FWSE had not achieved higher rates of self-employment over the short term, which echoes outcomes of previous cohorts. For example, only one-third ( $33 \pm 4.0$  percent) of 2013-2016 participants were still in self-employment at one year after starting FWSE. This proportion fell to one-fifth ( $20 \pm 3.0$  percent) after six years. The trend was similar when looking at more recent participants, with no evidence to date showing that participants who started during the expansion phase were more likely to be in self-employment than those who started before 2020.

---

<sup>16</sup> Subgroup impact analysis was not conducted on FWSE as the overall participant numbers were too small.

## **Findings suggest that programmes like FWSE are not well-suited for people who face multiple challenges in the labour market.**

The qualitative evaluation found that pre-existing characteristics required to successfully run your business do not often overlap with the characteristics of the people eligible to participate in FWSE. Instead, the participants who were able to successfully sustain their business beyond the subsidy were most likely to have fewer challenges in the labour market, relevant work experience (including business management and strong networks) and were less likely to be at risk of long-term benefit receipt.

It is worth acknowledging that self-employment is a difficult employment path. International and national evidence shows that most start-up businesses fail within the first year, and require significant time, energy, and often financial investment from entrepreneurs before they are profitable. Emphasizing that business closure is not solely a reflection of a business owner's abilities, but rather a culmination of factors within and outside of their control. Further, international reviews of the programmes which support unemployed people to start their own businesses have shown that these programmes work for a specific group of job seekers, mainly those who are better educated and older. However, as stakeholders suggested, the experience of business failure can be internalised, and have wide reaching impacts on people's confidence and belief in their ability to succeed.

Additionally, FWSE is a complex product that has many dependencies, such as:

- the kind of support received,
- whether business plans accounted for all potential liabilities,
- whether all obligations (e.g., tax at the end of the year) were communicated, and
- whether coaching was feasible and accessible through BTAG and the quality of mentorship received.

Combined, these dependencies (alongside real-world factors) affect FWSE participants' ability to sustain their business beyond the programme duration. The success or failure of participants' businesses is likely to have significant impact on their mental and emotional wellbeing in addition to potential impacts on their skills, resources, and employability. For participants that most closely match the eligibility of the service, failure of a business can result in potentially worse outcomes across multiple domains.

Overall, these findings support stakeholder concerns that programmes such as FWSE are not well-suited for people who face multiple challenges in the labour market and are more at risk of long-term benefit receipt.

## **Challenges with Implementation**

The qualitative evaluation identified challenges associated with the scaling up of the Flexi-wage subsidy (FWE) and Flexi-wage Self Employment (FWSE), which may have affected the overall impact of the expansion.

The detailed design for the expansion was signed off in January 2021, just one month before it was launched in February 2021. This rapid implementation was a product of the Government's desire to respond to an anticipated economic downturn associated with the COVID-19 pandemic. However, the rapid response also drastically reduced the time available for the communication of targets, testing and refining of processes, and



development of implementation strategies at a regional level, and meant that there was no time to allow such fundamental changes to 'settle in'.

Additionally, there appeared to be pre-existing variances in the understanding and delivery of these programmes, which were likely amplified by the sudden changes and increased usage associated with the expansion.

**There were inconsistencies in the interpretation of FWE and the extent to which FWSE was promoted to clients varied across regions.**

Across both FWE and FWSE there were inconsistencies in implementation. For example, there was variance in the understanding of the purpose of FWE and the interpretation of its eligibility criteria among MSD staff. This included the terms 'disadvantaged in the labour market' and 'at risk of long-term benefit receipt'. As a result, there were inconsistencies in the allocation of subsidies and the use of payment bands between regions and staff members.

For FWSE, there were similar regional differences in implementation and the extent to which it was promoted and/or clients were encouraged to apply. Most interviewed FWSE recipients said that they found out about the programme via word of mouth.

Qualitative evidence suggests that FWSE is considered a complex, resource-intensive product, which meant that the implementation of the FWSE expansion relied heavily on experienced staff with 'specialist' skills. These challenges appear to be an ongoing issue for products of this type, as they were also key challenges for Enterprise Allowance (1985 – 2012), the programme that preceded FWSE.

**MSD staff and Work Brokers felt pressured to spend the additional funds.**

Qualitative findings revealed that MSD staff and work brokers felt pressure to use the increased funding for both programmes. While staff were appreciative of the increased funding, evidence suggests that there were inconsistent expectations around the usage of funds between National Office (which expected funds to only be spent on those who need it) and the regions (where informal monthly spending targets were set).

For FWE, this led to inconsistent identification of genuine disadvantage in the labour market, and genuine need for employer incentives. For FWSE, the specific ring-fencing of funds for FWSE signalled to staff that there was an expectation that the programme be used more.

Prior to the expansion, the overall Flexi-wage funding had been mostly used for the hiring subsidy, with very little used for the self-employment subsidy. Evidence suggests that this perceived expectation contributed to the higher level of FWSE referrals and subsidy usage for a broader range of clients during the expansion, which – alongside increased workloads for Work Brokers – resulted in lapses in due diligence. Such lapses resulted in the shepherding of clients through the application process who did not necessarily have a high likelihood of business success and sustaining self-employment. In this case, staff were concerned that this practice was unintentionally setting clients up for failure.



### **FWE employers and FWSE participants experienced gaps in their knowledge about the service they received, which worsened their experience.**

The qualitative evaluations included participant interviews and a survey which collected data on people's experiences with FWE and FWSE. GravititasOPG talked to a range of people including employers who hired FWE participants, FWSE recipients, and MSD staff. Their findings suggested that there were inconsistencies in how the service was experienced by different groups. In particular, FWE employers and FWSE recipients did not always have a complete understanding of all the relevant information relating to the service they received. These knowledge gaps were often attributed to a corresponding gap in awareness and training of frontline staff.

For example, while the majority (65 percent) of the FWE employers surveyed ( $N= 1094$ ) said that they had a better experience with FWE than expected, and 83 percent said they were likely to use it again, 17 percent said they were either undecided or unlikely to use FWE again. In-depth interviews with FWE employers ( $N= 37$ ) found that bad experiences were often due to mismatches between the employee, the role, and the employer's expectations.

Findings suggested that some employers were unaware that the intention of the programme was to support people who did not meet entry level requirements into work and were therefore unaware of (and unprepared for) the level of support they might need to provide to their FWE employees. This lack of awareness led to varied experiences and perceptions of the programme for all people involved, as FWE employers did not always have the systems in place to support FWE employees develop and build their skills.

### **The gap between the intention of the FWE policy and the understanding and usage of the subsidy by FWE employers was associated with some deadweight loss.**

There was an apparent gap between the policy intention of FWE and employers' understanding and subsequent usage of the FWE subsidy they received. For example, some interviewed employers were unsure why they were being subsidised, and used the FWE subsidy to employ a person they would have hired without the subsidy. Others said that they would never employ someone who did not meet the entry requirements for a role, describing the incentive in this case as 'short-term thinking'. Further, the survey of FWE employers found that:

- 39 percent would have hired the employee even if they hadn't come with FWE.
- 29 percent would **not** have hired the employee without FWE.
- Of those who would **not** have hired the employee without FWE, 49 percent would have hired someone else if the subsidy was not available.

These are examples of what is referred to as 'deadweight loss', which had been identified as a risk in the design of the expansion. Such risks are detrimental as they can mean that programmes unintentionally provide a competitive advantage to employers receiving subsidies and thereby increase the risk of displacement effect.<sup>17</sup> Evidence of high deadweight loss indicates that the employers may be taking on the subsidy as a profit.

---

<sup>17</sup> Displacement effect happens when an employer taking on a subsidised participant can undercut competing firms that result in lower employment among those firms.

The impact analysis notes that it is difficult to reliably estimate the size of these effects and the extent to which they offset any gains in employment and income for FWE participants. However, the qualitative evaluation suggests that while FWE allowed some businesses to grow faster than they would have otherwise, employers saw no sustained advantages over their competitors. Employers who contributed to the qualitative evaluation explained that this was because FWE was widely accessed within their industries, the payment value was limited, and that the subsidy's duration was relatively short.

**FWE employers felt that information relating to additional supports available for FWE contracts may have made the difference for their FWE employees.**

The qualitative evaluation highlighted several instances of insufficient communication and information provided to the participating stakeholders. For FWE, many employers noted that they were unaware of the additional supports that were available for FWE contracts, such as in-work assistance and additional training assistance (in the form of a grant/funding), which may have made the difference for their FWE employees in sustaining their employment.

There were also reported instances of the participating employer and employee not having met at all prior to the start of the placement, implying that the MSD staff did not facilitate enough communication between the participating stakeholders and possibly contributed to the mismatch of participating employee and employers to some extent.

These findings were supported by analysis of MSD data, which found that as of February 2023, 21 percent of the total FWE employees had finished their placements early, and of those, most (66 percent) withdrew from the programme themselves. These findings suggest that external barriers to work and/ or poor matching of employees to employers may be contributing to the moderate level of early exits.

**FWSE recipients received inconsistent information and support, which negatively impacted their experience with the service.**

Qualitative evaluation revealed similar findings for the expansion of Flexi-wage Self Employment (FWSE). For example, some details, such as that the subsidy was taxable, were not made clear to some participants. As a result, some FWSE recipients received an unexpectedly high tax bill at the end of the financial year that they were unprepared for.

Further, a requirement of FWSE is that applicants produce a business plan, for which applicants can be referred to a contracted BTAG provider<sup>18</sup> for help in developing. Evidence suggests that the support received via BTAG varies widely, from intensive, one-on-one business coaching and mentorship to a more light-touch approach to support via brief meetings. Yet, interviews with FWSE recipients identified that more intensive support was key to their business succeeding.

---

<sup>18</sup> BTAG providers are contracted up to a value of \$5,000 per applicant to support the development of a business plan that is likely to pass the independent vetting process.

**High administrative load on Work Brokers is a contributing factor for the observed gaps in information and communication associated with both programmes.**

Qualitative evaluation suggests that the examples of insufficient communication and significant information gaps appeared to be related to the high administrative load on Work Brokers delivering the programmes. For example, Work Brokers interviewed as part of the qualitative evaluation suggested that they spent a significant amount of their time and resource fielding enquiries from people who had been referred to FWSE but were not eligible for the programme.

Given that Work Brokers are employed at a regional level and are fewer in number when compared to Case Managers, it is possible that MSD may not have had enough resources to fully implement the expanded mandate. The qualitative evaluation highlighted that FWE and FWSE are very resource intensive programmes and often end up requiring heavy support and guidance from 'specialists'<sup>19</sup>.

---

<sup>19</sup> Specialists refers to staff that are experienced in delivering the FWE and FWSE programmes. This is not a formal role, rather an informal recognition of the expertise of individual staff.

## Learnings & Recommendations

The findings from the Flexi-wage evaluations point to some key learnings for MSD regarding the future of the Flexi-wage Subsidy (FWE) and Flexi-wage Self-Employment (FWSE) programmes, as well as any future expansion of supports and services delivered by the Ministry. The key takeaway from the evaluations is that both FWE and FWSE tend to be more effective for some subgroups over others and require careful consideration of how to target them to participants for whom they will be most effective.

This section summarizes the learnings and recommendations based on the findings from all four evaluation reports.<sup>20</sup> For a full list of the recommendations from the qualitative evaluation, see Chapter 6 in *Evaluation of the Flexi-wage Subsidy Expansion* and Chapter 8 in *Evaluation of the Flexi-wage Self-employment Product*.

**Findings suggest that clearer guidelines and communications for programmes like FWE would help better targeting participants for whom the programme is most effective.**

As part of scaling up FWE certain risks were identified, such as deadweight loss. The qualitative evaluation found that the short time frame between sign off on the detailed design and implementation of the expanded programmes did not leave enough time to test, refine, and establish consistent processes.

In particular, there was inconsistent interpretations regarding what was meant by 'disadvantaged in the labour market' which resulted in substantial variance in the allocation of programmes across regions and some deadweight loss. It was also noted that some FWE employers were unaware of their FWE employees needs and were unprepared to support them because of insufficient communication regarding the purpose of FWE and associated additional funding available for supporting participants to remain in employment and/or facilitate their career development.

The impact evaluation also found that while the overall programme was effective, it did not have a big impact on participants who were closer to the labour market. This was because their outcome projection did not differ much regardless of participating in FWE.

These learnings suggest that clearer guidelines and communications surrounding eligibility criteria and the purpose of FWE would be an effective strategy to reduce the inconsistency in the delivery of the programme, the application of its eligibility settings, and the apparent knowledge gaps for programme participants. These actions would also help better target the programme at participants for whom it is most effective.

**Findings suggest that a change in scope or scale is required to address the mismatch between the relevant skills needed to sustain a business and FWSE eligibility.**

Evidence suggests that in the absence of relevant skills and experience, participants with multiple challenges in the labour market relied heavily on the BTAG coaches for the development of their business plan. MSD regional staff noted in their interviews that

---

<sup>20</sup> Note that there have been amendments made to the programmes in early 2024 and they may already be contributing to addressing some of the challenges identified in the evaluation reports. However, these changes were made after the evaluation had concluded and for this reason, they haven't been considered in the evaluation reports.

often the business plans were likely to be written, at least in part, by the BTAG coaches especially when it came to the financials. Such reliance on the expertise of the BTAG providers implies that any gaps in the clients' knowledge and skills may be obscured in the application process, leaving them vulnerable to risks and pitfalls that may result in business closure.

Ongoing business mentoring is an essential support that participants who sustained their businesses relied on, as it enabled them to better manage arising risks and avoid potential pitfalls. However, ongoing business mentoring is not always possible for FWSE participants, as BTAG funds are usually exhausted through the business plan development phase. Most participants who received ongoing support, did so through external resources or did not utilize the BTAG funds for business plan development, i.e., they had relevant skills or resources to support the business beyond the scope of what FWSE offers.

Evaluation of FWSE reveals that, in its current form, FWSE does not support people to achieve positive or sustainable employment outcomes. This is evident in the mismatch between the relevant skills needed to sustain a business and the likely characteristics of the programme's core target audience (i.e., people at risk of long-term benefit receipt and people disadvantaged in the labour market). It is clear from these findings that more training and support, such as through access to mentors or mandatory short business courses, may be needed to better support successful FWSE applicants.

Additionally, the stakeholders interviewed in the qualitative evaluation suggested changes to the scope and scale better match the realities of MSD's client base. For example, scaling back the programme so that a few applicants receive more intensive support, over a longer period of time, was suggested as a potential solution. In line with this context, some stakeholders questioned whether MSD is the appropriate government agency to deliver this programme and suggested that Ministry for Business, Innovation and Employment (MBIE) may be better suited to delivery FWSE, at least in part. However, this raises additional questions about what an appropriate level of investment is for individuals who are likely close to the labour market, and, if funds would be better directed into other services which could provide more intensive support for clients who are furthest from the labour market.

## Appendix 1: Key Evaluation Questions

### **KEQ1: How well has the expansion policy been implemented to enable timely delivery of the subsidies?**

#### **How have MSD frontline staff experienced and viewed its implementation?**

- a. How well do they understand the policy intent and the purpose of the Flexi-wage expansion programme?
- b. How is it similar to / different from the pre-2020 Flexi-wage programmes implemented by MSD?
- c. How does it compare to other employer subsidies like Mana in Mahi?
- d. How do MSD staff understand the definitions of 'at risk of long-term benefit receipt' and those 'disadvantaged in the labour market'? How do staff select participants?
- e. What behaviours are MSD staff observing with employers who receive this subsidy?
  - How are employers using the subsidy? For instance, are employers using it to hire a person they already intended to hire?
  - Are they dismissing existing employees to take on a Flexi-wage recipient?
- f. How critical is the role of the work broker in negotiating Flexi-wage with the employer?
  - How does the work broker role compare to the role of the Flexi-wage Centralised team in Job Connect?
- g. How easy or challenging has it been for MSD staff to implement the expanded programme?

### **KEQ2: What is the pattern of subsidy use by employers?**

- a. What is the profile of employers using Flexi-Wage and what is the participation rate across employers?
  - Is take up rate higher in industries with low labour costs or high turnover?
  - Has the type of employer using Flexi-wage changed since COVID-19?
- b. What is the level of the subsidy received and number of participants by employers compared to their total employees and payroll costs?
- c. Are employers continuing to keep participants on after the subsidy ends?
  - do participants remain in employment and if so in which industry?
  - are there differences in retention based on indicators of labour market disadvantage?
- d. Are participants more disadvantaged in the labour market than the un-subsidised employees in the firm (at the point they also started)? Namely, is the employer hiring more disadvantaged job seekers than they otherwise would have had?
- e. What are employers' views about the subsidy and are there any indications to suggest it gives them a competitive advantage?
- f. What are employer motivations for accessing the subsidy?
- g. What have been the benefits of the subsidy for employers and job seekers and what have been some of the challenges?

**KEQ3: To what extent does the Flexi-wage Subsidy Expansion support Te Pae Tata, MSD's Māori Strategy and Action Plan and MSD's Pacific Strategy and Action Plan, Pacific Prosperity?**

- a. What is the uptake of subsidy use by Māori and Pasifika participants accessing Flexi-wage and FWSE?
- b. What are the barriers for Māori and Pasifika participants to accessing the subsidy?
- c. What are the outcomes for Māori and Pasifika participants who have accessed the subsidy?
- d. To what extent do Māori and Pasifika participants feel safe, respected and empowered throughout the FWE/FWSE process?
- e. To what extent do Māori and Pasifika participants feel actively involved in FWE/FWSE decisions that affect them?
- f. To what extent are Māori and Pasifika participants' aspirations to achieve prosperity and self-sufficiency supported by FWE and FWSE?

**KEQ4: How well does the expansion policy support out-of-work New Zealanders to start their own businesses?**

- a. What is the uptake of subsidy use by participants accessing FWSE?
- b. How does uptake align with the policy intent aimed at achieving sustainable outcomes?
- c. How easy and/or difficult is it to access FWSE?
  - What are the barriers?
  - What explains the differences between the rates of inquiries, applications, and contract approvals?
- d. Are participants also accessing other grants such as the BTAG or Self-Employment Start Up?
- e. How and in what ways is the increased BTAG and access to suppliers of business support and advice contributing to uptake and use of FWSE?
- f. What is the effectiveness and efficiency of delivery by vetting agents?
- g. What is the average duration of subsidies paid to businesses?
- h. What lessons can we learn from the targeted support?
- i. How well does the FWSE policy support Te Pae Tata and Pacific Prosperity strategies?
- j. What works for Māori and Pasifika led businesses in the context of FWSE?
- k. How can FWSE processes be improved?

**KEQ5: Are Flexi-wage programmes effective in increasing participants' labour market outcomes?**

- a. What are the short-term outcomes for employees?
  - a. How do outcomes align with those intended?
- b. Are the short-term impacts of programmes under Flexi-Wage expansion like those seen before its expansion (pre 2020)?
  - Examine impact of programmes on net-income, employment, education and training, qualifications gained, justice and welfare expenditure for participants.

- Identify what additional EA support participants receive (relative to the comparison group)
  - Do higher levels of assistance (payments at high tiers) correspond to higher impacts.
  - Comparing the impact trends before and after expansion, we will evaluate whether the effectiveness of the expanded programme differs from how Flexi-wage programmes operated before 2020.
- c. Is there any difference in the effectiveness of Flexi-wage expansion, including by participant characteristics? Characteristics include, indicators of labour market disadvantage and specific priority cohorts such as Māori or Pacific?
- Is there a difference in the effectiveness of programmes according to benefit status (ie on a main benefit or not)?
- d. Is there any difference in the effectiveness of Flexi-wage by employer characteristics such as industry, job tenure or firm size?

**KEQ6: Does Flexi-wage target those disadvantaged and at risk of long-term benefit dependency?**

- a. What is the profile of people taking part in Flexi-Wage and how does this compare with the overall profile of those eligible for Flexi-Wage?
- b. Are participants in Flexi-wage disadvantaged in the labour market compared to those who are eligible but do not receive Flexi-wage programmes?
- c. Does the level of subsidy correspond to the level of labour market disadvantage? Specifically, does the subsidy level increase with the labour market disadvantage of participants?



## Appendix 2: How the key evaluation questions were answered

		FWE Qualitative Evaluation	FWSE Qualitative Evaluation	FWE Quantitative Evaluation	FWSE Quantitative Evaluation
KEQ 1	a	✓			
	b	✓			
	c	✓			
	d	✓			
	e	✓			
	f	✓			
	g	✓			
KEQ 2	a			✓	
	b			✓	
	c			✓	
	d			✓	
	e	✓			
	f	✓			
	g	✓			
KEQ3	a	✓			
	b	✓			
	c	✓			
	d	✓			
	e	✓			
	f	✓			
KEQ4	a		✓		
	b		✓		
	c		✓		
	d		✓		
	e		✓		
	f		✓		
	g		✓		
	h		✓		
	i		✓		
	j		✓		
	k		✓		

		FWE Qualitative Evaluation	FWSE Qualitative Evaluation	FWE Quantitative Evaluation	FWSE Quantitative Evaluation
KEQ5	a	✓			
	b			✓	✓
	c			✓	✓
	d			✓	
KEQ6	a			✓	✓
	b			✓	✓
	c			✓	✓