1 Recent trends and policy priorities in inclusive entrepreneurship

Micro-businesses and the self-employed faced many challenges during from the COVID-19 pandemic, including reduced demand for their goods and services and a need to adjust business operations in response to temporary operating restrictions and social distancing measures. As a result, the majority faced a significant reduction in hours worked and income. However, evidence suggests that women, immigrant, youth and senior entrepreneurs faced even greater challenges because of their concentration in sectors that were the most heavily impacted and having less access to resources. Moreover, they often had greater difficulties utilising government emergency measures. This chapter presents evidence on the impact of the COVID-19 pandemic on the self-employed, including differences across population groups. It also discusses the role of inclusive entrepreneurship policies in addressing the economic crisis and how inclusive entrepreneurship policies should be strengthened in the future.

Key messages

- **COVID-19 had a strong negative impact on self-employment in terms of business closures, hours worked, income, mental health and well-being**. For example, international surveys show that the self-employed were about 1.6 times more likely than employees to become unemployed in 2020. Those from groups that are under-represented in entrepreneurship (e.g. women, immigrants, youth, seniors) had worse outcomes since they tend to operate in sectors and locations that have been hit hardest by COVID-19 and have had the most difficulty accessing resources to manage the crisis. For example, about 27% of women-operated businesses around the world closed between January and May 2020 relative to 20% of men-led businesses.
- **Governments supported the self-employed during the COVID-19 pandemic with a range of measures including tax and rent deferrals, grants and wage subsidies**. Whilst the initial government measures were rolled out with great speed, it became clear throughout 2020 and 2021 that the supports did not reach many of the self-employed. Some could not qualify for support due to the eligibility criteria (e.g. revenue thresholds), and evidence suggests that take-up of support was low among some groups, including women and immigrants.
- **Inclusive entrepreneurship policy can play a greater role in a post COVID-19 economy to address the growth in inequalities**. These policies aim to ensure that anyone can have an opportunity to start a sustainable business by removing market barriers, addressing information asymmetries and providing tailored support. Recent developments in the European Union include a greater visibility for inclusion issues in entrepreneurship strategies, more sophisticated instruments being used to support women entrepreneurs (e.g. growth-oriented programmes, risk capital), growing experimentation with new financial instruments and fintech (e.g. crowdfunding) and a greater focus on individualised supports such as coaching and mentoring. However, some gaps and areas for improvement remain, including an uneven quality of support, an insufficient focus on business development and growth, too few support offers for immigrants, seniors and people with disabilities, and a continued reliance on financial supports.
- **Government COVID-19 recovery plans place a greater spotlight on inclusion and diversity so there is an opportunity to make greater use of inclusive entrepreneurship policies**. In designing inclusive entrepreneurship policies for the future, governments can:
  - Make entrepreneurship policy more gender-sensitive by increasing the use of tailored measures and making the policy making process more gender inclusive;
  - Open up pathways to work for young people through youth entrepreneurship programmes to help avoid long-term scarring effects following the pandemic;
  - Improve the tailoring of policy measures that support the broad range of immigrant entrepreneurs to better tap into their overall potential to create jobs in the recovery;
  - Increase the use of repayable financial instruments such as microfinance to support inclusive entrepreneurship and use these instruments to meet other policy objectives by, for example, increasing funds for green and sustainable projects;
  - Adapt, design and deliver measures at the local level to ensure that they appropriately reflect the context (e.g. sector, market size) and diverse needs of targeted entrepreneurs;
  - Go further in embracing digitalisation – both by ensuring that inclusive entrepreneurship schemes sufficiently prepare entrepreneurs for opportunities offered by the digital economy and by leveraging digital delivery mechanisms to increase the reach of schemes. This also requires greater attention to digital skills development among the target groups.

COVID-19 had a strong negative impact on the self-employed

As the severity of the impact of the COVID-19 pandemic on the health of the world population became increasingly apparent throughout 2020, governments responded with measures to contain the spread of the COVID-19 virus. This has been in the form of "lockdown" measures that seek to reduce face-to-face interactions between people and the strengthening of their public healthcare systems (OECD, 2021[1]; United Nations, 2021[2]). Although necessary to combat the COVID-19 pandemic, government containment measures and reductions in consumer demand have come at an economic price. Global GDP fell by about 3.4% in 2020, but is expected to rebound more quickly than initially anticipated with growth of 5.6% in 2021 and 4.0% in 2022 (OECD, 2021[3]). Governments have also introduced a range of support measures aimed at mitigating the effects of containment measures as businesses face substantial uncertainties and peoples' livelihoods are threatened (OECD, 2020[4]; OECD, 2021[5]).

There is a growing recognition that the COVID-19 pandemic and public policy containment measures have increased inequalities in society and the economy as they exacerbated existing structural inequalities. This asymmetry is multidimensional, interacting with and producing different socio-economic-geographic outcomes. For example, there have been differences in the ability of cities to respond to COVID-19. Those that are more affluent, densely and highly populated, better educated and have faster broadband provisions, present more opportunities for teleworking to mitigate some of the negative effects (OECD, 2020[6]; Crowley and Doran, 2020[7]). This, however, does not make all large cities immune from turbulence in local labour markets. While rural areas and small towns tended to experience larger impacts due to the COVID-19 crisis, urban areas with a large share of place-dependent employment in sectors like hospitality and commerce, retail and wholesale were also greatly impacted (Eurofound, 2020[8]). A growing body of research suggests that it has been the most vulnerable members of the population (e.g. women, youth, minorities and the less educated) that have been most affected, notably through reductions in working hours and elevated levels of health risk, exacerbating existing inequalities in society (Blundell et al., 2020[9]).

Business creation and early-stage entrepreneurship decreased in most countries…

The COVID-19 pandemic has had a negative impact on new business creations overall. The number of new start-ups dropped significantly during the first lockdowns in early 2020, but entry rates have recovered across some countries. Countries such as Australia, Canada, Norway, the United Kingdom (UK) and the United States experienced a V-type recovery and others such as Italy, Portugal and Spain experienced a U-type recovery with slower growth in business registrations in the second half of 2020 (OECD, 2021[10]). Some countries appear to be in between these two groups (e.g. Belgium, France, Germany, Hungary), while data for the Netherlands show a continued drop-off in business entry in the third quarter of 2020.

…but "necessity" entrepreneurship increased in only half of the countries surveyed

Data from the Global Entrepreneurship Monitor (GEM) also paint a mixed picture of the COVID-19 pandemic's impact on new entrepreneurs that were motivated "to build great wealth or very high income" and "to earn a living because jobs are scarce." The share of new entrepreneurs who were motivated by wealth creation declined in about half of the countries, notably in Spain (from 60% in 2019 to 35% in 2020) (Bosma et al., 2021[11]). However, it increased in the other half of countries, including the Netherlands (22% to 41%). Similarly, the share of new entrepreneurs who started a business because they could not secure a job increased in about half of the countries, including substantial increases in Poland (16% to 62%) and Spain (42% to 72%). That the share declined in about half of the countries challenges the hypothesis that the COVID-19 pandemic has forced many people into entrepreneurship due to lack of employment alternatives.

The self-employed were more likely than employees to face job insecurity…

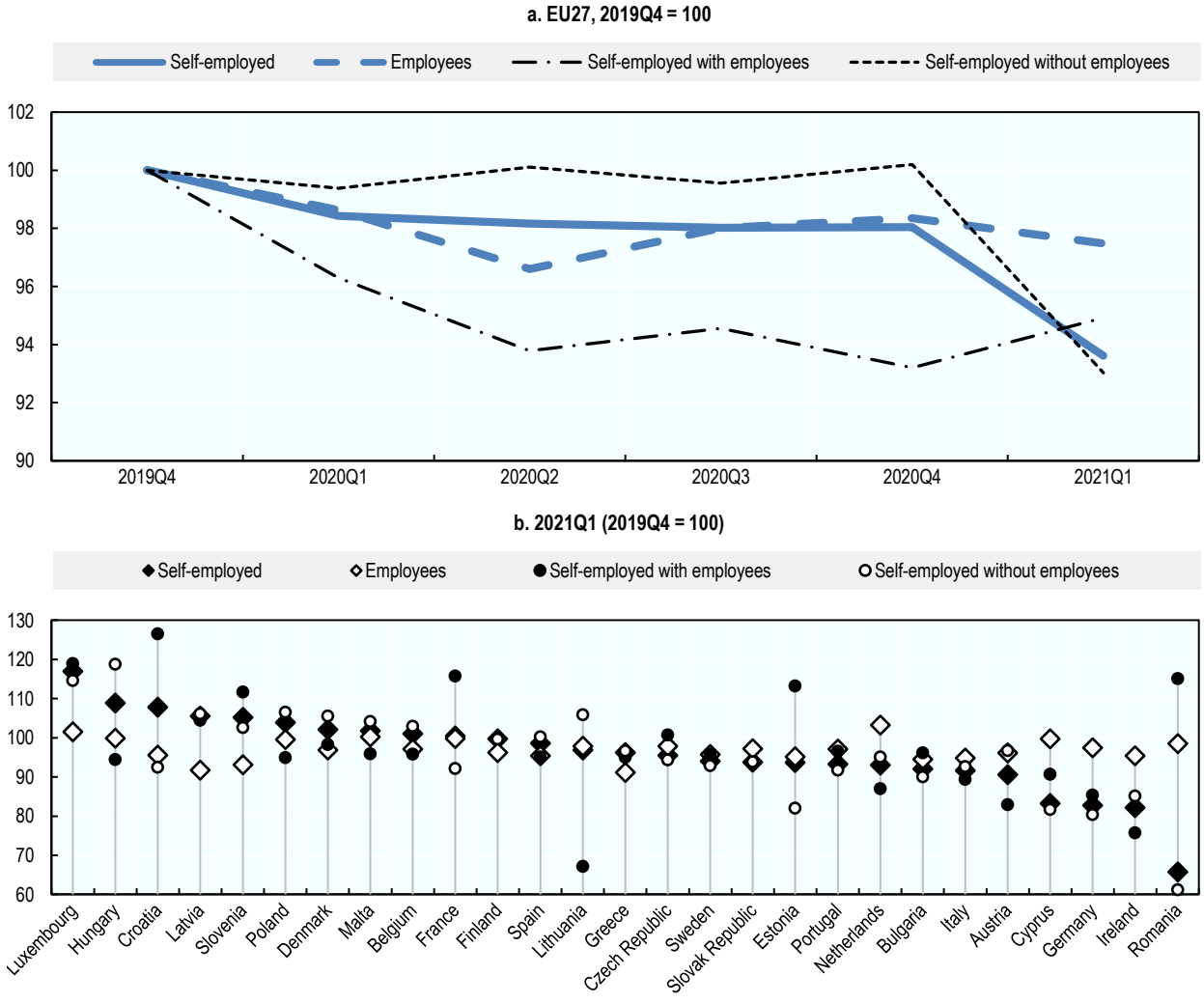
Early evidence on the impact of COVID-19 on the self-employed suggests that they have faced a greater reduction in hours worked and are more likely to be at risk of losing their job than employees. In an European Union (EU)-wide survey in April and July 2020, the self-employed were twice as likely as employees to report a reduction in hours worked – 51% for the self-employed with employees and 53% for those without employees relative to 27% of employees (Eurofound, 2020[8]). Moreover, the self-employed without employees were the most likely to become unemployed (13%) relative to employees (8%) and the self-employed with employees (2%) (Eurofound, 2020[8]). Similar results were found in country level surveys. For example, evidence from Germany indicates that 60% of the self-employed faced sales and income losses between March and May 2020, a period dominated by the nationwide shutdown, while less than 20% of employed individuals experienced earnings losses (Kritikos, Graeber and Seebauer, 2020[12]). In Norway, twice the share of self-employed workers than employees experienced reduced work time and 40% of the self-employed faced income loss relative to 11% of employees and 19% of temporary employees (Ingelsrud, 2021[13]).

These survey findings are reflected in employment and self-employment trends at the EU-level and for most EU Member States. At the EU-level, the number of self-employed people has declined by more than 6% between 2019Q4 and 2021Q1, which is about double the decline in the number of employees (Figure 1.1). Furthermore, the number of self-employed people with employees – which account for 30% of the self-employed – declined by about 5%. However, not all of these self-employed workers necessarily stopped operating because some would have shed employees to become solo self-employed. Survey results from the first half of 2020 show that only 2% of self-employed with employees reported losing their job, but 6% reported that they "let employees go" to become solo self-employed (Eurofound, 2020[8]). Despite the overall decline in self-employment at the EU-level, there were eight Member States where self-employment increased between 2019Q4 and 2021Q1. This growth in self-employment was typically driven by an increase in solo self-employment.

The impact of COVID-19 on the self-employed in non-EU OECD countries also varied considerably. For example, the self-employed were not impacted strongly in Australia. The share of workers who are self-employed dropped marginally from 7.9% to 7.5% between February and April 2020 which was accompanied by a strong decline in hours worked per week for both self-employed (-9.3 hours) and employees (-3.1 hours) (Biddle et al., 2020[14]). However, the self-employed were strongly impacted in Canada, the UK and the United States. Between February and July 2020, the number of those operating incorporated businesses in Canada fell by 22.2%, while the overall number of those operating unincorporated businesses declined 12.5% (Beland, Fakorede and Mikola, 2020[15]; Beland, Fakorede and Mikola, 2020[16]). Similarly, self-employment decreased in the UK by approximately 10% between January and September 2020 (ONS, 2021[17]) and the number of active business owners (including the self-employed and business owners)[1] in the US decreased by 8% between February and December 2020 (Fairlie, 2021[18]). These country differences are most likely to be a result of the different experiences of the pandemic and public policy containment measures. However, evidence suggests vulnerable population groups, namely young, female and non-white self-employed individuals in the US, experienced greater risk (Grashuis, 2021[19]).

Figure 1.1. The number of employees has rebounded more quickly than the self-employed

Quarterly trends in the number of self-employed workers and employees relative to 2019Q4 employment and self-employment



Source: (Eurostat, 2021[20])

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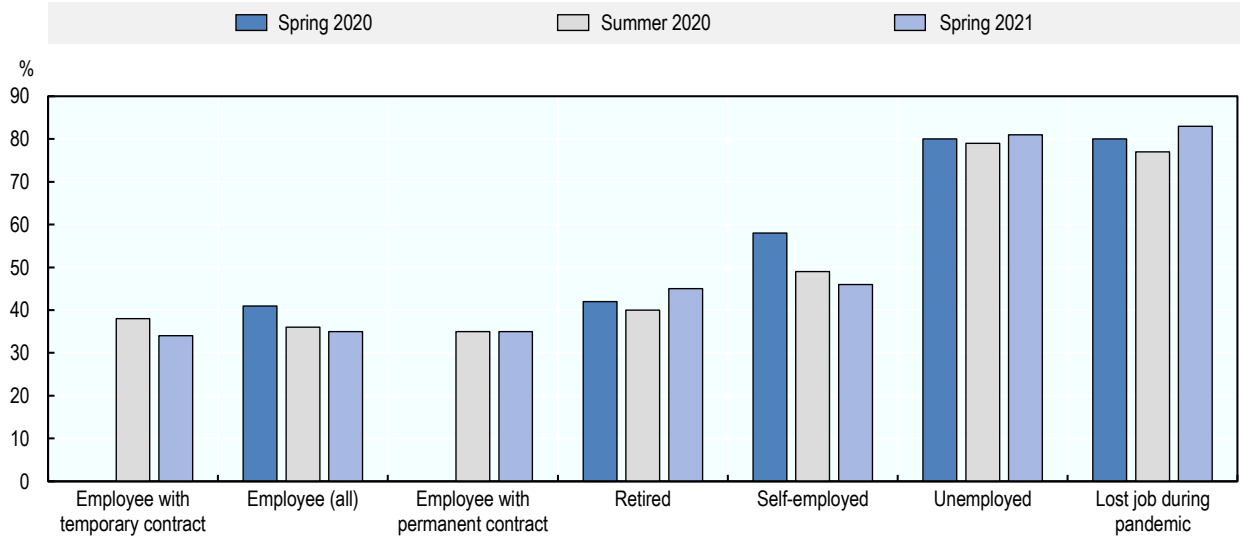
…which has led to greater financial insecurity…

The self-employed were 30% more likely than employees to report that they would not be able to maintain their current standard of living for three months without additional (new) income sources. An international survey by Eurofound in February-March 2021 found that about half of people in the EU could not sustain their current income and savings or could not maintain their current living standard for more than three months (Ahrendt et al., 2021[21]). This level of financial fragility has remained fairly constant since the start of the COVID-19 pandemic. However, financial fragility varies according to labour market activities and individual characteristics. In Spring 2021, about 46% of the self-employed indicated that their household could maintain their standard of living for up to three months (Figure 1.2). This was down from 58% in Spring 2020 but above the overall average for all respondents (50%).

Figure 1.2. The self-employed are more likely than employees to report financial difficulties

"If your household would not receive any income, how long would your household be able to maintain the same standard of living?" The figure shows the sum of "no savings" and "less than 3 months", EU27



Source: (Ahrendt et al., 2021[21])

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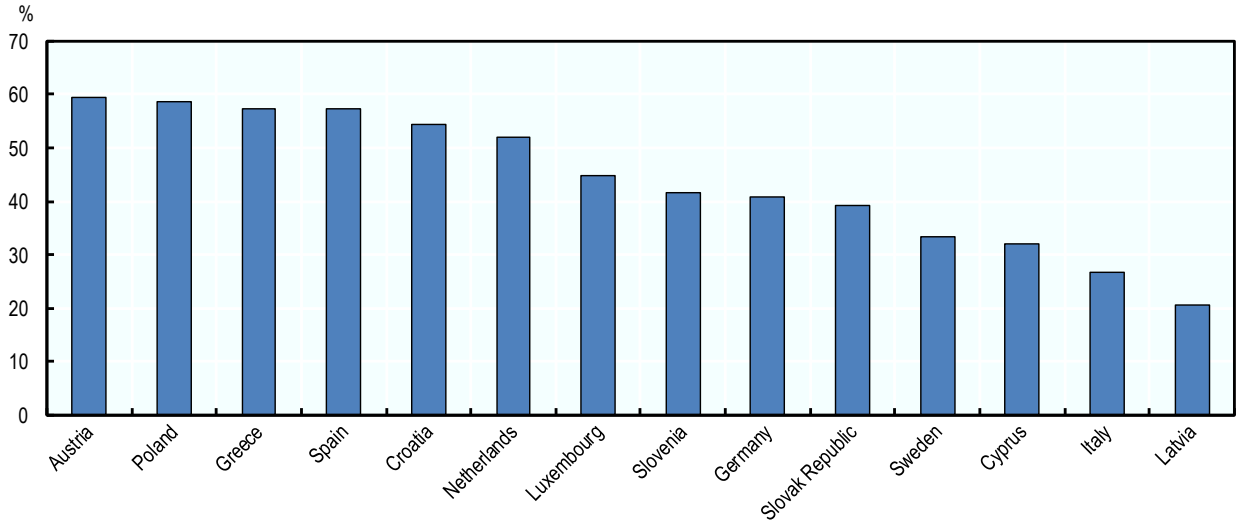
Similar evidence about the financial fragility of the self-employed is emerging in non-EU OECD countries. The self-employed in Australia faced greater reductions in income than employees, experiencing an AUD 66.70 (EUR 42) larger drop in weekly income than employees (Biddle et al., 2020[14]). Between February and April 2020, more than four out of five self-employed workers reported a negative effect of the impact of COVID-19 on their profitability and only one-third indicated that their business would be viable over the next two months. Similarly, 24% of self-employed in the UK reported that they would be able to save for the year ahead at the beginning of the pandemic compared to 30% in December 2020, relative to 45% to 49% of employees over the same period (ONS, 2021[22]).

The negative short-term effects of the COVID-19 pandemic on the self-employed is also affecting their outlook for future business prospects. The 2020 GEM survey was conducted between April and June 2020 and shows that up to 60% of early-stage entrepreneurs indicated that they expected "somewhat" or "much lower" growth in the next year (Figure 1.3).

Figure 1.3. Up to 60% of entrepreneurs have reduced expectations for business growth

Proportion of early-stage entrepreneurs reporting "somewhat" or "much lower" growth, 18-64 years old, 2020



Note: Early-stage entrepreneurs are those who are in the process of starting a business or managing one that is less than 42 months old.
Source: (Bosma et al., 2021[11])

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…and poor mental health and well-being outcomes

There is a growing body of evidence that shows a disproportionate decline in subjective well-being and happiness of the self-employed as a result of the COVID-19 pandemic. Evidence from the UK shows that the self-employed had a fall in their subjective well-being relative to employees, which is likely to be associated with the greater decline in hours worked since the subjective well-being of the self-employed is more sensitive to reductions in hours worked than income reductions (Yue and Cowling, 2021[23]). These findings are consistent with a long-term international study (covering the pre-COVID context) that found that financial distress led the self-employed to suffer more severe negative well-being than full-time waged workers (Berrill et al., 2020[24]). This relationship was particularly strong for the solo self-employed.

The disproportionate decline in mental health and well-being among the self-employed is a result of greater levels of satisfaction drawn from their work and greater levels of income insecurity. The self-employed enjoy higher levels of autonomy (Benz and Frey, 2008[25]), benefit more from meaningfulness at work (Stephan, 2018[26]), and report higher levels of happiness than employees even when their incomes are lower (Binder and Blankenberg, 2021[27]; Millan et al., 2013[28]). Thus, a deterioration in working conditions would be expected to lead to different well-being and mental health outcomes for the self-employed compared with those in other forms of employment. In addition, negative economic shocks tend to increase financial insecurity and financial distress for the self-employed. This leads to increased stress so the negative consequences for their well-being are assumed to be more severe (Berrill et al., 2020[24]). Evidence from France shows burnout among entrepreneurs during the pandemic was largely linked to three primary factors: risk of contracting COVID-19, risk of bankruptcy and effects associated with lockdown measures (Torrès et al., 2021[29]). Moreover, women entrepreneurs were found to be more likely than men to have higher levels of burnout.

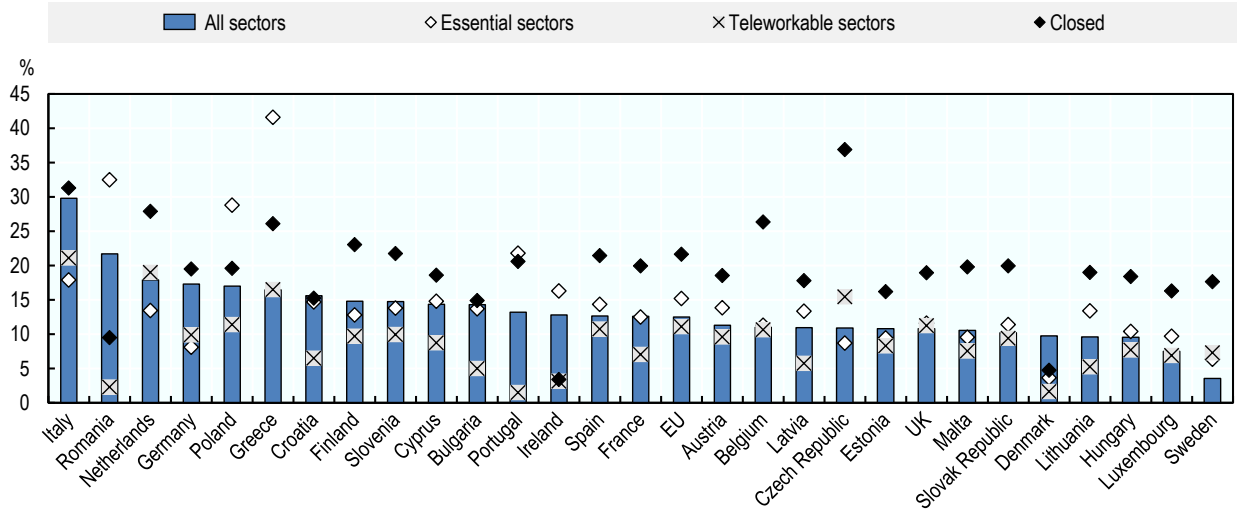
These negative effects on the self-employed have been uneven across sectors…

Although the self-employed operate in all areas of the economy, they are concentrated in specific sectors and are over-represented in the sectors most affected by social distancing measures. Across EU Member States and OECD countries, own-account workers and micro-enterprises account for approximately 70% of employment in retail trade and almost 60% in the accommodation and food services sector. The self-employed have been particularly hard-hit in the tourism (Box 1.1) and cultural and creative sectors (Box 1.2). This sector-specific vulnerability of the self-employed is shown in numerous national studies, including in EU Member States such as France (Lambert et al., 2020[30]) as well as non-EU OECD countries such as Canada (Beland, Fakorede and Mikola, 2020[15]; Beland, Fakorede and Mikola, 2020[16]), the UK (Reuschke, Mason and Syrett, 2021[31]) and the United States (Fairlie, 2020[32]; Fairlie, 2020[33]; Fairlie, 2021[18]). While such analyses are important in mapping the effects of COVID-19 on the economy, they present an incomplete picture because they cannot pick up the extent to which containment measures restrict activities, nor the extent to which the self-employed can and are responding to containment measures to do their business in a different way.

The self-employed appear to have had fewer opportunities to telework. It is estimated that the self-employed account for about 11% of "teleworkable" work, which is below their share of workers in the EU economy (14%) (Figure 1.4). Conversely, the self-employed accounted for nearly 22% of workers in closed sectors, well above their overall share (14%) (Fana et al., 2020[34]; Fana, Torrejón Pérez and Fernández-Macías, 2020[35]).[2] A similar result was found in all EU Member States except for Denmark, Ireland and Romania, where the self-employed were under-represented in closed sectors. However, COVID-19 has also created opportunities for the self-employed as they are over-represented in 'essential' sectors in a few countries: Romania (accounting for 33% in essential sectors but 22% overall), Poland (29% vs. 17%), Greece (42% vs. 16%), Portugal (22% vs. 13%), Ireland (16% vs. 13%) and Lithuania (13% vs. 10%).

Figure 1.4. Self-employment are under-represented in teleworkable sectors

Share of self-employment among "essential", "teleworkable" and "closed" sectors, 2020



Note: Essential sectors include food production, utilities, health and all the other sectors identified as essential in all countries. Teleworkable sectors include education, most of public administration, finance, insurance and telecommunications. Most employment in these sectors is also maintained even in strict confinement, but with telework. This includes professional, scientific and technical activities, even though they are explicitly considered as non-essential in the three countries. Closed sectors include hotels, restaurants and accommodation, estate and travel agencies, plus leisure and recreation services. These are explicitly closed by confinement decrees and cannot continue to function via telework.
Source: (Fana et al., 2020[34])

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Box 1.1. Consequences of COVID-19 for the tourism sector

Consequences of COVID-19 for tourism sector

It is estimated that the international tourism economy declined nearly 80% in 2020 and about one-third of jobs in the sector were lost between March and October 2020. This has been catastrophic for the self-employed who along with micro-businesses, account for 85% of businesses operating in this sector.

These impacts are often highly localised. For example, the tourism sector contributes over 33% of GDP to the regional economy of Corsica (France) with approximately 11 000 tourism establishments (mostly family-run). As a result of a 75% decrease in hotel bookings in 2020, about 3 600 jobs were lost.

Policy responses

Government support for the self-employed in the tourism sector has included financial support, re-training and a push towards digitalisation. Many countries have designed policy responses to prepare the tourism workforce for the digital future and these measures vary greatly in scale and focus. This included virtual training programmes such as Developing Leaders for Hospitality and Tourism (Ireland) and Tourism Innovation (Lithuania).

Source: (OECD, 2021[36]; OECD, 2021[37])

Box 1.2. Consequences of COVID-19 on self-employment in cultural and creative sectors

Cultural and creative sectors have been among the most affected sectors

Many activities in cultural and creative sectors (CCS) have been suspended in 2020-21 due to COVID-19 containment measures. For example, France's art market experienced an estimated total loss of EUR 184 million in the second quarter 2020 with about one-third of all French art galleries at risk of shutting down before the end of 2020. This has resulted in substantial job losses of up to 5.5% of total employment in these sectors across OECD countries between March and September 2020.

The self-employed have been heavily impacted by these job losses because they account for a large share of workers in CCS. About 32% of CCS workers in the EU were self-employed in 2019, reaching nearly half in the Netherlands and Italy (Eurostat, 2020[38]). This challenging context for the self-employed is expected to continue in the short- and medium-term because of lower levels of investment in the sector and potential shifts in consumer preferences.

Policy responses

The CCS have responded to lockdown measures with massive and rapid digitalisation. Creative content has been moved on-line to keep audiences engaged with creative and cultural content, such as the streaming of events. However, great challenges remain since these sectors face digital skill shortages and free digital content does not replace paying audiences.

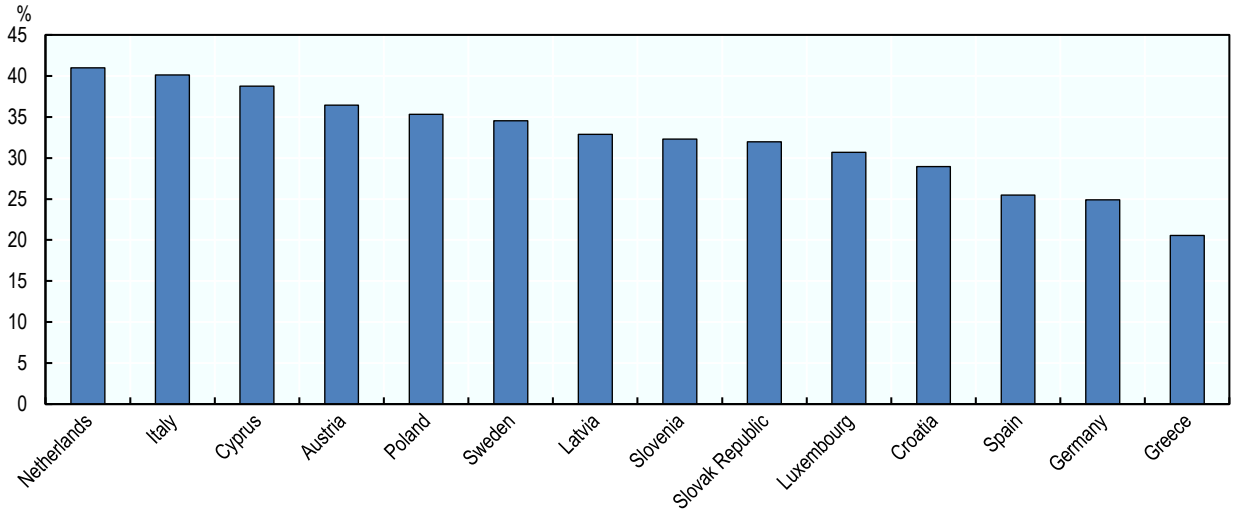
Governments have injected funding into these sectors using both direct (e.g. grants, subsidies) and indirect mechanisms (e.g. payment deferrals). Grants and subsidies for individual artists, who are mostly self-employed, have been the most common policy response. For example, Austria's COVID-19 Fund for Artists and Cultural Educators awarded individual grants of up to EUR 2 000 per month for up to three months for workers in cultural and creative sectors and an additional 15 000 artists and freelance workers received EUR 1 000 per month for up to six months from a separate fund of EUR 90 million. Similar approaches have been used in Lithuania, New Zealand and Brussels (Belgium).

Source: (OECD, 2020[39])

Containment measures have created opportunities for some of the self-employed. Between 25% and 40% of new entrepreneurs surveyed in the first half of 2020 across EU Member States indicated that they "somewhat" or "strongly agree" that the COVID-19 pandemic created new business opportunities (Figure 1.5). Many businesses with an online presence have been able to continue and grow their business during periods of containment and lockdowns. This has been highlighted in food and retail, where enterprises with an online presence, including the use of "apps", have shown buoyancy compared to those without (Blundell et al., 2020[9]). Although evidence suggests that the importance of having an online presence has been elevated during the crisis, there are indications that this form of trade – with customers and suppliers – will become the "new" normal (OECD, 2021[40]). However, the limited capabilities and resources of the self-employed may restrict their ability to re-orientate their business operations and external market relations. Digitalisation and having an online presence rises with size of enterprise and without support, this may lead to the self-employed and smaller enterprises experiencing long-term decline.

Figure 1.5. Some entrepreneurs report that COVID-19 has created opportunities for their business

Proportion of early-stage entrepreneurs indicating that they "somewhat" or "strongly agree" that the COVID-19 pandemic provided new opportunities for their business, 18-64 years old, 2020



Note: Early-stage entrepreneurs are those who are in the process of starting a business or managing one that is less than 42 months old.
Source: (GEM, 2021[41])

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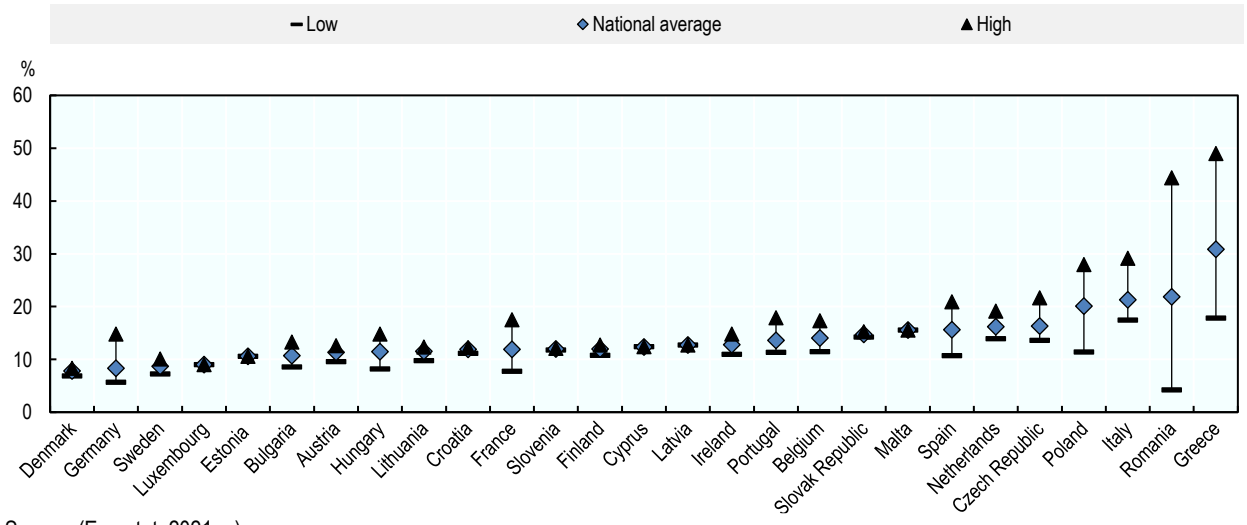
…and uneven across locations

COVID-19 has had uneven health, economic, social and fiscal impacts across regions and cities. The share of workers who are self-employed varies greatly across countries and within countries. For example, the share of workers who are self-employed in Romania ranges from 4% in Bucharest-Ilfov to 44% in the North-East region (Figure 1.6). These regional differences can largely be explained by economic structure and demography, which were also determinants of the impacts of the pandemic across regions. In the UK for example, a large amount of variation was found across regions in the share of the self-employed who are at-risk of stopping their business activity because of COVID-19. Following the onset of the pandemic, the self-employed in London, who are on average more likely to be younger, were the hardest hit (Henley et al., 2021[42]). In the 2020Q1, self-employment in London dropped by 12% - double the decrease in self-employment in England outside of London. There are also differences in the impact of the pandemic within the same locations depending on the demographics of the self-employed. For example, self-employed women were more heavily impacted than men in Northern Ireland. Women's self-employment decreased by about 9% compared to an 8% increase among men. Conversely, self-employment among women in Scotland increased in the same period (+0.5%. vs. -5.5%). The pattern for employees was quite different as they were most likely impacted in London and to a lesser extent in Scotland (UK) (Henley and Reuschke, 2020[43]).

Figure 1.6. Self-employment levels vary more within some countries than across EU Member States

Share of self-employed among employed at the NUTS2 level, 2020



Source: (Eurostat, 2021[44])

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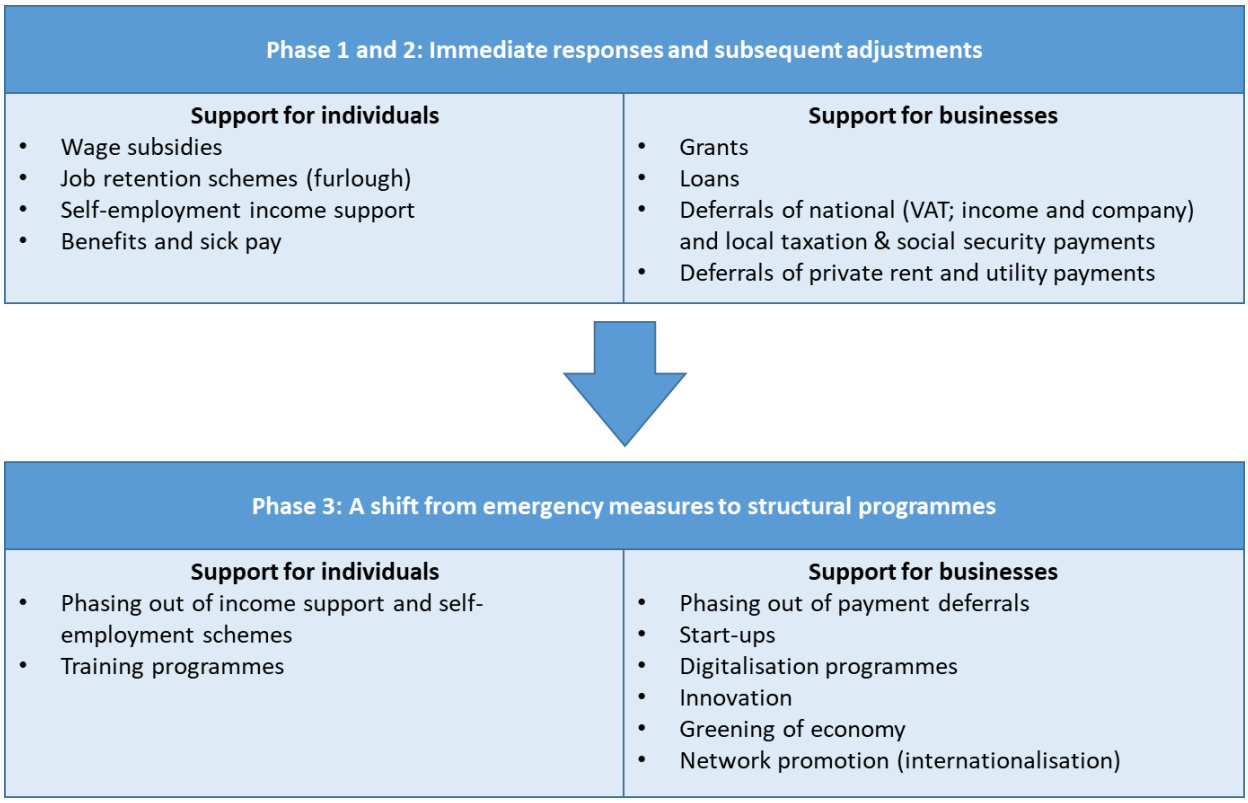
Policy has responded to support the self-employed…

Governments have responded to the COVID-19 pandemic with a wide range of measures to support the self-employed and entrepreneurs. The OECD has been tracking the impacts of COVID-19 on entrepreneurs and SMES along with the policy responses: see (OECD, 2021[45]). Overall, public policy responses to COVID-19 have been predominantly at national and regional levels with some attention to sectors that have been hardest hit (OECD, 2021[5]). The responses are best described as comprehensive but with gaps and so far, have been subject to incremental adjustments depending on the stringency of the containment rules and feedback from stakeholders.

The first phase included the launch of support measures from around March 2020 to provide an immediate mitigation of the impact of COVID-19 and government restrictions (Figure 1.7). These included income support for employees and the self-employed for around three months. Businesses were supported with grants, loans and deferrals of payments to enable their survival. Such measures were rushed through the apparatus of governments worldwide, often in emergency sittings in legislatures. In addition to these economic measures, support was provided for childcare where nursery and school closures existed, to enable those who were able or required to work to do so. These were overwhelmingly protective measures, designed to be a response to the containment rules, as governments both suspended and supported existing economic capacity until the COVID-19 pandemic was under control.

The second phase of measures responded to the identification of gaps in provision and in the face of a prolongation of the COVID-19 pandemic. Given the temporary nature of the initial measures, this phase included the extension, adjustment or stopping of specific measures according to need. For example, disproportionately affected sectors were often targeted with particular assistance. There was also growing recognition and concern regarding the cost of the support measures and the rising national debt accompanied by an acceptance that the economy needed support to avoid complete collapse.

Figure 1.7. Phases of policy measures for individuals and businesses in 2020-21



A third and current phase comprises the phasing out of employment and financial support measures and a switch to new policies to enable the economy and businesses to emerge from the crisis. Yet, careful timing of switching support from measures for business and job "retention and protection" to re-booting is crucial. This is illustrated by the different phases of support offered by the TOZO measures in the Netherlands, which became more stringent over time and shifted to helping the self-employed pivot their business activities (see the country profile in Part III for more information on TOZO). The TOZO-measures were ended in October 2021.

The earlier phases of support may have had some unintended consequences. For example, some less viable enterprises may have become dependent on government support, while others, not eligible for support, may have been struggling to compete. Evidence suggests that business closures have slowed and some firms may have continued to survive because of government assistance. Structural measures to re-boot economies have also been introduced (i.e. finance for start-ups, innovation, training). A key issue is the digitalisation of enterprises as customers, suppliers and other stakeholders have shifted away from physical to virtual connections. Some governments regard the re-booting of the economy as an opportunity to find new markets, boosting a green economy and internationalisation (OECD, 2021[45]).

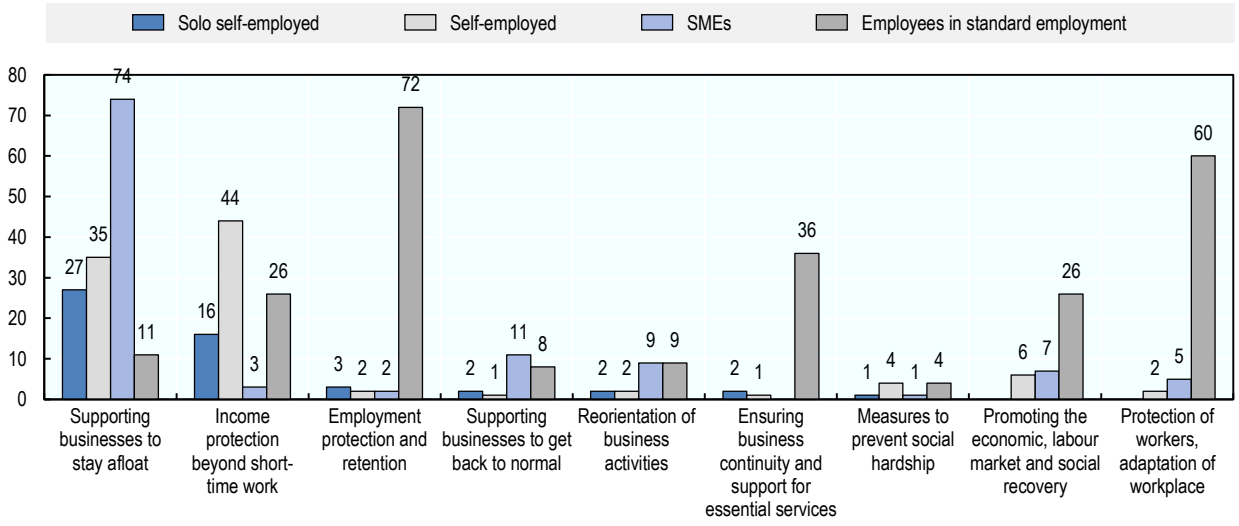
To date, the Eurofound policy watch tool reports 53 measures for the solo self-employed, 97 for the self-employed, 112 for SMEs and 252 for employees on national and subnational levels (as of 2 August 2021).[3] The bulk of the measures relate to income support for individuals and businesses (Figure 1.8.). For the self-employed, "Supporting businesses to stay afloat" is the most common policy measure followed by "Income protection beyond short-time work." These measures primarily aim to protect businesses from the effects of lockdown measures rather than helping firms discover new opportunities.

These COVID-19 support measures vary not only in approach but also in who they target. There are examples of measures that are targeted at specific sectors such as creative and cultural and tourism sectors, while others are differentiated by business size. For example, supports for the self-employed in

the Slovak Republic differentiate between those with and without employees (see the country profiles in Part III for more information on the Slovak Republic and other countries).

Figure 1.8. The majority of policy measures for the self-employed aimed to keep the business afloat

Number of policy measures in EU Member States since onset of COVID-19



Note: Policy measures as of 4 August 2021, covering the period 31 March 2020 to 29 July 2021.
Source: (Eurofound, 2021[46])

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…but the suite of support measures did not reach everyone

The economic support measures were welcomed but have also been subject to some debate and criticism. Although governments have rolled out extensive sets of measures with unprecedented speed, a number of criticisms can be made regarding their appropriateness for supporting the self-employed (Juergensen, Guimón and Narula, 2020[47]; Moreira and Hick, 2021[48]). One of the main critiques is that the initial packages had coverage gaps for certain types of self-employed and micro, new and start-up enterprises. For example, an estimated 3 million people in the UK did not meet the criteria for furlough or self-employment income support because of their company director status or newness to self-employment (IPSE, 2021[49]). This is the result of the need for quick action by governments given the uncertainty of the severity and length of the crisis. Unlike typical policy development processes, little opportunity existed for early consultation with entrepreneurship stakeholders or the piloting of measures before implementation.

The administration of support measures and eligibility conditions were often difficult to understand and prevented some from accessing support (Cribb, Delestre and Johnson, 2021[50]). The amount of support for the self-employed in the form of income or business grants and subsidies is mainly contingent on previous tax returns, and in some countries means-tested benefits based on savings and profit levels. As with any policy intervention, some of the financial supports had cliff edges, which may lead to unforeseen consequences and distortions in markets (Adam, Miller and Waters, 2020[51]). If self-employment was not a main source of income, this could also disqualify applicants from receiving income support, creating eligibility problems for part-timers and those with mixed income sources. For example, in the UK, someone with 51% of declared income from self-employment could claim the maximum support, while someone with 49% can claim nothing. There were also challenges in processing applications, adding to the time it took to receive payments (Adam, Miller and Waters, 2020[51]). Take-up of support schemes

also varied. Estimates suggest take-up of support was about three-quarters of those eligible but some groups such as women had lower take-up rates (Cribb, Delestre and Johnson, 2021[50]).

In addition, support for innovative start-ups and firms – which could include the self-employed – was effectively paused as governments implemented emergency measures and support providers were impacted by lockdown measures. Initial COVID-19 measures placed an emphasis on protecting and saving existing economic capacity. However, little attention was paid to maintaining the pipeline of business start-ups or innovation in existing firms. While it would be expected that the number of new start-ups would decline during the crisis due to increased market uncertainties (Blundell, Machin and Ventura, 2020[52]), there is evidence that COVID-19 has introduced particular challenges including greater difficulty accessing bridging loans and equity due to a lack of client-financier interaction (Brown, Rocha and Cowling, 2020[53]) (for additional discussion on differences between the COVID-19 pandemic and previous recessions, please see Box 1.3). Moreover, this challenge has been greater for some groups such as women (Villaseca, Navío-Marco and Gimeno, 2020[54]). Incumbent firms are also impacted since they require support to innovate, re-orientate their activities, digitalise their operations and interface with suppliers and customers. Lessons from earlier recessions suggest that smaller enterprises particularly experience greater reductions in spending on research and development (Roper and Turner, 2020[55]). Governments have addressed this gap to some extent in the current phase of support measures, yet only a small share of policy measures aim to support businesses in re-orienting their activities (Figure 1.8).

Box 1.3. How is COVID-19 different than previous economic shocks?

During previous economic crises, the self-employed have shown resilience and agility through their ability to be flexible and continue business operation despite reduced income. Some recessions have even led to an increase in new firm-formation and self-employment, as the unemployed and laid-off employee workers, unable to find work, start their own business out of necessity (Foreman-Peck, 1985[56]; Fossen, 2020[57]). Recessions can also create new business opportunities, through the opening of gaps in markets as incumbent businesses close and human and financial capital becomes cheaper.

However, what is distinctive about the downturn associated with the COVID-19 pandemic is its genesis, speed, scale and levels of future uncertainty (Moreira and Hick, 2021[48]). This has made the self-employed particularly vulnerable because of their relatively low levels of readily accessible resources to absorb the speed and depth of the shock.

The current crisis is a result of a combination of factors that are *exogenous* to the economic system: a public healthcare crisis *and* government interventions in the form lockdowns. Unlike previous recessions or crises that have been slower to build up momentum, the current crisis is a result of rapid responses to the COVID-19 pandemic involving economic and societal lockdown measures. The latter take various forms but have been nationwide, regional and sector based, and the severity of measures are associated with the level of containment needed to arrest the spread of the virus. The interventions by governments have often been sharp and without much warning. This appears to have heightened uncertainties among business owners. Hence, although there may be some lessons from previous economic crises, the effects of an environmental shock of the type and scale associated with the COVID-19 pandemic are likely to be very different from previous crises.

Finally, policy responses to support the self-employed through the COVID-19 crisis have not considered the specific needs from those groups that are under-represented or disadvantaged in entrepreneurship. It is clear that certain groups of the labour force and business population have suffered more under COVID-19 than others (for further discussion, please see the next section: The missing entrepreneurs), yet only a very small number of support measures in EU Member States and OECD

countries have been designed specifically for those who are from the following groups: women, immigrants, youth, seniors and people with disabilities (OECD, 2021[45]).

The missing entrepreneurs

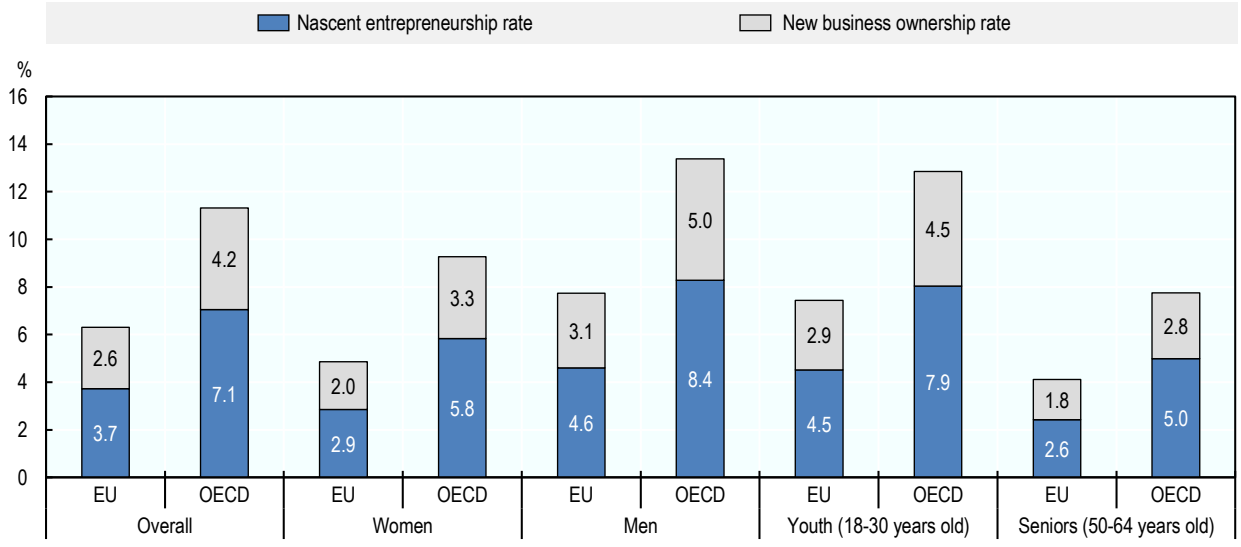
Many groups have fewer opportunities to be entrepreneurs…

While many people are interested in becoming an entrepreneur, not everyone has the same opportunity to start a business. Nearly 4% of the population between the ages of 18 and 64 years old in the EU and 7% in OECD countries were actively trying to start a new business in the period 2016-20 (i.e. pre-COVID pandemic) (Figure 1.9). Across EU Member States, women were about 60% as likely as men to be involved in business creation and seniors were 70% as likely as adults. While youth were relatively active in pre start-up activities, fewer than two-out-of-three go on to create a new business, whereas more than 70% of the total number of nascent entrepreneurs go on to create a new business.

There are also differences in many business characteristics. These include the likelihood of employing others, growth ambitions, activity levels in international markets and likelihood of introducing new products and services. For example, women entrepreneurs, on average, are less likely to have employees and growth ambitions than men entrepreneurs. Further discussion on these gaps is provided in Chapters 2-6.

Figure 1.9. Early-stage entrepreneurship rates vary across population groups

Share of the population (18-64 years old), population weighted average for the period 2016-20



Note: The nascent entrepreneurship rate measures the proportion of the population 18-64 years old that is actively involved in setting up a business they will own or co-own. This business has not paid salaries, wages or any other payments to the owners for more than three months. The new business ownership rate measures the proportion of the population that is currently an owner-manager of a new business that has paid salaries, wages or any other payments to the owners for more than three months, but not more than 42 months. Data for the EU exclude the following member states because they did not participate in the GEM survey over this period: Czech Republic, Denmark, Lithuania and Malta. Data for the OECD exclude the following countries because they did not participate in the GEM survey over this period: Czech Republic, Denmark, Iceland, Lithuania and New Zealand.
Source: (GEM, 2021[41])

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…since they face greater obstacles to business creation

All entrepreneurs face a range of challenges starting their business but some face more and greater barriers. These fall into four broad categories: institutional barriers, difficulties accessing to finance, a lack of entrepreneurship skills, and small or ineffective networks (Table 1.1). Many different barriers are often inter-related. For example, someone with low levels of entrepreneurship skills will have more difficulty identifying sources of potential financing for their business and will likely have difficulties building strong networks since they are less effective at identifying opportunities. These barriers are influenced by a range of factors including gender, age, ethnicity and immigration status, as well as health, employment status, work experience and education. The interaction of these factors results in differences in barriers across different groups of entrepreneurs (e.g. women, immigrants, youth, seniors, people with disabilities) as well as within groups (e.g. young women, immigrant women, highly-educated women).

The greater likelihood of facing barriers does not mean that all people in these groups are disadvantaged in entrepreneurship. There are numerous examples of successful entrepreneurs across all groups. This, however, does not mean that everyone should be pursuing entrepreneurship and that policies and programmes should seek to turn everyone into an entrepreneur.

Table 1.1. Barriers to entrepreneurship for under-represented and disadvantaged groups

Types of barriers		Examples
1. Institutional barriers	a. Normative barriers	• Gender norms that influence labour market participation by women. • Stereotypes and prejudices for people with disabilities in the labour market.
	b. Regulatory barriers	• Income tax policies that favour single-income households • Income support benefits for people with disabilities may be reduced or removed when income is earned.
2. Access to finance		• Youth have lower levels of savings and collateral, making access to external debt financing more difficult. • Unconscious investor bias is one of several factors that results in women entrepreneurs receiving lower amounts of risk capital.
3. Entrepreneurship skills		• Gender gaps in self-perceived levels of entrepreneurship skills. • People over 50 years old are less likely to have digital skills.
4. Networks		• Language challenges can prevent immigrant entrepreneurs from building networks in their new business community. • Senior entrepreneurs may have outdated networks, or irrelevant networks if they operate a business that is unrelated to their earlier career.

Source: (OECD/The European Commission, 2013[58]; Marchese, 2014[59]; OECD/EU, 2015[60])

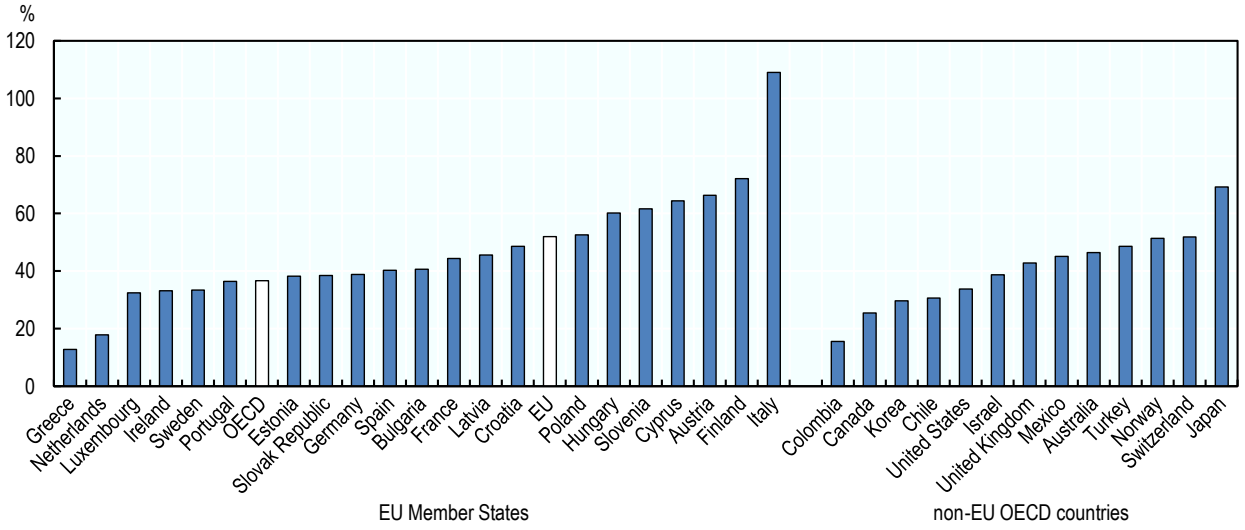
Three-quarters of the 9.4 million "missing" entrepreneurs in the EU are women…

Another way to look at gaps in entrepreneurship is to estimate the number of "missing" entrepreneurs, which is the number of entrepreneurs that there would be if there were no gaps in entrepreneurship activity rates. If the early-stage entrepreneurship rate of the overall population was set to the same rate as core-age males (30-49 years old), there would be an additional 9.4 million early-stage entrepreneurs in the EU and 34.6 million in OECD countries. These shares represent 52% and 37% of the total number of early-stage entrepreneurs (Figure 1.10).

At the country level, the relative number of "missing" entrepreneurs is inversely related to the actual number of entrepreneurs. Countries with high levels of early-stage entrepreneurship tend to have a low number of "missing" entrepreneurs (e.g. Greece, the Netherlands) and countries with low levels of early-stage entrepreneurship tend to have a high number of "missing" entrepreneurs (e.g. Finland, Italy).

Figure 1.10. The number of "missing" entrepreneurs represent 52% of all early-stage entrepreneurs in the EU

Ratio of "missing" entrepreneurs relative to the total number of early-stage entrepreneurs, average for 2016-20



Source: OECD calculations based on (GEM, 2021[41])

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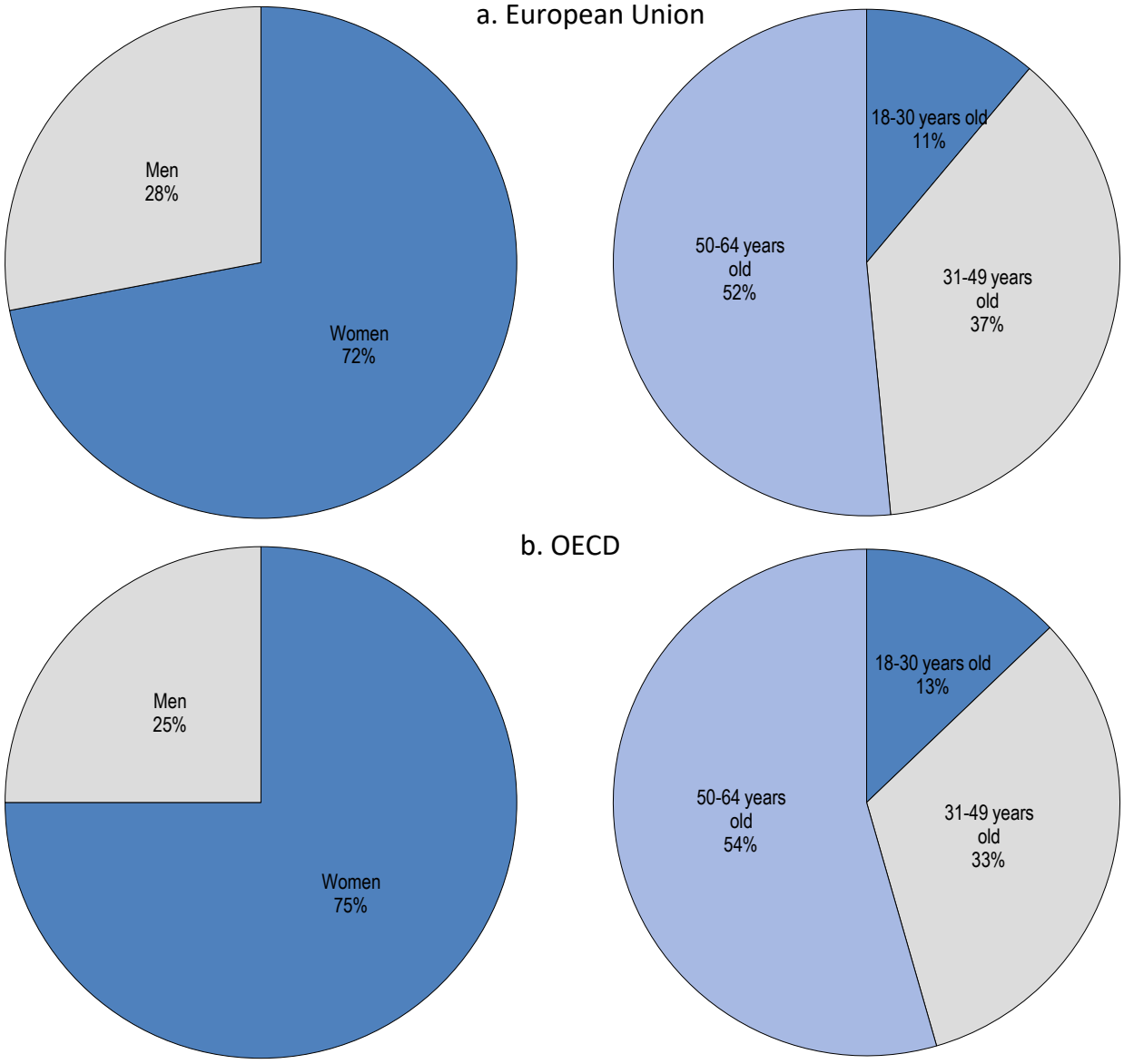
A more nuanced picture emerges when this exercise is taken a step further to look at the number of "missing" entrepreneurs in each target group. Across EU Member States and OECD countries, about three-quarters of the "missing" entrepreneurs are women and slightly more than half are over 50 years old (Figure 1.11). This underlines that women and seniors are the most under-represented groups in entrepreneurship and that policy needs to put greater efforts into addressing the barriers for these groups.

Figure 1.11. The majority of the "missing" entrepreneurs are women and those over 50 years old

Distribution of the "missing" entrepreneurs by gender and age, average for 2016-20



Source: OECD calculations based on (GEM, 2021[41])

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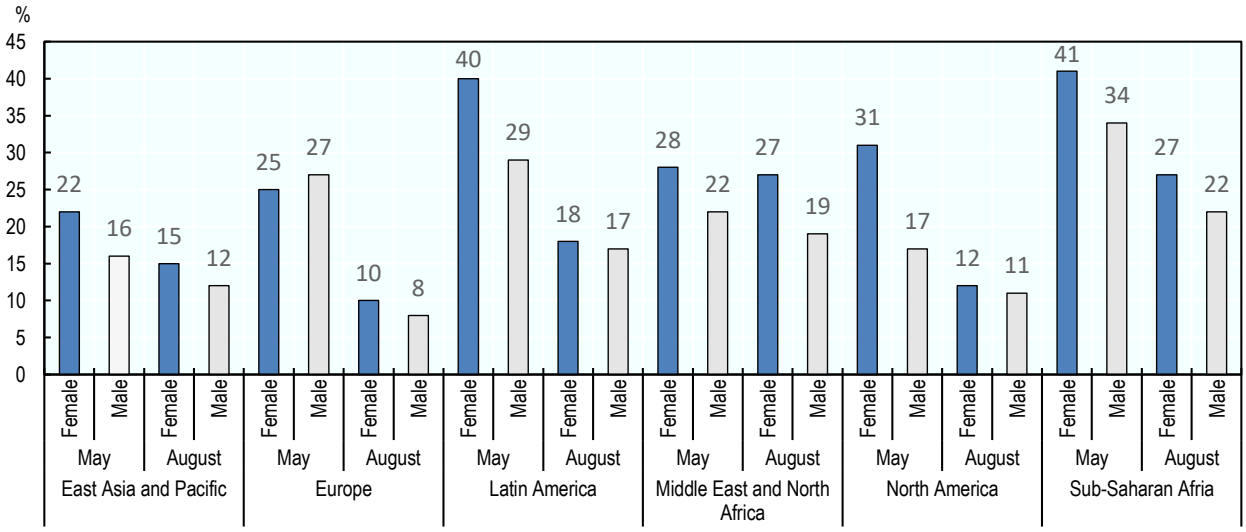
…and women entrepreneurs were disproportionately impacted during COVID-19

Women-led businesses across the world have been more likely to close during the COVID-19 pandemic than their men-led counterparts (Figure 1.12). The global closure rate for women-led businesses (27%) was about seven percentage points (p.p.) higher than for men-led SMEs (20%) between January and May 2020. While this gap in business closure rates has closed over time, the closure rate for women-led businesses remained two p.p. higher than for men-led businesses in October 2020 (16% vs. 14%). This gender gap in closure rates narrowed across all regions between May and October 2020,

except for sampled countries in Europe and the Middle East and North Africa region where the gender gap increased slightly.

Figure 1.12. Female-led businesses were more likely to close during the COVID-19 pandemic

Business closure rates, 2020



Source: (Facebook/OECD/World Bank, 2020[61])

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A growing body of evidence at the country-level confirms that a higher proportion of women entrepreneurs have closed their businesses than men. In Germany, for example, self-employed women were more likely than men to experience an income loss of more than 35% (Graeber, Kritikos and Seebauer, 2021[62]). Similar evidence is also found in non-EU OECD countries. In the United States, the number of female business owners fell by 10% between February and June 2020, compared with 7% for males (Fairlie, 2020[32]; Fairlie, 2021[18]). Self-employed women were also 13 p.p. more likely to experience work absence and 24 p.p. more likely to be unemployed than self-employed men (Grashuis, 2021[19]). However, the number of female business owners recovered in the second half of the year to the level of February 2020, whereas the number of male business owners declined by 9% for the year (Fairlie, 2021[18]). Similarly, an intersectional analysis of the effects of the COVID-19 pandemic on women in the UK underlines that low-income earners and immigrant women were the most affected (Martinez Dy and Jayawarna, 2020[63]). While self-employed exits in the UK were not found to have a gender gap, self-employed women were more likely to experience reductions in hours worked and earnings (Reuschke et al., 2021[64]). A similar gap was found in Canada and this gap was greater among women who have a disability or were an immigrant (Mo et al., 2020[65]).

Several factors explain the higher closure rates for women-operated businesses, of which the sector of operation is one of the strongest explanatory variables. Across most EU Member States and OECD countries, women are over-represented among the hardest hit sectors (both as self-employed and employees), namely personal services, accommodation and food services, arts and entertainment, and retail trade. International evidence shows that women are also over-represented among sectors that have been closed in EU Member States due to containment measures (Fana et al., 2020[34]). Sector effects are exacerbated by the pre-existing vulnerable position of women entrepreneurs who, on average, operate smaller businesses than men, are more reliant on self-financing and have smaller networks upon which they can draw social and financial resources (OECD/European Union, 2019[66]; OECD/EU, 2016[67]).

Women entrepreneurs have also been much more likely to have greater household responsibilities during the COVID-19 pandemic. This has led to a reduction in the time available to spend working on their business. About one-quarter of all women business leaders stated that they spent six hours or more per day on domestic responsibilities between May and October 2020, whereas only 11% of all male business leaders reported undertaking this amount of household work (Facebook/OECD/World Bank, 2020[61]). These responsibilities include home-schooling and childcare, both of which were more likely to be reported as having a negative impact on business activities by women entrepreneurs.

Immigrant entrepreneurs have been hit hard by the COVID-19 pandemic…

There is a growing body of evidence that shows that the effects of COVID-19 on self-employed immigrants have been disproportionately negative in terms of business closures and hours worked. For example, the number of immigrant-owned businesses dropped in Canada by 16% between February and May 2020 compared with an overall drop of 13% (Beland, Fakorede and Mikola, 2020[15]). Moreover, the number of hours worked by self-employed immigrants in Canada also declined 44% over this period. Similarly, the number of immigrant business owners in the United States declined 18% between February and June 2020, which is more than double the overall rate of decline (8%) (Fairlie, 2020[33]). These findings are also confirmed by research in the UK (Reuschke, Henley and Daniel, 2020[68]).

These negative effects are driven by several factors, notably the sectors in which self-employed immigrants operate. Self-employed immigrants are over-represented in sectors that have been most heavily impacted by containment measures such as the hospitality sector. Immigrants account for more than 40% of self-employment in the hospitality sector in several EU Member States such as Denmark, Germany, Luxembourg and Sweden and non-EU OECD countries such as Canada and Norway (OECD, 2020[69]). Additionally, there is evidence suggesting that geographical location and living accommodation conditions exert a significant influence on the health and economic experiences of immigrant populations. Geographically, immigrant populations tend to live in urban areas (International Organization for Migration, 2019[70]), and often within poorer neighbourhoods where the health effects of COVID-19 are reportedly higher and COVID-19 testing capabilities significantly lower. Immigrants are also more likely to live in sub-standard accommodation and are twice as likely to live in overcrowded dwellings (OECD, 2020[69]). Such conditions present an environment that facilitates a greater risk of exposure to COVID-19, often resulting in higher incidences of mortality (Bambra et al., 2020[71]).

Finally, there is also evidence that self-employed immigrants vary in their resource capabilities, which impacts their ability to respond to an economic crisis. A common challenge for immigrant households is their low levels of savings. For example, surveys in the UK found that 30% of Bangladeshis, black Caribbean and black Africans were found to live in households with enough savings to cover one month of income, compared with 60% of the rest of the population (Platt and Warwick, 2020[72]). Such low levels of savings remove any ability to absorb a negative economic shock. This affects both their resilience and opportunity to respond when there is an upturn in the economy.

For additional discussion on the impacts of the COVID-19 pandemic on immigrant entrepreneurship, please see Chapter 8.

…the youth and senior entrepreneurs have also been disproportionately affected in most countries

The COVID-19 pandemic poses considerable challenges for youth related to education, employment, mental health and disposable income. Youth have experienced higher rates of job loss and drops in working hours than all other age groups (Adams-Prassl et al., 2020[73]; Eurofound, 2020[8]; OECD, 2021[1]). This is particularly concerning for youth first entering the labour market as their job

prospects have evaporated (Gardiner and Slaughter, 2020[74]) and for disadvantaged youth (e.g. school drop-outs) who already faced difficulties entering work.

There is evidence to suggest that young self-employed people have been more likely to be negatively impacted by COVID-19. An analysis of labour force survey data in the UK found that about 26% of self-employed youth (16-29 years old) were at risk of losing their work due to sector of operation relative to 23% of those working as employees (Henley and Reuschke, 2020[43]). Moreover, the analysis found nearly half (47%) of young self-employed women (16-29 years old) were at risk relative to 16% of young self-employed men. However, evidence from Canada suggests that while young entrepreneurs have been impacted by the pandemic, the effects were smaller overall than for other age groups. Between February and July 2020, there was a decline in business ownership by those aged 25-34 years old of 9.8%, the lowest drop of all age categories (Beland, Fakorede and Mikola, 2020[16]). The 25-34 years old category also had the smallest decline in hours worked (-5.9%).

Self-employed seniors have faced greater impacts of COVID-19 than those in their 30s and 40s in some but not all countries. An analysis in Belgium found that self-employed seniors (50-59 years old) were among the most affected – 28% reported being impacted compared to 24% of those aged 30 to 39 years old (Marchal et al., 2021[75]). However, research in Canada found that there was a 14% decline in business ownership between February and July 2020 in those over 55 years old, less than the drop in those 35-54 years old (-21%) (Beland, Fakorede and Mikola, 2020[16]).

Although the reasons for these results may be related to location, timescale and methodological differences, there appear to be clear differences in the impact of COVID-19 on the self-employed by age. There are several factors that can explain these differences. First, there is an unequal access to resources across age groups since younger self-employed typically have less savings that can be used to weather a crisis and smaller networks that can be used to access resources. Second, self-employed youth are much less likely to employ other people so they have little ability to scale-back their business activities without exiting.

Addressing the crisis with inclusive entrepreneurship policy

The COVID-19 pandemic calls for a greater emphasis on inclusion in entrepreneurship policy

The COVID-19 pandemic has exposed and amplified inequalities in self-employment and entrepreneurship. Those with greater access to resources and those who can pivot their activity have fared better through the COVID-19 pandemic. Moreover, the supportive ecosystem for many entrepreneurs from under-represented and disadvantaged groups has been eroded. Many support organisations have eliminated face-to-face activities and services, and also face declining memberships. In addition, there is emerging evidence that the self-employed, particularly self-employed women, have suffered more adverse effects on mental health than employees.

Inclusive entrepreneurship policies aim to ensure that all people, regardless of their personal characteristics and background, have an opportunity to start and run their own businesses. They seek to support groups such as women, immigrants, youth, seniors, the unemployed, and people with disabilities. In some countries, other groups may be of particular importance too, such as the Roma minority. The objective of inclusive entrepreneurship policies is twofold:

- Ensure that people in these groups are aware of the potential that entrepreneurship may have for them as a labour market activity and to build motivations for pursuing them;
- Address market, institutional and behavioural failures that disproportionately affect people in under-represented and disadvantaged groups. This includes addressing barriers in financial markets and

barriers to acquiring entrepreneurship skills, building entrepreneurial networks and fostering an entrepreneurial culture. It would be expected that by addressing these barriers, there would be an increase in the amount of entrepreneurship activities by these groups as well as an increase in the quality of the businesses created so that they are more sustainable and innovative.

Despite these objectives, governments need to resist trying to turn everyone into an entrepreneur since not everyone will be successful. However, another outcome sought is to improve labour market attachment. By helping people acquire skills and work experience, and build networks, they also become more employable. Moving people from these groups into employment is a desirable outcome as entrepreneurship may not be an appropriate career path for all. Inclusive entrepreneurship policies can contribute to government actions in the aftermath of the COVID-19 pandemic to:

- Strengthen societies by increasing participation in work and society and supporting diversity in the labour market;
- Stimulate growth and create jobs by harnessing the entrepreneurial talents across all population groups;
- Prepare people for the future of work by helping everyone develop entrepreneurial mindsets and learn how to work in flexible ways;
- Address rising unemployment by upskilling the unemployed and supporting them in business creation.

Approaches to inclusive entrepreneurship policy vary greatly across countries. Depending factors include political priorities, cultural attitudes towards inclusion and equality, budget allocations for entrepreneurship policies and programmes and approaches to active labour market policy. One important area of action is to improve the conditions for entrepreneurship with attention paid to how the determinants of entrepreneurship impact groups differently (Figure 1.13). This includes, for example, removing disincentives in regulatory systems for some groups (e.g. tax policies that favour single income households), positively influencing social attitudes towards labour market participation and entrepreneurship by everyone (e.g. women, seniors, people with disabilities) and improving access to entrepreneurship education and training for everyone. Many governments use targeted and tailored schemes to provide support to specific groups, which typically seek to build entrepreneurship skills, facilitate access to finance, raise awareness about the potential of entrepreneurship, build entrepreneurship networks and use regulatory instruments to enhance entrepreneurship opportunities.

While the use of dedicated support schemes can be effective, their success is often determined by the extent to which they are designed and delivered in an appropriate manner for the target group. Programme evaluations show a critical success factor is whether or not the schemes reach their intended target clients. This calls for special attention to outreach methods since people access information through different channels. For example, a youth entrepreneurship mentoring scheme would likely be more effective at reaching young people if it was promoted on social media. However, this approach is likely not effective for seniors. Similarly, the content and delivery methods can also be more effective if they are designed for the particular needs of the target group. This can also hold true for general entrepreneurship schemes. Efforts to adjust outreach, content and delivery for specific groups can make the schemes more attractive and more effective for different target groups (OECD/The European Commission, 2013[58]).

Evaluation is an important but under-utilised tool in inclusive entrepreneurship policies and programmes. This includes ongoing monitoring and *ex post* evaluation to identify strengths, weaknesses and gaps in support, as well as *ex ante* evaluation that is used to inform policy design. In general, evaluation practices for inclusive entrepreneurship policy lag behind those of other policy areas. This represents a missed opportunity to design effective policy interventions (OECD/EU, 2013[76]).

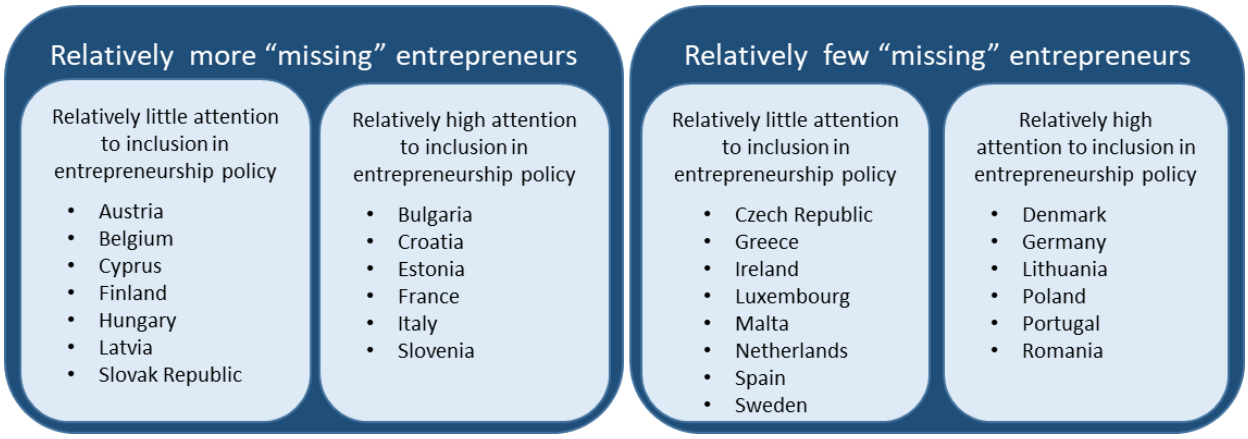
Figure 1.13. Approaches to inclusive entrepreneurship

1. Improving the conditions for entrepreneurship	Regulatory framework											
	Market conditions											
	Availability of finance											
	Knowledge creation and diffusion											
	Entrepreneurial capabilities											
	Culture											
2. Delivering tailored support through dedicated programmes	Entrepreneurship skills			Access to finance				Social capital and culture		Regulations		
	Training	Coaching and mentoring	Business consultancy, incubators and accelerators	Grants	Loans	Microfinance	Other (Crowdfunding, risk capital, etc.)	Entrepreneurship campaigns, including role models	Networking initiatives	Support with understanding and complying with administrative procedures	Target group-specific measures to address group-specific regulatory challenges	
3. Ensuring appropriate design and delivery mechanisms in dedicated and general programmes	Outreach											
	Selection criteria											
	Content											
	Delivery methods											
	Packages of inter-related supports											
4. Using evaluation as a policy development tool	*Ex ante*, monitoring, *ex post*, feedback											

There have been several positive developments in the EU over the past decade…

Inclusive entrepreneurship policy has advanced over the previous decade as awareness of these types of policies has grown since the 2008-09 financial crisis. The OECD monitors inclusive entrepreneurship policies across EU Member States through a regular biennial assessment of inclusive entrepreneurship policies and programmes across EU Member States (for more information, please see Reader's Guide). Through this assessment, four important developments have been identified: increased profile of inclusive entrepreneurship issues in high-level policy documents; a growing sophistication of support for women entrepreneurs; experimentation with new financing instruments to support inclusion in entrepreneurship, and strong attention paid to tailored entrepreneurship coaching and mentoring. Member States tended to group together along two axes: the number of "missing" entrepreneurs and the level of consideration given to inclusion in the suite of entrepreneurship policies and programmes (Figure 1.14). Those with relatively more "missing" entrepreneurs are those countries where the ratio of "missing" entrepreneurs to actual early-stage entrepreneurs is above the EU average. Similarly, those countries with relatively high attention to inclusion in entrepreneurship policy are those that had policy scores above the EU median.

Figure 1.14. Inclusive entrepreneurship policy across EU Member States



Note: For individual country assessment notes, please see (OECD, 2020[77]).

The awareness and visibility of inclusive entrepreneurship issues has increased. Since the financial crisis in 2008-09, numerous high-level policy documents and action plans such as the Europe 2020 Strategy and the EU Entrepreneurship Action Plan have drawn attention to gaps in entrepreneurship. As a result, EU Member States and regions are increasingly considering the needs of different population groups when designing and implementing entrepreneurship schemes. In 2020, more than 60% of EU Member States had tailored entrepreneurship strategies for youth and about half had strategies for supporting women and the unemployed in entrepreneurship. However, many of these countries can go further to more clearly define their objectives and targets for supporting these groups in entrepreneurship. Moreover, it is clear that less consideration is given to immigrants and seniors in the design of entrepreneurship policy.

The entrepreneurship landscape is also changing and governments are reacting, including some initial experiments with fintech. About a handful of EU Member States have started to experiment with these new methods of supporting finance for inclusive entrepreneurship. While a small number of public risk capital schemes were identified (OECD, 2020[77]), the most common approach currently used is public crowdfunding platforms. Regional and national governments are supporting these platforms in various ways, including matching funds raised and creating platforms that specialise in projects that focus on inclusion and social issues. For more on the potential of fintech in inclusive entrepreneurship policy, please see (OECD/EU, forthcoming[78]).

The use of tailored entrepreneurship coaching and mentoring is also growing and appears to now be as common as tailored entrepreneurship training for all target groups. Evaluations often show that entrepreneurship coaching and mentoring is an effective method of helping someone develop entrepreneurship skills since the support is based on an individual's needs (OECD/European Union, 2014[79]). Several different models are used, including the use of professional coaches and mentors, volunteer coaches and mentors from large corporations, group coaching and peer coaching. The keys for successful coaching and mentoring are to ensure an effective match between the entrepreneur and the coach/mentor considering type of business, sector and ambitions, and to ensure that the relationship is focussed on learning and development to avoid creating a dependence on the coach/mentor.

…but some gaps and areas for improvement remain

Despite the growth in tailored entrepreneurship support for youth and women, the quality of offers is uneven. Moreover, there is an insufficient focus on business development and growth. The majority of

inclusive entrepreneurship support schemes focus on business creation (e.g. training, grants) and much less support is offered to help entrepreneurs develop and grow their business (OECD, 2020[77]).

A second gap in the suite of inclusive entrepreneurship policy in the EU is that less attention is paid to groups such as immigrants, seniors and people with disabilities. Despite being slightly under-represented among business owners, immigrants are over-represented among high-growth entrepreneurs in many countries such as Canada (Picot and Rollin, 2019[80]) and the United States (Lofstrom and Wang, 2019[81]). High-skilled immigrants workers and entrepreneurs boost innovation – a key to long term growth (Aydemir, 2020[82]) – and can also have positive spill overs including increasing wages for low-skilled workers and non-immigrants (Aydemir, 2020[82]) and greater innovation among non-immigrants (Candel-Haug, Cuntz and Falck, 2018[83]). However, public policy efforts to tap into this potential appear to be limited (see Chapter 8 for further discussion). In addition, despite the awareness of the potential of senior entrepreneurship raised by the EU Year of Active Aging (2012), there are still few tailored schemes to support senior entrepreneurs. Governments could do more to help seniors who are interested in extending their career by transitioning into self-employment before full retirement. Similarly, self-employment holds potential for people with disabilities since they can manage their work in accordance with their personal circumstances, particularly in a context of increased telework. Despite being as likely to be self-employed as the overall population, entrepreneurs with disabilities have difficulties benefiting from support schemes because they are inaccessible, inflexible or irrelevant for the types of businesses operated by this group. Most support for people with disabilities is offered through the non-governmental sector and some countries may have unmet demand for entrepreneurship support. For further discussion on entrepreneurship by people with disabilities.

Finally, there continues to be a strong reliance on non-repayable financial instruments to support inclusive entrepreneurship, especially for youth and the unemployed. For these two groups, grants are the most common form of start-up financing offered by governments. This can be justified by the low levels of savings and collateral that youth and the unemployed typically have and some countries require that the funds are paid back if the business does not survive a minimum length of time (e.g. two years in Latvia). However, non-repayable financial support is often not sufficient to launch a sustainable business and does not create strong incentives for the entrepreneur to ensure that their business survives. Other instruments such as microfinance (see Chapter 7) and loan guarantees create risk sharing between the public and private sectors to reduce the cost of debt.

The COVID-19 crisis also reinvigorated the debate about social protection for the self-employed…

Social protection schemes are policies and programmes aimed to support a standard of living. These measures are designed to reduce poverty and vulnerability by diminishing risk exposure and augmenting capacity to manage economic and social risks. Overall, the lack of social protection constitutes a major obstacle to economic and social development and leads to higher economic uncertainty and heightened vulnerability among individuals who do not have sufficient coverage. In the long run, the gaps in access to social protection may put at risk the welfare and health of individuals, contribute to increasing economic uncertainty, poverty risk and inequalities, and may also lead to suboptimal investment in human capital, reduce trust in institutions and limit inclusive economic growth.

Social security systems were primarily developed for and remain geared towards workers in "standard employment relations", implying a long-term, full-time work relationship. Self-employed and other non-standard workers can lack (full) social protection coverage either because they cannot contribute and therefore benefit (lack of formal coverage), or because they declare their own income which can fluctuate or be the result of a combination of different income sources. Another issue may be the difficulty in defining and capturing non-standard workers for social security purposes. Globalisation and digitalisation have opened the labour market to new work arrangements, lowering transaction costs and

extending the boundaries of enterprises (OECD, 2018[84]). However, these changes expose workers to new risks and pose new challenges for non-standard workers such as the inability to rely on insurance functions of a standard employment contracts, lower effectiveness of minimum wage floors, an increase of income insecurity due to a lack of fixed working hours, and the inability to access social protection measures (OECD, 2018[84]).

The European Commission adopted a proposal for a Council Recommendation "Access to social protection for all" in December 2018 as part of the European Pillar of Social Rights. This Recommendation was formally adopted by the Council on 8 November 2019 and aimed to support access to social protection schemes for all including non-standard workers and the self-employed not sufficiently covered by social security systems (European Commission, 2018[85]). Key objectives include closing formal coverage gaps, improving effective coverage, enhancing programme adequacy and increasing transparency. EU Member States are recommended to ensure that all workers - especially the self-employed - can adhere to social protection schemes, build-up (transferable) entitlements, receive sufficient benefits in a timely manner, and are informed about their rights and obligations (European Commission, 2021[86]).

A monitoring framework has been established to support implementation. This framework provides performance indicators for formal coverage, effective coverage and adequate coverage across EU Member States and includes a pilot data collection and the mapping of relevant policy levers and data from the Eurostat Survey on Living and Working Conditions. The latest data show a significant gap remains in the social protection coverage of the self-employed and non-standard workers. As of Spring 2021, self-employed workers (or at least groups of them) do not have access to sickness benefits in 4 Member States, to protection for accidents at work and occupational diseases in 8 Member States, and to unemployment insurance in 12 Member States. Moreover, their coverage is voluntary (mostly opt-in systems) for sickness benefits in 13 Member States, for accidents at work and occupational diseases in 7 Member States and for pensions in 9 Member States. Opt-in systems often lead to low take-up rates and therefore in practice to non-coverage for the majority of self-employed. Moreover, access to social protections remains more limited for some groups compared to others such as casual, on-demand work; simplified, short-term fixed contracts; seasonal work; apprenticeships or traineeships and country-specific contracts. These include mini-jobs in Germany, civil law contracts in Poland, agreements to perform a job in Czech Republic, work agreements with irregular income in the Slovak Republic and domestic workers in Spain.

…and the pandemic offers some lessons for the future

The COVID-19 crisis acted as a catalyst for extending social protection coverage to previously uncovered population groups. While many measures have been presented as exceptional and temporary, the COVID-19 crisis has sped up the implementation of the Recommendation. For example, many EU Member States scaled up existing social protection schemes in the early-stages of the pandemic (e.g. extension of short-time work schemes and unemployment benefits) and most provided support to vulnerable population groups through emergency measures, such as flat rate allowances for self-employed workers in Greece (EUR 800), Italy (EUR 600) and Poland (PLN 2000 or EUR 440). However, these supports were not always extended to the self-employed and non-standard workers or were offered at later stages of the crisis relative to those with standard employment situations. As the recovery phase continues to unfold, sustained effort in maintaining and reinforcing social protection schemes for all, notably vulnerable and previously unprotected population groups, needs to be upheld.

The next generation of inclusive entrepreneurship policies

As the COVID-19 pandemic comes under control, government economic policy has to switch attention to the post-COVID-19 landscape and economic recovery. It has been recognised widely that

the pandemic has both highlighted and accentuated economic and societal inequalities, which calls for a greater use of inclusive entrepreneurship policies. However, the pre COVID-19 suite of policy actions may not be sufficient or appropriate for a post COVID-19 economy.

Make entrepreneurship policy more gender sensitive

To strengthen the suite of support for women entrepreneurs, an important first step is to adopt a more inclusive policy making process. This calls for greater involvement of women entrepreneurs, experts and advisers to develop policies and support schemes that address both entrepreneurs' needs and the root causes of gender inequality in entrepreneurship. This could include, for example, setting up a high-level women entrepreneurship committee and women expert policy advisors to advise governments. Another important factor for successful policy making is to advance the collection of more gender-disaggregated data to monitor the effectiveness and impact of entrepreneurship policies for women entrepreneurs.

In addition, governments could invest more in strengthening women enterprise ecosystems. Women's entrepreneurship is supported by a whole ecosystem of business support organisations – often in the non-profit sector – offering access to finance, advice, peer learning, mentoring and more to women entrepreneurs. Governments could do more to leverage this expertise by working with them in policy design and delivery. These organisations have also faced strong impacts due to COVID-19 and may need support to continue their level of services.

Finally, governments can do more to segment support services for women entrepreneurs, especially by increasing support for growth-oriented women entrepreneurs. This can be accomplished by increasing the pool of women business angels and decision-makers in venture capital funds, ensuring that growth-oriented women entrepreneurs have dedicated support programmes, increasing accountability for gender balance in mainstream business growth programmes, and increasing the pipeline of women growth entrepreneurs by supporting young women in STEM fields in their studies and women in leadership senior management positions.

For more discussion on women's entrepreneurship and women's entrepreneurship policy, please see Chapter 2.

Open up pathways to work for young people through youth entrepreneurship programmes

The COVID-19 pandemic has severely disrupted life for young people, including access to education and employment. While it may be too early to fully anticipate the long-term impact of the crisis, increasing levels of youth unemployment and other repercussions may significantly delay their transition to an autonomous life.

Governments can make greater use of youth entrepreneurship schemes to increase access to the labour market for young people. Lessons from evaluations suggest that some approaches to supporting youth entrepreneurship, including using a "funnel" approach that offers small amounts of support to many and more intensive to support to those who can demonstrate success (OECD/European Commission, 2020[87]). This approach calls for short, basic entrepreneurship support offered to a large number of young people, with more intensive follow-up training and grants to those who show an interest in pursuing business creation. Those who are successful in launching a business (or at least advancing towards it) can then access coaching and mentoring, and larger financial supports. This type of approach has demonstrated success with even the most disadvantaged youth, e.g. the Prince's Trust Enterprise Programme (OECD/European Commission, 2020[87]).

At the same time, governments need to continue to support youth entrepreneurs in higher education. These entrepreneurs can bring innovations into the market that respond to the COVID-19 crisis, particularly in digitalisation, and have a strong potential role in helping to drive the economic recovery. The business incubator model holds promise for this profile of youth entrepreneurs since they can effectively deliver packages of support and help them to build their networks.

For more discussion on youth entrepreneurship and youth entrepreneurship policy, please see Chapter 4.

Leverage the potential of immigrant entrepreneurs to create jobs in the recovery

Immigrant entrepreneurs have been, on average, severely affected by the pandemic due to the complex intersection of health, economic and location effects. This has led to substantial drops in the numbers of self-employed and reduced entrepreneurship opportunities. Before the pandemic, the share of immigrants among the self-employed across the EU nearly doubled between 2006 and 2018, increasing from about 6% to 11% (these data exclude Germany because data are not available prior to 2017). Moreover, immigrant entrepreneurs are a driver of job creation, growth and innovation in many countries.

Future inclusive entrepreneurship policies need to do a more effective job of targeting support at immigrants who operate high-potential businesses. Some governments have launched start-up visa programmes to attract immigrant entrepreneurs and a small number offer financial incentives. While many of these schemes reach only a small number of immigrant entrepreneurs, they hold potential for creating jobs, strengthening trade linkages and diffusing innovation. A key to success for these approaches is to build strong linkages between the immigrant-led business and the local community and business support infrastructure (e.g. incubators). However, it also appears to be critical to simplify administrative requirements for moving from an entrepreneurship visa to a residency permit since evaluations often show that entrepreneurs close their business and leave in response to difficulties and delays in receiving a longer-term residency permit.

Furthermore, solo self-employment is an important activity for many immigrants because it provides a means to earn an income and support a family. Governments can do more to improve the sustainability of these businesses, including offering more tailored training, coaching and mentoring to improve the productivity of these businesses. These supports can be offered in different languages and emphasis is needed on building networks with other entrepreneurs and professional support organisations in local communities. However, governments must also recognise that self-employment is not likely to be an effective tool of upward economic mobility for low-skilled immigrants. This calls for support to be concentrated on those with potential for creating productive businesses.

For more discussion on policies to support immigrant entrepreneurs, please see Chapter 8.

Increase use of repayable financial instruments to support inclusive entrepreneurship

All EU Member States continue to use grants to support business creation for people from under-represented and disadvantaged groups, yet there are several disadvantages to this approach (OECD/The European Commission, 2013[58]; Marchese, 2014[59]). First, the funds provided to entrepreneurs will not be directly recovered although a sustainable start-up could repay the grant indirectly through taxes. Second, the entrepreneur may have less of an incentive to ensure the sustainability of their business since they do not have to repay the start-up funds.

Shifting to a greater use of repayable instruments addresses these issues and can also lead to a more effective allocation of funds. The use of microfinance and other debt instruments typically transfers the funding decisions from government policy officers to private sector actors that have an expertise in assessing business proposals. Microfinance schemes are commonly run by non-government or private sector organisations with financial support and risk sharing from governments.

In addition to increasing the use of microfinance, governments can better align the use of these policy priorities, including green and sustainable projects. A key success factor for increasing the impact of microfinance sector will be to get the level of digitalisation correct. There are two competing perspectives on digitalisation in the microfinance sector. One side views the sector as lagging greatly in terms of the adoption of digital tools and practices in microfinance institutions, which leads to inefficiencies with high costs. The other side views face-to-face interaction as a critical success factor in microfinance schemes and that increasing digitalisation in the sector would transform microfinance institutions into fintech companies. There is room to find middle ground by streamlining processes with digital applications and using digital tools to monitor microfinance clients.

For more discussion on the future of microfinance for inclusive entrepreneurship, please see Chapter 7.

Adapt, design and deliver measures at the local level

The impacts of COVID-19 have been uneven across countries, regions and cities, underscoring the need to tailor inclusive entrepreneurship policy interventions to the local conditions. As outlined in this chapter, the impacts of the pandemic on entrepreneurs and the self-employed are largely determined by sector, local containment measures that restrict economic activities and access to resources. Each of these factors is heavily influenced by where the entrepreneur lives and operates their business. Therefore, inclusive entrepreneurship policies need to be designed and implemented in accordance with the local institutional, cultural and social contexts. This includes, for example, ensuring that the trainers, coaches and advisors delivering support reflect the population of entrepreneurs in terms of gender, age and cultural background.

Another recurring theme in examining the uneven impacts of COVID-19 on the self-employed has been the significance and value of working with the existing structures and ecosystems. This is particularly the case for the inclusive entrepreneurship groups that have often developed their enterprises with support from local networks and organisations. Such organisations are more likely to be deeply embedded in different communities (e.g. immigrants), engendering trust and an understanding of the requirements of these groups. Evaluation evidence tends to suggest that this can lead to higher take-up rates among the targeted populations and a greater impact on the business (OECD/The European Commission, 2013[58]).

Go further in embracing digitalisation

A critical future direction of future inclusive entrepreneurship policy is to place a greater emphasis on digitalisation. There has been an irreversible move to the digitalisation of economic activity during the COVID-19 pandemic. This has changed the ways in which enterprises engage with their supply chains and how they meet the changing purchasing behaviour of customers. The pandemic has also stimulated a move towards more digital ways of working including homeworking and a decline in workplace attendance. These trends create new opportunities for entrepreneurs, but also create new challenges. Not all entrepreneurs have access to these opportunities due to a lack of digital skills and other barriers such as lack of funds to invest in digital technologies (OECD/European Union, 2019[66]). The accelerated move towards digitalisation may also increase the gap between those that are digitally aware and those that are not (Sostero et al., 2020[88]). This calls for increased actions to develop basic digital skills across the population including an increase in the availability of training programmes that are designed for and delivered to specific groups.

Governments can increase support for the self-employed and entrepreneurs to support them in adopting digital technologies, practices and models. This could include, for example, actions that increase awareness about the benefits of digitalisation, such as information campaigns and workshops. More can also be done to support the development of advanced digital skills (e.g. online marketing, digital

security, process management) through tailored workshops and training sessions. Those entrepreneurs with higher potential for digitalising their businesses could be offered more intensive support through specialised business development services and technology extension programmes.

At the same time, more can be done to increase digitalisation within inclusive entrepreneurship programmes. Throughout the pandemic, programmes have had to adapt to containment measures by delivering support through online channels. Programme managers have often reported improved reach of programmes as well as improved monitoring of participants, without a noticeable decline in client satisfaction. This calls for a more thorough evaluation of digital delivery mechanisms during the pandemic to understand what worked well and how digital delivery mechanisms can be improved in the future.

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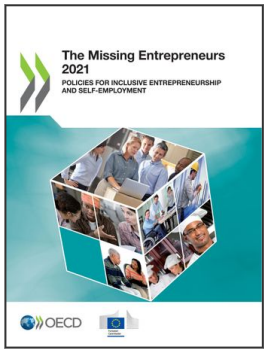
Notes

[1] The measure of business ownership in the CPS captures all business owners including those who own incorporated or unincorporated businesses, and those who are employers or non-employers.

[2] *Essential and fully active sectors* are food production, utilities, health and all the other sectors identified as essential in each country. In these sectors, most employment continues operating with normality. *Active but via telework* includes education, most of public administration, finance, insurance and telecommunications. Most employment in this sector is also maintained even in strict confinement, but with telework. This also includes professional, scientific and technical activities, even though they are explicitly considered as non-essential in the three countries. *Mostly essential and partly active, not teleworkable* includes a significant part of retail and manufacturing of chemicals and paper, which remain to some extent active even in the strict confinement situation. *Mostly non-essential and partly active, not teleworkable* includes the majority of manufacturing sectors not previously mentioned, as well as some machine and computer repair activities and construction. These activities are not essential nor teleworkable; but since they generally do not involve direct interaction with clients, in regular confinement situations they are normally allowed to function (under strict conditions). *Closed* includes hotels, restaurants and accommodation, estate and travel agencies, plus leisure and recreation services. These are not essential and explicitly closed by all the confinement decrees analysed, and they cannot continue to function via telework.

[3] The same measure may be included in more than one business type.

Part I Inclusive entrepreneurship indicators: Activity rates and barriers



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