

What are the impacts of COVID-19 on self-employment and what policies are needed?

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With participation of delegates from the Working Party for SMEs and Entrepreneurship (WPSMEE) and Local Economic and Employment Development (LEED) Committee

The issue: The COVID-19 pandemic and the restrictions on economic activity that governments have put into place as a result are having major impacts on the self-employed. The growth in unemployment has been greater for the self-employed than for employees and self-employed people are often facing great difficulties in keeping their businesses afloat. However, the COVID-19 crisis is having uneven effects on the self-employed population. Those operating higher-margin businesses and making use of digital technologies, or those who have been able to quickly transform their businesses, have had better outcomes, tending to exacerbate existing inequalities. Challenges for policy are to help the self-employed to survive the crisis as well as secure a shift to better quality self-employment post-crisis.

Governments have introduced a range of economic measures to support businesses and workers to survive the crisis and exit recession. One of the difficulties encountered is that the self-employed have not always been able to access the support made available to businesses or employees, and governments have often sought to adjust policy design and eligibility criteria. Some countries have introduced successful dedicated schemes aimed specifically at the self-employed or are considering new measures.

The OECD held an initial webinar in April 2020 in order to assess the impacts of COVID-19 on the self-employed and to identify the policy measures governments were taking to support them. This webinar aims to examine the evolution of the impacts and the policies since then. This event will consider the following key questions:

1. Have support measures to date been effective at reaching and supporting the self-employed?
2. Have new measures been introduced since April 2020 to support the self-employed during the COVID-19 crisis?
3. How can COVID-19 policy measures for the self-employed be improved?
4. How should the new generation of self-employment policies post-COVID-19 be different to those of the past?

1. Context and policy options

David Halabisky (Economist, Entrepreneurship Policy and Analysis Unit, CFE, OECD) made a presentation about self-employment in OECD countries as context for the discussion. He highlighted the significance of self-employment in the labour market (i.e. they account for about 15% of the labour force; about one-third employ others) and the diversity among the self-employed population in terms of activity, hours worked, etc. Moreover, many of these characteristics are changing (e.g. 13% of the self-employed work part-time, up from 10% in 2000; more than one-third have a tertiary, up from 20% in 2000).

Prof. Robert Blackburn (University of Liverpool, United Kingdom) made a presentation that covered the impact of COVID-19 pandemic on the self-employed, the policy response and the effectiveness of the policy response.

The COVID-19 pandemic has had an uneven impact across countries and over time due to the spread of the virus and the type of containment measures. The self-employed work in sectors that have been twice as likely to be impacted due to containment measures, which has led to significant loss of income, customers and network disruptions. Moreover, these effects have likely be uneven within the self-employed population. Overall, about 20% report that they are considering giving up their activity.

Prof. Blackburn noted that governments' responses worldwide have been substantial and unprecedented, particularly with income support and financial measure to keep businesses afloat. Although it is difficult to fully understand the impact of the measures, because of their newness and absence of formal evaluations, the initial impression is that that there have been numerous successful measures. There have been particular challenges relating to the assimilation of what support is available, its accessibility and the processing of claims. Moreover, the eligibility criteria appear to have accentuated inequalities amongst the

self-employed. Take-up rates appear to have been lower among groups that may need the support most (e.g. low incomes, part-timers, freelancers). The speed of roll-out of the measures has led to some self-employed being over-compensated and some uncompensated. There are also estimates that the fast roll-out has led to a high proportion of false claims (about 9% of employees claiming income support have been ineligible).

Going forward, policy makers need to find a way to transition the self-employed off income support measures, and move towards stimulating business development, innovation and digitalisation. It will be important for these new measures to also meet the heterogeneity of the self-employed and address the “divides” in self-employment.

The discussion focussed on how self-employment policy should take into account its differentiation, such as sector. Some countries such as the Netherlands considered making designing support measures around sectors but difficulties were encountered around clearly defining sectors and accounting for supply chains that contain businesses across a range of sectors.

2. Country policy responses

ITALY – Prof. Salvatore Zecchini (Chair of the WPSMEE Informal Steering Group on SME and Entrepreneurship Financing)

Prof. Zecchini noted that in the current severe recession, self-employment declined more than overall employment, but both decreased less than GDP. The initial policy response included deferrals in taxes, social security contributions, fiscal filings, utilities, rents and leases. In addition, there was a ban on loan revocations and several guarantee instruments were boosted with increased endowments and greater coverage. These measures were strengthened with a subsequent package of support in the second half of the year that included an extension of initial measures and new support for R&D, innovation, capital investments and training. There were also new dedicated funds for women entrepreneurs and for industrial zones in crisis. On the whole, policy approach in the second half-year has become more selective in terms of both geographical extent of disruptions in business activities and beneficiaries of support. At the same time, a number of forward-looking measures were introduced to prompt the revival of economic activity.

The Ministry of Finance has estimated the impact of these support measures. Without Government support, it is estimated that there would have been significant losses in disposable income for both workers on furlough and still active workers. According to these simulations, income support has had led to a greater reduction in the risk of poverty for the self-employed than for employees. Furthermore, self-employed liquidity risk in locked-down sectors would have declined more than that of employees on furlough.

Looking ahead, it is important for policy makers to avoid creating a dependency on state aid among the self-employed and SMEs. There is a need to revive entrepreneurship and support the transition towards digitalisation and the green economy. It is also critical to continue to closely monitor the effectiveness of support measures and to adjust when needed.

POLAND – Ms. Agnieszka Majcher-Teleon (Ministry of Development, Labour and Technology)

The initial policy response focussed on three principles: providing fast support with minimal formalities, utilising digital procedures, and offering different instruments for different population groups. These measures lasted for three months at most and were complemented with new measures that were sector-based. These new measures were similar to the initial response, but there is a greater use of conditions (e.g. decrease in turnover, compliance with sanitary rules).

The Polish experience appears to have limited both increases in unemployment and business closures. The low-interest loan from the Labour Fund (up to PLN 5 000) to cover business activities has had a wide reach – nearly all eligible entrepreneurs have benefited.

The new sector-based measures are challenging for the self-employed because eligibility issues remain. The self-employed can be excluded when they provide inputs (e.g. services) into other sectors because they do not work in eligible sectors.

NETHERLANDS – Koen Koolstra (Ministry of Social Affairs and Employment)

An initial stimulus package to save employment and compensate businesses was implemented in March (initially announced for approximately EUR 18 billion for three months). The package had three pillars:

1. Employees (NOW): companies compensated up to 90% of the wage costs (if employees were not laid off in that period);
2. Self-employed (Tozo): temporary benefit scheme on the municipal level that provides benefits at the level of social assistance without means-testing; and
3. Companies: reimbursement of fixed costs (TVL), tax-delays & easier access to loans.

The support for the self-employed (Tozo) was composed of a monthly grant of EUR 1 000 to EUR 1 500, based on household income, as well as a one-time loan of roughly EUR 10 000. The support was not means-tested and nearly all of the self-employed were eligible (at least 23.5 hours worked per week).

The initial Tozo measures were used by about 375 000 people and have been updated several times. Tozo 2 (June-October 2020) and Tozo 3 (October 2020 – April 2021) extended the initial measures but added conditions based on household income. Tozo 2 had about 125 000 applicants while Tozo 3 has 60 000 applicants until the end of October. Tozo 4 will run from April 2021 to June 2021 and it will add further conditions based on financial resources. As of January 2021, Tozo will focus on a re-orientation of the self-employed by municipalities.

It is still too early to draw conclusions about the effectiveness of the Tozo measures. However, it is clear that the take-up was high – about one-quarter of the self-employed used the measures. Moreover, it appears that the measures for the self-employed reduced the number of self-employed people in serious financial difficulty in half. However, business bankruptcies (including those of the self-employed) are at the lowest point in the last 20 years, which suggests that many businesses have been sustained that normally would have exited.

The discussion focussed on access to support measures and whether restrictions to support is being done too quickly. All of the cases presented have increased the conditions on access to support measures and a strong motivation for doing this was to prevent creating a dependency on public support. It appears that innovation and business development have stalled so support measures need to have sunset clauses to ensure that firms have incentives to innovate and develop.

3. Key takeaways

Dr. Jonathan Potter (Head, Entrepreneurship Policy and Analysis Unit, OECD) provided some brief concluding remarks. He underlined the importance of the policy issue, underlining that the self-employed account for 15% of the labour market and they employ even more people. Policy has responded quickly to the COVID-19 pandemic with a range of support measures (e.g. tax credits, grants, loans). However, there have been criticism of the policy response, including:

1. Eligibility criteria (e.g. hours-worked thresholds, previous tax returns) have made it difficult for some self-employed to access support measures, which appears to be exacerbating inequalities among the self-employed because those who have the greatest difficulty accessing support are those who need it the most;
2. Some measures encourage the self-employed to take on debt, which may be difficult to repay if the business does not rebound; and
3. False claims have been made and paid.

We now need to think about the timing and stages of phasing out of COVID-19 support measures. The Netherlands example demonstrates one approach that has tightened the eligibility conditions in each subsequent support package, reducing the number of applicants and beneficiaries with each package. The Netherlands plans to further shift focus in the course of 2021 from keeping the businesses afloat to re-orienting the self-employed towards more sustainable and higher value-added ventures. Policy makers need to exercise some caution in the phasing out process, however, because the economic recovery might not be straightforward and future containment measures may still be introduced.

Policy makers can already start to anticipate self-employment policy for a post-COVID-19 economy. This will entail a shift from income support for self-employment to policies that are oriented towards business development. Digitalisation and green entrepreneurship present new opportunities for economic growth and the self-employed may need both financial and “soft” support to pursue these opportunities. There may also be a need to develop more sector-based support for the self-employed as well as more dedicated measures for groups of disadvantaged entrepreneurs as part of the equality agenda.

What's next?

The forthcoming **Missing Entrepreneurs 2021** report will provide further analysis on the impact of COVID-19 on the self-employed and the effectiveness of the policy response. This report will also contain chapters with internationally comparable indicators on self-employment and entrepreneurship rates across population groups, as well as data on the characteristics of these activities and barriers to business creation. It will also contain thematic policy chapters on microfinance and immigrant entrepreneurship.

Read More

The OECD has produced extensive work on self-employment in collaboration with the European Commission, including among under-represented and disadvantaged demographic groups (e.g. The Missing Entrepreneurs 2017 contains a thematic chapter on the quality of self-employment and the Policy Brief series contains a paper on Sustaining Self-employment. Learn more <http://www.oecd.org/cfe/leed/inclusive-entrepreneurship.htm>.

The OECD COVID-19 portal provides analysis of the impact of the COVID-19 crisis and reports on policy responses, including a note on SME policy responses <https://www.oecd.org/coronavirus/en/>

OECD contacts

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