Executive summary

The changing face of entrepreneurship

The profile of entrepreneurs is becoming more diverse in the European Union (EU) and OECD. However, this shift has been slow overall, and there is a long way to go before the population of entrepreneurs fully reflects the diversity of the wider population.

One of the most significant shifts over the past decade has been the growth in the scale and impact of immigrant entrepreneurship. This is clearly visible in the EU, where the share of self-employed workers born in another country nearly doubled over the past ten years from less than 7% in 2013 to 12% in 2022. Driven by a growth in cross-border migration flows, this growth in immigrant entrepreneurship is often viewed as having a positive impact on economies. For example, in Sweden, new research shows that immigrant-owned firms are more likely to employ others and have more employees than native-owned firms, while in Germany, immigrant-owned businesses are more likely to achieve high levels of growth than firms led by non-immigrants. Moreover, 60% of German unicorns (i.e. businesses valued at more than USD 1 billion) have at least one immigrant founder.

Another trend has been the continued, but slow, progress in reducing gender gaps in entrepreneurship. It is clear that the COVID-19 pandemic had a disproportionate impact on women-led businesses in 2020-21, largely due to sector effects. However, the number of self-employed women has since bounced back to pre COVID-19 levels, while the number of self-employed men has not. The result is a return to the long-term trend of a slow reduction in the gender gap, at least in terms of the numbers of entrepreneurs. Men were 1.84 times more likely to be self-employed than women in the EU in 2013 and this closed marginally to 1.76 times in 2019 (pre COVID-19) to 1.72 times in 2022. However, surveys show that women entrepreneurs are still less likely to be operating growth-oriented businesses. Over the period 2018-22, only 6% of female entrepreneurs in the EU and 11% in the OECD reported that they expect their business to create at least 19 jobs over the next five years relative to 12% of men in the EU and 16% in the OECD.

The millions of “missing” entrepreneurs

Entrepreneurship and self-employment rates vary across the population. For example, women are less active than men in starting and managing new businesses. About 6% of women in the EU and 9% of women in OECD countries were actively working on a start-up or managing a new business (i.e. less than 42 months old) over the period 2018-22 relative to 8% of men in the EU and 11% of men in OECD. There are also significant differences in these rates by age and place of birth. These gaps are due to a range of factors, including differences in motivations, own resources (e.g. skills, finance, networks) and access to external resources, which affect both business creation and growth. Other important influences on entrepreneurship gaps include social attitudes towards work and entrepreneurship, local labour market conditions and opportunities in employment, as well as the uneven impact of start-up policies and business regulations (e.g. requirement to file business taxes online).

One way to demonstrate the scale of entrepreneurship gaps is to estimate the number of “missing” entrepreneurs. There would be 7.5 million more entrepreneurs in the EU and 34.1 million more in the OECD if everyone was as active in business creation as 30-49 year old men, which is the cohort who is most often identified as the most active in business creation and most likely to create sustainable businesses. The number of “missing” entrepreneurs is equivalent to 44% of actual entrepreneurs in the EU and 34% in the OECD, with significant gaps in many demographic groups, such as women and the young.

Tapping into the talent of the “missing” entrepreneurs

The “missing” entrepreneurs challenge is largely a gender challenge

The vast majority of “missing” entrepreneurs in the EU and OECD are women. This reflects a number of factors, including how markets and institutions affect female and male entrepreneurs differently. It also reveals differences in individual preferences that are shaped by social attitudes towards gender roles. The cost of gender gaps in entrepreneurship is substantial. For example, estimates in Canada show that GDP growth would be 6% higher over the 2017-26 period if the gender gap in entrepreneurship was closed. This is significant but likely represents a lower limit for potential growth in other countries since there are relatively small gender gaps in Canada.

Governments and other actors have been reducing barriers to women’s entrepreneurship for decades but these efforts are often not well-linked to strong policy frameworks. This can result in a lack of vision and cohesion in support systems. Several new strategies have been launched recently in the EU and OECD. The new action plan for “More female entrepreneurs for small and medium-sized enterprises” in Germany for example includes more than 40 actions structured around several pillars, including facilitating the participation of women entrepreneurs in the green transition. One of the strengths of the approach is that the action plan was developed by five ministries in consultation with 27 women’s entrepreneurship networks and organisations, leading to strong buy-in.

Young entrepreneurs have high hopes but face high barriers to success

Young people continue to show a high level of interest in entrepreneurship. Nearly four-in-ten young people (15-30 years old) in the EU in 2022 would rather be self-employed than being an employee because they can “be one’s boss” and have the “freedom to choose time and place of work”. Yet only 5% of youth (18-30 years old) in the EU was working on a start-up over the period 2018-22 and another 4% were operating a new business (i.e. less than 42 months old). Rates were slightly higher in the OECD – 9% were working on a start-up and 5% managing new businesses – but these were well below the share preferring self-employment.

Governments have strengthened their commitment to supporting young people during the COVID-19 pandemic, including young entrepreneurs. However, the impact of youth entrepreneurship schemes are not always well understood. High-quality evaluations suggest that finance needs to be a core element of youth entrepreneurship schemes but this alone does not guarantee success. The pairing of financial support and non-financial support (e.g. training, coaching) appears to not only increase the chances of creating a sustainable business, but also the chances of finding a job when start-ups do not succeed. Moreover, these evaluations suggest that certain conditions are likely to drive this success, including the motivations of young beneficiaries and the level of support provided to trainers and coaches such as training and opportunities to exchange on good practices.

Governments can build welfare bridges to success for job seekers

Welfare bridge schemes are one type of measure that facilitates business creation by job seekers by allowing future unemployment benefits to be converted into a grant and/or allowance to support business creation. This type of measure is used in 15 European Union Member States and seeks to reduce information barriers and unconscious discrimination faced by unemployed people when starting a business. Governments also hope to boost job creation and market development with these types of measures, typically giving them greater consideration during periods of economic crisis.

The design and implementation of welfare bridge schemes varies across countries in terms of their main features such as length of support offered, trade-off rates between future unemployment insurance entitlements and start-up support received, and eligibility criteria. These measures account for a very small share of active labour market policy measures (ALMP) in most countries, accounting for less than 1% of ALMP expenditures. Evaluations show that about 80% of beneficiaries of well-designed schemes start a sustainable business and in countries where evidence is available, 50% to 60% of these start-ups are still operating after four to five years (France, Germany, Poland, United Kingdom). A number of factors can be identified that increase the chances of supporting the creation of economically viable businesses, notably by requiring effort from the individual before receiving support such as preparing a business plan. This can help governments target support on motivated individuals with viable business ideas. Such requirements can also reduce the likelihood of creating precarious work where self-employed workers work long hours for little income, as well as displacement effects where supported businesses take markets away from incumbent firms.

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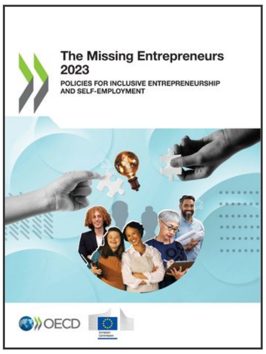

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